ECONOMIC REVIEW

JANUARY 1977

LANKA'S ECONOMY

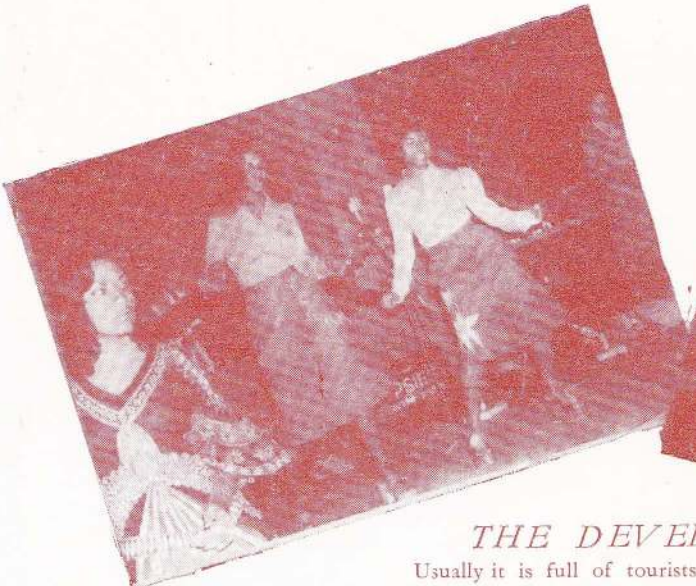
A People's Bank Publication

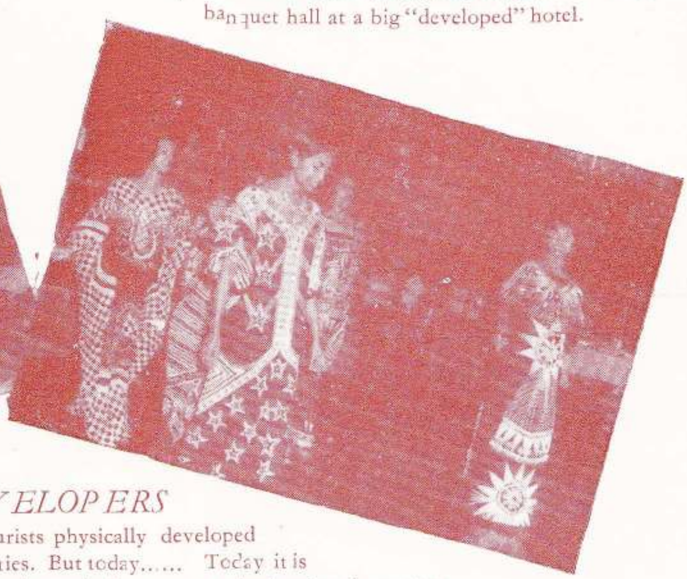
YET ANOTHER DEVELOPMENT

DEVELOPMENT GAMES AND PARTY GAMES

"Development" is very much a chic word today, it is as fashionable in Sri Lanka (and other Third World countries) as are the outdated western fashions that are copied. Various "development" efforts are made in the cause of development. On this page and the inside back cover we document such an effort at development by a "service organisation" with roots in the developed countries. On the inside back page we give a photographic description of the village they wish to develop, a village on the South Western coast, while on this page is a photo coverage of the development "effort", the party that was held to generate funds for development.

Where the development effort begins. At a big banquet hall at a big "developed" hotel.





THE DEVELOPERS

Usually it is full of tourists physically developed people from developed countries. But today...... Today it is full of physically and financially developed people from our underdeveloped country. They are engaged in development activities, which require the raising of money.

Money...... The normal cost of a meal at this developed hotel where developed people from developed countries usually eat is about Rs. 50/-.

Food is not the only end of development, it is also drinks...... The goal of development is not only food, and shelter but also sufficient clothing. So no development is complete without display of clothes ...... So, basic needs food, clothing, shelter ... and "development".

ECONOMIC REVIEW

Published by The People's Bank
Research Department
48, Park Street,
Colombo 2, SRI LANKA

Volume 2 Number 10 January 1977

CONTENTS

FEATURES

COVER STORY

COLUMNS

NEXT ISSUE

- The Economics of Marriage - a study of the rationality of people's economic decisions, through their social behaviour and values.
- National Milk Supplies - the problems of our dairy industry.
- The World's Pharmaceutical Industry - a significant study on its implications for the transfer of technology and how it strains the scarce resources of the developing world.

COVER ARTIST

Tissa Hewavitarne, whose special medium is water colours, has worked with newspapers and periodicals over several years and exhibited his work locally.

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.

THE ECONOMIC REVIEW is a community service project of the People's Bank. Its contents, however, are the result of editorial considerations only and do not necessarily reflect Bank policies or the official viewpoint. Signed feature articles also are the personal views of the authors and do not represent the institutions to which they are attached. Similar contributions as well as comments and viewpoints are welcome.

THE ECONOMIC REVIEW is published monthly and is available both on subscription and on direct sale

DIARY OF EVENTS

December

1 Over seven million saplings and seedlings were planted throughout Sri Lanka to mark the beginning of one of the country's biggest tree planting campaigns.

2 The Government has decided not to extend the liberalised scheme of CRA imports beyond the end of December, official sources stated. This scheme was introduced in June 1976 permitting CRA holders to import a wide variety of luxury goods.

3 A new credit guarantee scheme for exporters, to facilitate credit to exporters and issue insurance cover on exports, will come into operation from January 1, 1977, the Minister of Foreign Trade told a press conference.

7 The 32nd Annual Sessions of the Sri Lanka Association for the Advancement of Science was ceremonially opened in Colombo by the Minister of Housing and Construction. The Minister also formally inaugurated the National Academy of Sciences.

India signed an agreement with Sri Lanka Railway authorities for the export of items worth Rs.11.5 million.

8 The IDA, the soft loan agency of the World Bank, approved a credit of Rs. 45 million for Sri Lanka's tank irrigation modernisation project, it was announced in Colombo.

Hungary was intending to end its rupee trade with India and change over to trading in convertible currencies, the Hungarian Deputy Prime Minister stated in New Delhi.

The 183rd and 184th branches of the People's Bank were opened in Ankumbura in the Kandy district and Galgamuwa in the Anuradhapura district respectively.

14 The Government began negotiations with a delegation of the Planters Association of Sri Lanka with a view to paying compensation to those members of its Rupee Companies that were nationalised.

15 The 1977 annual trade protocol for exchange of commodities between the People's Rupublic of China and Sri Lanka was signed in Colombo. China has agreed to purchase 49,200 metric tons of rubber while Sri Lanka in return agreed to purchase 200,000 metric tons of rice. The total turnover under the trade protocol which will be in the region of Rs. 100,000 million over 1977 includes a large number of non-traditional goods to be exported from Sri Lanka.

Eleven of the 13 OPEC countries will raise the price of crude oil by 10 per cent while Saudi Arabia, the largest producer, and the United Arab Emirates, will raise it by 5 per cent from 1977, stated the Venezuelan Oil Minister.

16 Sri Lanka's Centenary International Rubber Conference was declared open by the Prime Minister at the B.M.I.C.H. in Colombo to commemorate the completion of 100 years of the introduction of the Rubber tree to Sri Lanka.

Sri Lanka's National Apprenticeship Board commemorated five years of its existence.

The 185th branch of the People's Bank was opened in Galigamuwa in the Kegalle district.

16 A decision of the U.N. General Assembly provided for the transfer of $20 million from the U.N. Special Fund, created to assist the most seriously affected developing countries overcome the effects of the economic crisis, to the UN Agricultural Development Fund has enabled this Fund attain its target of $ 15 million. There will be 24 developing recipient countries.

17 India is to receive a grant of $7.5 million from EEC as part of the first-ever community project assistance to non-associated developing countries, according to an agreement signed in Brussels.

The conference of OPEC countries in Qatar decided to adopt a plan to increase aid to Third World, following the decision by eleven members to increase their price by 10% from January 1, 1977 and a further 5% by July 1, 1977.

18 An Air Pact was signed in Manila between the Philippines and Sri Lanka to pave the way for establishing air links between Manila and Colombo.

India will give a loan of Rs. 100 million to Zambia under a memorandum of understanding signed between the two countries at Lusaka.

20 The Third Reading of the Budget was passed by a majority of 40 votes at the National State Assembly.

22 Sri Lanka which is one of the six developing countries selected to receive interest-free loans from the OPEC Special Fund will get $8.1 million, it was announced in Vienna.

The Ceylon Petroleum Corporation signed an agreement with two Japanese firms, Nissho Iwai Company and Unitika Limited for the establishment of a Rs. 275 million nylon plant near the oil refinery at Sapugaskande. The foreign exchange component is approximately Rs. 160 million.

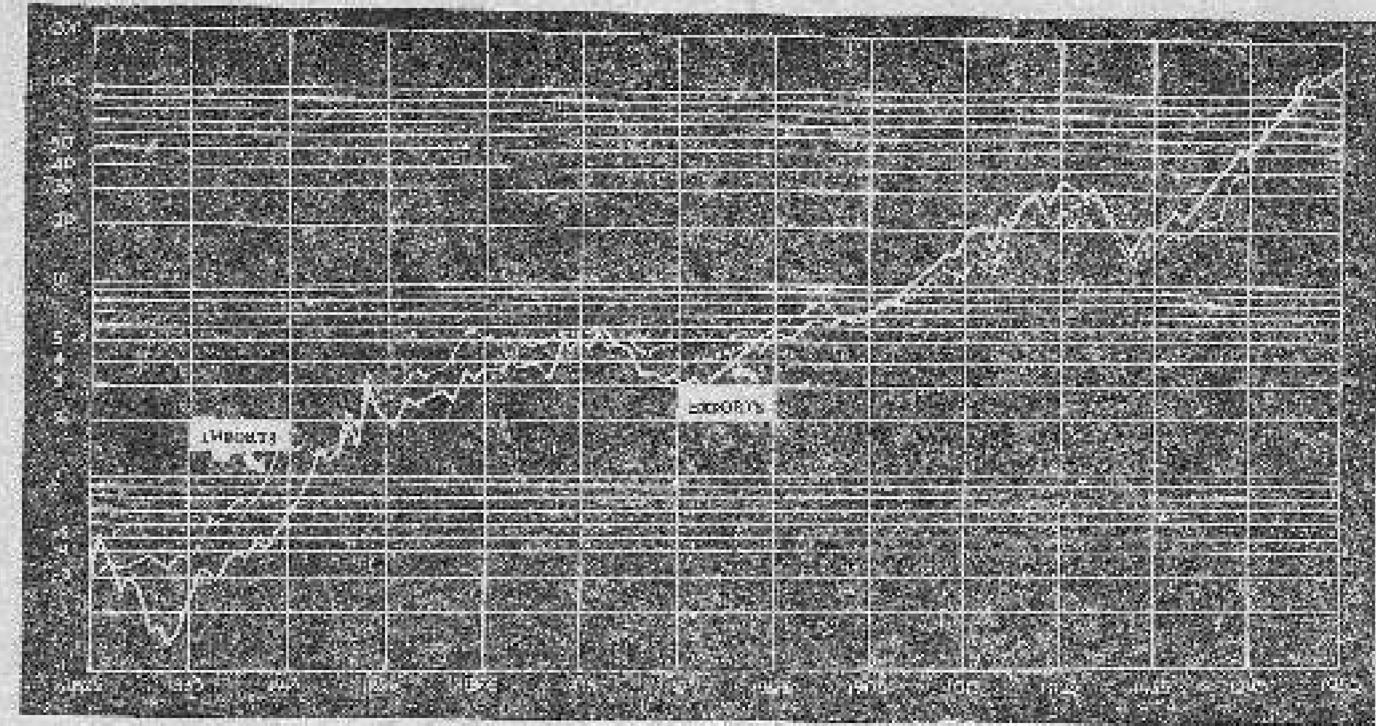
The 186th branch of the People's Bank was opened in Hatton in the Kandy district.

Kuwait crude oil will cost $12.37 a barrel from January 1 as against the present $11.23, it was announced in Kuwait.

The U.N. General Assembly decided to suspend its 31st session, which began on September 21, and to resume it after appropriate consultations, It would be reconvened solely to consider the agenda item "Development and international co-operation: implementation of the decisions adopted by the General Assembly at its seventh special session". The decision to suspend rather than to conclude the thirty-first session was taken following a request from the Group of 77 developing countries in a letter dated December 17.

29 A Government order was issued under the Business Acquisition Act taking over J.B. Textiles Ltd. and J.B. Fishing Company with a view to increasing the availability of synthetic textiles.

The 187th branch of the People's Bank was opened in Pallai in the Jaffna district.



£ Million

Source: Elaine Goonewardene, Ceylon Economist, March 1962.

A graphic representation of the structural change which occurred in Sri Lanka's economy during the 150 years up to 1955. The chart (in semi-logarithmic scale) shows how trade increased steadily in value throughout the period, imports moving closely together with each change in exports. The capitalisation of the country's resources through the establishment of plantations was the most significant factor in the economic situation over this period; but external trade not merely began to make the major contribution to the Island's National Income, it also firmly bound the fortunes of the country to the International Trading System, over which we had no control. Sri Lanka was now enmeshed in a colonial plantation economy, with bonds of unequal exchange, tied to the controlling and consuming centres within Europe.

THE ECONOMY OF SRI LANKA

The good earth of Sri Lanka is well endowed with fertile soil and adequate rainfall. Even in what has been called the dry zone, the rain is adequate and the soil is the fertile reddish-brown earth. The early inhabitants of Sri Lanka in their struggles with nature transformed these natural resources of earth and rain into productive agriculture.

Through the centuries the isolated village economies were centralised through the extension of centralised political power. Inter-connection of the small reservoirs into a vast irrigation network and the introduction of a cultural hegemony through Buddhism in the pre-Christian era. Centralised kingdoms which were established in about the 5th century B.C. grew to a certain maturity in the early pre-Christian era. The central features of this economy namely irrigated cultivation, increasing integration of the irrigation network, increased co-ordination and centralisation of the revenue and political system and the continued consolidation in the cultural sphere of Buddhism remained, at least for the first millennium after Christ, the major trends in the island.

By the last centuries of the first millennium, the irrigation network had been extended almost on an islandwide basis, huge reservoirs were built, long canals dug and rivers dammed. The main productive activity of the economy was the production of rice by peasants and the surplus generated from this activity supplied the needs of the royal courts and the feudal classes. This surplus also helped release manpower for the construction of massive irrigation channels and tanks as well as huge religious monuments.

Archaeological evidence indicates that money was in existence from about the 5th century B.C. but its use in internal trade would have been minimal. Sri Lanka being at the crossroads of ocean traffic became, very early, one of the world's centres of trade. Archaeological, epigraphic and literary remains of several centuries indicate the extensive trade that was carried on from very early times with both the Western regions (that is Africa, Europe and Western Asia) the Eastern regions (the Indo-China, Malaysian and Indonesian region and East Asia) and also the North (India and its regions above). The products exchanged, as well as those brought into the country, were largely luxury consumer items for the ruling elites of the country. Thus imports included at times, silks and chinaware, beads, jade etc. Exports from Sri Lanka were likewise for the consuming classes in the recipient countries and included gems, elephants and spices.

Trade which was only a peripheral activity in the country's economy and polity takes on a significant dimension from the 16th century onwards with the arrival of the Portuguese. The principal intermediaries of trade with Sri Lanka and the West prior to the Portuguese were the Arabs. Spices, mainly cinnamon, were a significant item of luxury consumption in the European centre, and the prime purpose of the Portuguese was the extraction and shipment of these commodities. However to consolidate their economic hold the Portuguese entered into significant interventions in Sri Lanka's political, social and cultural structures.

The Portuguese incursion was the beginning of the growth of a distorted economy in Sri Lanka, distorted to supply primarily the needs of a European centre. This process started by the Portuguese, which diverted the energies and directions of the country and people away from their own needs began to be intensified, sharpened and refined in the subsequent centuries by the powers that followed them, namely the Dutch and the British.

The Dutch presence in Sri Lanka upto 1796 was, in comparison with the Portuguese, mild. They concentrated primarily on their economic activity and apart from cinnamon they also built up an export trade in elephants, chank shells, arecanuts etc. They also introduced cultivation of pepper and coffee.

In 1796 the British replaced the Dutch as the predominant foreign power in the country. And in 1815, the British were able to consolidate their power throughout the country by largely exploiting internal dissension and treachery within the Kandyan Kingdom. A most significant impact of British rule on the island was the deepening of the alien inroads into the economy.

Here began the regime of freely available imports, a major characteristic of the 'open economy' that the country was to experience for over another 130 years. Importers were now able to bring from abroad whatever items were required by those who could pay for them with scarcely any restriction or regulation—a regime which quickly pushed the country into its state of import dependency finally culminating in the foreign exchange crisis of the 1960s. (See pages 10 and 11).

Plantation Economy

By promoting the growth of a plantation economy from the 1840s onwards the distortion of the economy which started with the Portuguese began to take on serious proportions. Sri Lanka was now enmeshed in a colonial plantation economy, with bonds of unequal exchange, tied to the controlling and consuming centres within Europe. Coffee growing, which had begun with the Dutch, was the first classical plantation crop introduced by the British. The fundamental changes in the economy introduced by the plantations system have survived to this date and its serious repercussions still echo strongly.

The plantation system as opposed to the earlier subsistence agriculture was based on wage labour, factory-type operation of large estates and production for a foreign market. It was based initially on small doses of foreign capital and the industry was similar in most respects to the category of extractive industries that sprang up all over the Third World in the 19th century to supply the European centre. The subsequent growth of the economy, after the initial doses of foreign capital, was made possible through the large surplus generated in the country itself. The surplus was sufficient also to provide handsome dividends which more than compensated for the nominal investment.

The supply of labour for the new plantations was not from the Kandyan regions. It was from the so-called indentured labour from India whereby large numbers of Indian workers were transported to Sri Lanka. The semi-slave conditions of work in the new estates, as well as recruitment and transport from their homelands, was reminiscent of the large-scale population shifts undertaken by the dominant Western powers in the other parts of the Third World, like the transport of slaves to America and again of indentured labour to some of the other plantation economies in the Central American regions.

The economy of the country was therefore completely rebuilt around the plantations. The foreign banks that were established initially had the sole function of financing this industry and their large-scale profits arose from this. Engineering firms and workshops grew up to service the engineering needs of the plantation factory; and for the maintenance of railways and roads, government engineering establishments came into being.

Sri Lanka's plantation crop coffee, experienced a phenomenal expansion from 1834 to 1842 when the export volume increased five times. Again from 1842 to 1849 a further rise of three times the 1842 level was recorded. Having thus taken a hold on the economy, the area of coffee planted rapidly rose together with earnings. In 1846 coffee prices fell drastically because of the world depression at the time. But coffee continued to be the major export of the country till the great coffee blight destroyed the crop. The disease first appeared in 1869 and by the 1880s the acreage under coffee which had earlier stood at 300,000 acres had dropped to about 100,000 acres. By 1886 coffee had collapsed as the main colonial crop in Sri Lanka.

The transition from a rural subsistence economy to a modern export economy was begun with the establishment of the coffee plantations in the 1830s in the time of British rule. There was a complete transformation in the economy of the country with the new plantations making deep inroads into the existing village economy. The economy of the village in turn became less and less adapted for supplying even the everyday needs of the community. This made the country dependent on foreign sources for even such basic necessities as food and clothing.

But the coffee industry set a firm pattern in the economic structure of the country. The development of Sri Lanka into a classical plantation economy had now been cast in this mould although later tea, rubber, and coconut were to replace coffee. Most of the characteristics of the plantation system were to survive until very recently. These features included ownership by the British planters, financing by British banks, management by a system of what has been called 'agency houses', large-scale rationalized operations and use of factory type technology and procedures and large amounts of Indian labour. The system rested on control of the basic import-export trade by expatriate capital, on imported technology and on the reliance of a virtually single foreign market for the product. The inflow of the large amount of Indian labour (by the 1880's the accumulated Indian labour and their families settled in Sri Lanka amounted to roughly 200,000), meant also the need to import food for this new labour force. Because of this structure of dependence and dominance local independent capitalist development in the country was also retarded. Although coffee production on a small holding basis was encouraged among Sri Lankans, Banks and Agency Houses which were British-owned were extremely circumspect about extending credit to locals and when they did so it was only at high rates of interest.

By 1886 the acreage in tea exceeded that of coffee. The structure of the tea estate management was symptomatic of the enclave position of the industry and the colonial economy as a whole, and was best exemplified by the position within the tea estate itself. This is amply described in the following quotation from a book written by a Britisher D. M. Forrest to mark a "Hundred Years of Ceylon Tea" in 1967. He says:

"What the plantation pioneer evolved in the face of all tropical [illegible] to tell of, is a self-disciplined routine aimed at the production of as much and as good tea as possible from a given acreage of land. Everything speaks of it from the moment when you [illegible] at the roadside a neatly lettered sign:

ESTATE TO FACTORY AND BUNGALOW

until the final phase of your visit when specimens of the various grades produced are laid out for you to taste. You are absorbed into an unchanging time-table, a world complete in itself, a social mechanism fitted exactly to its sole function".

Due to the weak demand for tea in the early years of this century planters began to see in rubber a more profitable product and rubber was planted extensively although not to the same extent as tea. Coconut was the other main crop to be grown on a plantation basis; but as it was also originally a peasant crop and the industry was largely in local hands the enclave situation was not equally pronounced.

Thus, with the introduction of the classical plantation economy in the late 19th century the country's economy suffered a classical dualistic split. The enclave, so-called modern sector, had its main interaction with the external world and very little interaction with the traditional economy, within which a large part of the population lived. By the end of the 19th century the enclave sector employed about 40 percent of the Sri Lanka labour force and the traditional sector 60 per cent. In terms of gross magnitude the bulk of trade in the country was between the enclave sector and the outside world and few goods and services flowed between the traditional sector and the enclave or for that matter between the traditional sector and the external world.

This was also true of the other appendages of the enclave sector, namely the new urban centres. The urban areas, like the estates, relied heavily on the export-import trade for their basic needs. Although more than 60 per cent of Sri Lanka's population, by 1930, depended on the traditional sector for its economic sustenance almost all of the country's foreign trade was only with the enclave sector.

The table below shows the pattern of imports in 1929 for several categories of goods—investment goods, intermediate goods and consumption items. It is seen that western type consumption items amounted to nearly 70% of imports and this was to supply the European population which was less than 1% of the total population of the country. In addition there were roughly 2%–3% population of Sri Lanka which had tied itself to the colonial presence and which had consumption patterns similar to Europeans. They consisted of persons in leading positions in the government, the estate sector, land owners and a growing band of professionals. Of the intermediate and investment goods which comprise roughly 30% of the import bill almost all went to enclave and associated sectors i.e. the plantation, government etc. In contrast almost all the raw materials, tools etc. used in the traditional sector were of local origin.

Just as the interaction with the outside world was exclusively with the enclave sector, the interaction of

BREAKDOWN OF RETAINED IMPORTS AMONG CONSUMPTION GOODS, WESTERN-STYLE AND TRADITIONAL, INTERMEDIATE GOODS, AND INVESTMENT GOODS, 1929

(Rs. Millions)

Item	*Consumption Goods Western-style*	*Traditional*	*Intermediate Goods*	*Investment Goods*	*Total*
Food, drink and tobacco ...	27.3	147.1	5.8		178.4
Rice		99.5	—	—	99.5
Sugar	—	13.8	—	—	13.8
Fish	0.9	10.2	—	—	[illegible]
Curry stuffs		5.8	—	—	5.8
Other food	18.4	15.2	5.8	—	37.4
Drink	2.6	—	—	—	4.6
Tobacco	3.6	2.0	—	—	4.2
Raw Materials	—	—	30.2	—	30.2
Fertilizers	—	—	15.2	—	15.2
Others	—	—	15.0	—	15.0
Manufactured goods ...	33.6	38.5	31.4	49.9	153.4
Cotton goods	—	25.7	—	—	25.7
Motor vehicles ...	5.5	—	—	9.5	15.0
Iron & steel & their products	—	—	—	14.7	14.7
Gasoline	4.8	—	8.3	—	13.1
Machinery	—	—	—	7.8	7.8
Kerosene	—	7.6	—	—	7.6
Others	23.3	5.1	25.1	17.9	71.4
Total	61.2	185.5	67.4	49.9	365.0
Percent of total	16.8	51.0	18.5	13.7	100.0

Source: *Department of Commerce, Thirty Years Trade Statistics of Ceylon (1925-1954)* the government was likewise almost exclusively with this sector. Most of government revenue as well as expenditure was within this sector.

The estate sector produced enormous surpluses. Once the initial capital was injected, handsome dividends were available. The estate sector's growth provided high level dividends for foreign share-holders and a high level of consumption for both expatriates and allied local groups of person within the enclave. It did not significantly increase the production of local goods and services nor were surpluses invested outside the enclave. The ability of the so-called modern or enclave sector to initiate economic development for the country as a whole was therefore minimal.

The establishment of the enclave economy and its continued maintenance was also helped by local socio-economic structures that grew up with it. This included the new supporting classes tied to the plantation and colonial presence as well as remnants of the old feudal order which had soon allied itself with the British. The maintenance of the enclave economy was further helped by social and cultural factors.

As early as the 1840s there were Ceylonese tied to the colonial presence who had developed a strong Western, particularly British, taste and consumer orientation. An Englishman, J. W. Bennet, wrote in 1843, in "*Ceylon and Its Capabilities*" that:

"*The Sinhalese are partial to Manchester, Leeds, Sheffield and Birmingham manufactures, except certain agricultural implements, manufactured in the latter place which they consider inferior to those of Holland. The higher ranks indulge in the best wines, particularly Madeira and Champagne, which are liberally dispensed at their parties to European guests; and no people in the world set a higher value upon British medicines, stationery and perfumery; or relish with a keener zest, English hams, cheese, butter, porter, pale ale, cider, sherry, herrings, salmon, anchovies, pickles and confectionery, all of which they prefer to similar imports from France and America except in regard to price*".

The social system that grew around the plantations tended to perpetuate itself; and a process of cultural conditioning to accept the status quo was set in play by aspects of the educational and other cultural manifestations of the British.

Later demands for political and economic independence were to be heard from sections that represented the newly emerging proletariat both within the estates and outside as well as from some emerging national entreprenurial groups.

Reformist Changes

An outcome of the demands for change was the grant of universal franchise and internal self-government in 1931 at a time when many European countries like France and Switzerland did not have universal suffrage. This reformist measure by the British had some impact on the economy from the late 1930s onwards. One important outcome of these changes was that interest was now generated in diversifying the economy away from the enclave pattern and there were attempts at industrialization.

In 1934 the Report of the CEYLON BANKING COMMISSION echoed this interest and recommended formation of a local bank. (British banks were exercising *de facto* discrimination against some of the local capitalists). The Chairman of the Executive Committee on Labour, Industry and Commerce became a champion of industrialization in 1936. In 1938 a joint public-private sector bank, the Bank of Ceylon, came into existence as a possible lender to local capitalists and the State Council was favourably disposed towards protectionism. Further during this time an extensive scheme for population resettlements in the dry zone areas of the classical hydraulic civilization was initiated. All these proposed changes within the economy reflected partly the real needs of the people and also partly, the class interest of the members in the elected chamber. They were, however, made on the eve of the Second World War which meant that the impact of the proposed changes was minimised.

During World War II, by necessity, the ties of the Sri Lanka economy to the metropolitan centre in Britain were in many ways weakened. Britain was engaged in a war for its survival and its economic hold on its colony was now geared to that survival. Consequently Sri Lankan produce, specially tea, was sold at prices much below the level it would have fetched in a free market situation. Sri Lankans were subsidising British tea consumers heavily.

In return, imports to Sri Lanka were reduced drastically. The shortages of imports induced local production both within the government and private sectors and several new factories were opened. These included coir products, leather goods, glass, ceramics, paper, plywood, acetic acid in the government sector and textile, rubber, lacquered goods, paper products, matches etc. in the private sector. The quality of the goods produced were sometimes below the prevailing international standards but because of the protection induced by wartime scarcities these products found a ready market. The return to peace time conditions also witnessed an unprecedented flood of imported goods which swamped all Sri Lanka's early attempts at industrialization.

The post-World War period saw the granting of political independence. There was however a high degree of continuity of perceptions from the colonial times of what constituted development. Yet because of the responsiveness to at least some popular demands resulting from the introduction of universal franchise in 1931, a momentum was generated towards re-structuring the economy away from the colonial patterns. This tendency, which had some of its roots in the discussions of the 1930s, was directed towards an activist role of the government in the economy, principally aimed at siphoning some of the surplus of the estates to the peasant sector and to industrialization. New land colonisation schemes were opened up and large sums were invested in a multi-purpose project, the Gal-Oya Scheme, in the Eastern Province. But basically, the colonial economy still persisted in its hold as the main economic determinant in Sri Lanka.

The election in 1956 by which representatives of classes deemed not directly tied to the colonial presence came to power saw an increased cry for industrialization and attempts at somewhat deeper structural changes. Although the election manifesto of the government had in its programme direct Sri Lankan control of the colonial economic enclave through nationalisation of the tea estates, this did not occur. But other sections of the economy like the bus transport

(*Contd. on p.* 8)

THE PATTERN OF INDUSTRIALIZATION

When the country gained its political independence in 1948, manufacturing activities consisted mainly of the processing of three primary commodities, namely, tea, rubber and coconut for export. Other industrial activities constituted an insignificant component confined to the production of simple consumer goods which required simple technology by units established during the war period. On the eve of Independence, the economy was characterized by classical dualism: an agrarian economy operating on a low level of technology co-existed with an alien controlled plantation sector. The export earnings from processed primary goods financed the imports of manufactured consumer goods. The economy was so dominated by foreign trade that even in 1950 this accounted for about 70 per cent of the Gross National Product.

The economic policy pursued after Independence, until the end of the decade of the 1950s, was of the *laissez faire* type. In such an environment, local initiative for industrial investment in the private sector obviously was less forthcoming because of foreign competition.

The inherent weakness of the "open door", outward-looking economic policy pursued, and the high degree of vulnerability of the export-dominated economic structure to the instability of the international market, exerted pressure increasingly on the deteriorating balance of payments in the mid-1950s and early 1960s. The economy plunged into a foreign exchange crisis owing to deteriorating terms of trade and increasing demand especially for imports of luxury consumer goods. In the 1960s, therefore, the country's economic policy, constrained by foreign exchange resources, moved from an open import economy to an inward-looking controlled one. Import controls created conditions conducive for a programme of import substitution. The Government declared its intention of supporting industrial investment through attractive incentives and a protected market, and also directly entered in a massive way into manufacturing activities for the production of basic industries, which included steel, cement, fertilizer, etc. A range of consumer goods industries was left open to the initiative of the private sector for manufacture with a view to saving foreign exchange. There was a sizeable volume of investment in industry in the 1960s and the country started producing a wide range of consumer products.

SRI LANKA — SECTORAL COMPOSITION OF GDP

		1959	1970 %	1975
1.	Agriculture, forestry, hunting, fishing ...	39.1	33.0	32.4
2.	Mining and quarrying	2.3	0.7	2.2
3.	Manufacturing	11.6	13.8	13.6
4.	Construction	4.8	6.2	5.5
5.	Electricity, gas, water and sanitary services	0.2	0.2	0.5
6.	Transport, storage and communications ...	9.2	9.4	9.9
7.	Wholesale and retail trade	13.6	14.8	14.5
8.	Banking, insurance and real estate ...	0.9	1.2	1.7
9.	Ownership of dwellings	5.4	3.1	3.2
10.	Public administration and defence ...	5.0	5.7	5.8
11.	Other services	18.5	12.2	13.6

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

The gross domestic product by the manufacturing sector at constant prices (in 1959 prices) almost doubled during the decade and its relative share moved up from 11.6 per cent in 1959 to 13.8 per cent in 1970. (See Table). The exigencies created by the foreign exchange crisis in the 1960s promoted the setting up of manufacturing operations with foreign participation on the part of those who hitherto had exported consumer goods. The emerging pattern of industrialization during the decade was that of import-substitution-led growth.

Yet this pattern of industrialisation did not succeed in producing the desired relief to the deteriorating balance-of-payments position. Nor did it help in building up a strong industrial base for the transformation of the economy. The reasons for its limited impact may be traced to the type of import substitution. For manufacturing was confined to final stage production, namely assembly of finished components or compounding or packaging of materials from bulk imports. In order to sustain manufacturing operations, the country had to increase its imports of intermediate and capital goods to a considerable level; the value of intermediate goods in 1959 prices increased from Rs. 379 million to Rs. 592 million in 1969 and that of capital goods from Rs. 292 million to Rs. 700 million in 1969. Some of the industries, far from saving foreign exchange, in effect, drained off more foreign exchange to support them.

In the 1970s, an attempt was made to recast the structure and pattern of industrial growth within the constraints of foreign exchange availability. The growing concern with the foreign exchange situation was so dominant in policy-making and the implementation of policy that the inward-looking attitude was cast aside and a more outward-oriented approach was accepted to ensure an export-led industrialization pattern. A number of incentives were provided and foreign exchange allocations were made available more liberally to industrial enterprises manufacturing for export. Incentives for export by way of rebates, allocation of raw material imports, and the Convertible Rupee Accounts scheme (CRA), are only a few in the list. The emphasis, in the context of the prevailing adverse foreign exchange crisis, was clearly to gear up industrial growth for export markets.

system were nationalised together with the ports. New government-sponsored industries were opened up in the public sector as well as in the private sector. A pattern of industrialisation that persisted to the late 1960s was set in motion.

Industrialization Attempts

The industrialization attempts in the late 1950s and the early 1960s were largely on the basis of import substitution. And, as a major part of the imports fed the enclave sector, it were products that were consumed by this sector that were now manufactured. These items can be considered luxuries in comparison to the needs of the mass of the people. The items thus manufactured tended to be those like refrigerators, fans, chocolates and biscuits. The technology for this was almost exclusively imported, and as was in the majority of the cases, so were the raw materials. These products were manufactured largely in the private sector and gave very high profits, specially in view of government inducements like tax holidays. But as Sri Lanka's terms of trade began to drastically worsen in the later years, the allocations of foreign exchange available for raw materials and for capital goods declined and many such industries were by the early 70s running at low capacity utilization.

A special feature of industrial policy in recent years has been encouragement of industries in both public and private sectors to use more local raw materials as well as to design and fabricate locally industrial equipment to suit our requirements.

Production-wise Sri Lanka's industrial structure comprises four very broad groupings.

Firstly, the traditional and unorganised sector made up of over 100,000 small scale manually worked units, engaged in industries such as coir processing, handloom textiles, carpentry, mat weaving, pottery, brick making, cane ware, basket ware, saw milling, furniture making, blacksmithy work and jewellery making in addition to traditional handicrafts and cottage industries. This accounts for 10-15 per cent of the value of industrial output.

Secondly, the private sector factory scale units ranging from small to large in size. Nearly 3000 such units registered with the Ministry of Industries are today producing a wide range of consumer items such as food products, beverages and tobacco, textile products, leather goods, wood, paper and rubber products, chemicals and pharmaceuticals, machinery and implements, transport equipment and electrical goods for both domestic and foreign markets. They account for nearly 45 per cent of the value of industrial output.

Thirdly, the public sector industries operated as corporations and numbering nearly 30 in all. Among them are manufacturing and processing corporations for steel, hardware, tyre, block rubber, plywoods, timber paper, sugar, leather products, weaving supplies, textiles, tobacco, state distilleries, milk, fisheries, flour milling, oils and fats, cashew, fertilizer, petroleum, salt, caustic soda and chlorine, pharmaceuticals, ayurvedic drugs, ceramics, cement, graphite, gems and mineral sands. There are in addition to these the several research and servicing institutes in the industrial sector run as State Boards or Corporations. The public sector accounts for nearly 40 per cent of the value of industrial output.

Fourthly, there is the comparatively new sector of industrial co-operatives now developing in various rural locations in the country. There are over 500 such units, largely employment-oriented, engaged in mineral-based, agro and wood-based and light engineering industries.

Recent Developments

There has been a marked increase in industrial activity in recent years. An index, calculated on Central Bank data, shows that industrial output in 1975 had risen 100 per cent above the average for 1956-66. The total capital investment in the State Industrial Corporations alone had risen to nearly Rs. 2,500 m. in 1975, from about Rs. 500 m. in 1965.

For over a decade industrial production in Sri Lanka was dominated by the manufacture of consumer goods. In 1975, however, the intermediate goods category showed an increase in value over that of the consumer goods category, largely due to the heavy increase in the value of petroleum products. Production of investment goods, however, has continued to remain at about only one-tenth of all production due to the heavy dependence on imported materials and the limited size of the market for this category of goods.

Over the last five years the main thrust of development activity in industries has been in the following four broad areas: expansion of industrial activities in the public sector; the setting up of resource-based industries in the private sector; transforming the existing built-in capacities of the private sector industrial units which were created on the basis of import substitution to produce goods for the export market; and re-structuring of supporting service institutions within the purview of the Industries Ministry to achieve set development objectives.

On the basis of set government policy, the country has witnessed the emergence of the public sector as a major factor in the process of industrialisation, by the expansion of the public sector into new areas, and strengthening and enlargement of existing public sector industries.

Agriculture—Non-Plantation Sector

The traditional agricultural sector, distinct from the plantation sector provided a livelihood for the majority of the people. In contrast to the plantation sector, which was modernised and based on capitalist enterprises, the peasant agricultural sector consisted of subsistence agriculture, employing traditional technology. The individual farmer had self-sufficiency as his goal and supplemented paddy cultivation with other crops. The main characteristics of this sector were: small holdings, fragmentation of land into still smaller uneconomic holdings, traditional technology, tenancy agreements which inhibited the cultivator from making an improvement to the land and increasing output, and indebtedness which kept the cultivator tied to the village landlord. This pattern remained more or less unchanged upto the end of World War II when a significant transformation occurred and the stagnant peasant agricultural sector emerged as a dynamic sector in Sri Lanka's economy.

The output of paddy rose by 250 per cent during the period 1946 to 1956, the value of its contribution to the GDP increased by 75 per cent in the 50s and it accounted for about 30 per cent of the total increase in employment for this period.

Adoption of improved cultivation practices, extension of irrigation facilities, and a governmental effort to increase production, together with a system of price incentives were some of the factors which brought about this transformation. Standard practices in other parts of the world such as transplanting and the use of weedicides, insecticides and fertilizer were adopted. The grant of a subsidy for fertilizer speeded up this adoption process. To lessen the dependence of the crop on rainfall, irrigation facilities have been extended and during the period 1949 to 1956 the area under irrigation increased from 40 percent to 62 percent. The most important factor however was the introduction of a Guaranteed Price Scheme which provides for government purchases of paddy (and certain other crops). The existence of the GPS together with marketing arrangements assured the farmer of a suitable price for his produce and helped a subsistence crop to be converted to a cash crop. Towards the end of the 1950's three other measures, provision of credit, an attempt at partial land reform and crop insurance designed to make the price support scheme more effective were implemented.

There have been subsequent increases although not so dramatic, in the fifteen years since. During this period the discovery of new high yielding varieties, increased the output of paddy. More intensive efforts were made to apply new technologies and certain other institutional reforms were instituted. Efforts were made in 1958 to overcome the problems of land tenure and give security to the farmer which culminated with the Land Reforms Act of 1972. The establishment of the People's Bank enabled an improved system of agricultural credit to be implemented and efforts were made to relieve rural indebtedness.

One area which witnessed the beginnings of basic structural changes in the economy to that experienced in the colonial period, was that of agriculture. The activisation of the domestic agricultural sector was spurred on by Sri Lanka's balance of payments difficulties. Eggs and red onions and subsequently potatoes were struck off the import list; while import of chillies and bombay onions were permitted on a limited scale. Consumers were obliged to make supplementary purchases of domestic produce in the open market. Rising costs were also reduced with the halving of the rice ration and this provided a strong impetus for local paddy production. The performance of domestic agriculture during this period also helped to bring about a basic transformation in the composition of Sri Lanka's subsidiary food imports.

With the pressure of population and the potential of the Dry Zone becoming apparent, irrigation schemes were opened up for cultivation. Of these irrigation schemes, the largest is the Mahaweli Diversion Scheme which will eventually bring approximately 600,000 acres of new land under cultivation and provide water for the more intensive cultivation of another 300,000 acres of existing land. In addition to paddy, a variety of subsidiary food crops are to be cultivated.

The 1948-55 period saw the establishment of the multi-purpose Gal Oya Development Scheme and the accelerated implementation of colonization schemes. As the returns on major colonization projects were not commensurate with the investment, a package programme of integrated development was adopted to maximise production through improved methods of cultivation, strengthen institutional arrangements in respect of marketing, credit and farm management, rehabilitate irrigation facilities for better production and encourage development whereby the community would grow into a self-sustained one.

In 1971, there was a major change in land policy from welfare to production-oriented schemes. A programme to set up Co-operative Farms (Sammpakara Gammanas) was introduced throughout the country in order to harness manpower resources, notably the youth, for agricultural production. The settlers were to work on a collective basis in the development of the land.

The Ministry of Planning and Economic Affairs introduced another form of co-operative project during the same year—namely the District Development Council projects. These projects were formulated on a smaller scale of production than the Gammanas. The main objective of these schemes was to harness the manpower and raw material resources in the area for agricultural and industrial development.

Land Reform and the Plantation Sector

An important change took place in 1972 with the enactment of the Land Reform Law of 1972. This process continued in 1973 with the State Land (Special Provisions) Sales Law and in 1975 with the Land Reform (Amendment) Law.

The objective of these laws were to restrict ownership of private land to 50 acres of highland or 25 acres of paddy land so as to secure a more equitable distribution of land and wealth. To increase productivity, provide additional employment in the agricultural sector, to build a socialist society owning land on a co-operative basis and to vest all lands owned or possessed by companies in the Land Reform Commission were the other objectives of these land laws.

The Land Reform (Amendment) Law of 1975 marked the takeover of the plantations which were mainly owned by public companies. These lands were now vested in the Land Reform Commission. The total extent of land vested in the Commission under the 1975 amendment was 417,957 acres consisting of 395 estates. Of these 22 agency houses operated 375 estates whilst the balance 20 were managed by companies which owned them. The Land Reform Law brought under the LRC 63 per cent of the total extent of tea cultivated, 32 per cent of rubber and 10 per cent of coconut. New management agencies, as decided by the Land

IHP

Reform Commission are now managing the best maintained and most productive tea and rubber estates.

The plantation sector which had been a key determinant in the Sri Lanka economy was therefore now in State hands. The output of the plantation sector had also over the years since Independence shown a marked increase but with falling real prices, the effect of the increased production was minimised. Under the section in trade the behaviour of prices relating to these are discussed.

Foreign Exchange

From the 1960s Sri Lanka's foreign exchange problem has come, in one way or another, to be a dominant factor in the economic situation. The regime of freely available imports that characterised the 'open economy' which the country had experienced from early times came to an end by the 1960s. The monetary system of the colonial period—the 100 per cent exchange standard managed by a Currency Board—ensured that foreign exchange was always available to match whatever rupees were surrendered in payment for imports. This system was terminated with the establishment of the Central Bank in 1950 and theintroduction of a managed currency. By the beginning of the sixties however, the acute stringency in foreign exchange was resulting in an extensive regime of import restrictions and controls.

Earlier much of the surplus generated by the export sector had flowed abroad. After Independence in 1948 however, part of it was taken through taxation for the use by the rest of the economy. But initially much of this surplus was transformed into imports of consumer goods. Policies and practices of governments after Independence did not help positively to raise the level of domestic savings for new programmes which would help to improve the productivity of the rest of the economy.

This problem was aggravated by the fact that from the mid-1950's onward the surplus generated by the export sector started to decline as a consequence of falling world prices for our exports. Thus, during the last part of the 1950's the Sri Lanka authorities were largely preoccupied with trying to prevent too rapid a decline of living standards, and there was little opportunity for implementing programmes and policies designed to achieve economic growth. For a time it proved possible to prevent a rapid deterioration of living standards by running down the country's exchange reserves that had built up upto the time of the Korean War boom. But in the late fifties and early sixties this was no longer possible. Strict import controls were brought in to eliminate most of the less essential consumer goods imports so that the country's exchange earnings would be available to meet the requirements for basic consumer goods (e.g. foodstuffs, textiles, drugs). By the mid-1960s in the face of export prices which continued to decline, it had become obvious that Sri Lanka's foreign exchange earnings would not even be sufficient to cope with the basic needs of a growing population.

export earnings. In the period 1960-1964, official grants and loans provided a net capital inflow of Rs. 90 million a year on the average. These were not large amounts, though the trend was rising since 1963 as a result of increased aid from Canada and in particular Eastern bloc countries whose assistance which was insignificant previously, jumped to an annual level of Rs. 50 million. The dependence of the economy on foreign assistance was now being firmly established. It was not likely that the 1963-1964 level of aid—around Rs. 120 million—could be sustained beyond 1965 unless new aid agreements were concluded. The fact that foreign aid covered only part of the current account deficit, meant that Sri Lanka had drawn on its exchange reserves to cover the remainder. It was for this reason that between the end of 1959 and the end of 1964, net exchange assets were reduced by Rs. 575 million and thereby fell to a level where even a few days excess payments over receipts entailed the threat of a liquidity crisis, as the table below, from a publication of the Ministry of Planning and Economic Affairs in 1966, illustrates.

CLASSIFICATION OF IMPORTS

(Rs. Million)

	1954-56 *Average*	1959	1960	1961	1962	1963	1964
Consumer Goods ...	n.a.	1,203	1,195	972	979	919	1,172
of which: food & drink	n.a.	800	752	672	657	767	917
Intermediate Goods ...	n.a.	396	397	383	409	372	410
Investment Goods ...	n.a.	389	355	339	337	324	305
Unclassified	n.a.	17	13	9	8	13	10
	1,495	2,005	1,960	1,703	1,733	1,628	1,897

Source: *Ceylon Customs Returns*

The table above shows that the import controls operating since late 1960 brought imports down from the high level reached in 1959-1960. Altogether, during the four-year period 1961-1964 imports were roughly Rs. 970 million less than they would have been if imports had continuedat the annual levelof 1959-1960.

GROSS AND NET EXTERNAL ASSETS

(Rs. Million)

End of Year	1957	1959	1961	1962	1963	1964
Gross Assets	1,062	735	532	504	462	351
Short-term liabilities	109	112	202	244	293	304
Net Assets	953	623	330	260	169	47

By the end of 1963 a public external debt amounting to Rs. 424 million had been incurred, requiring maximum debt service over the next few years of about Rs. 45 million which is equivalent to about 2.5 percent of

With the drastic fall in the terms of trade and a rapidly deteriorating foreign exchange situation the Government was left with no alternative but to resort to foreign borrowings, and if long term borrowing was insuffi-

DEBT

DEBT

Policies &

cient, to borrow from any source, it could whether it was short-term or high cost, in order to sustain the level of imports.

Sri Lanka's export earnings, both in total and per capita terms, declined steadily during the sixties with the exception of a single year 1965. The comparative average annual growth rates of exports during the fifties and the sixties were as follows:

AVERAGE ANNUAL GROWTH OF EXPORTS
(%)

Year		Total Exports	Per Capita Exports
1950–59	...	+5.1	+3.5
1960–69	...	–1.2	–3.7
1965–69	...	–2.4	–4.8

During the period 1965-69, export earnings took a steep downward turn in each succeeding year. By 1969, Sri Lanka's exports had fallen to $321 million, an amount below that attained in any year after 1953. The cumulative loss in export earnings between 1965 and 1969 was $152 million.

Prior to 1965 imports were sustained for as long as possible by drawing down external reserves but in the period from 1965-70 when reserves were no longer available imports were supported by foreign aid and other external credits. With the depletion of external reserves it was argued that imports could not be sustained, in a background of falling exports, unless foreign aid was to increase or external resources were to be obtained by borrowing on commercial terms. Various strategies were adopted at import substitution through the encouragement of increasing production of food and industrial manufactures, though both met with limited success. Together with this strategy of infusing large doses of external resources into the economy was also adopted the underlying policy of reform of the exchange system and a liberalisation and relaxation of the external trade and payments system. The rupee was devalued in 1967 and this was followed by a partial devaluation through the introduction of a FEECs scheme which brought into being a dual exchange structure. These measures were supported by incentives for industrial and other activities through generous tax concessions and reliefs.

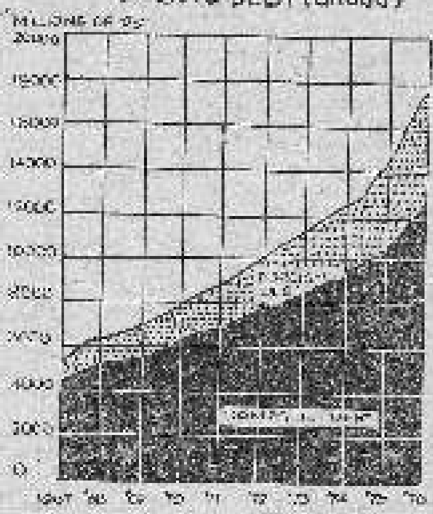
The massive external resource mobilisation enabled the country to live beyond its means—gross domestic expenditure exceeded the gross national product by 4.6% in 1968 and 7.4% in 1969. It increased the import dependency of the economy and caused a high rate of growth in the external debt. The official foreign debt outstanding rose at an annual average rate of 12% in the decade 1955 to 1965 and from there shot up to an average annual rate of 22% from 1965 to 1968 and 30% in 1969. In the meantime the external reserves continued to fall to an alarmingly low level and by 1969 the liquid foreign exchange balances held by the Central Bank were at a bare minimum of Rs. 20 million. At this stage the outstanding short-term foreign exchange liabilities alone were nearly three times bigger than the external reserves of the economy. In grappling with the foreign exchange situation inherited from the 60s and the rapid worsening of the terms of trade experienced in the early 70s, the Government was compelled in the short-term to resort to certain immediate measures which amounted to a cut in the volume of imports. This step was possibly detrimental to economic growth as it could have the effect of postponing the removal of the underlying causes of the external imbalance, but this was inevitable. The balance of payments policy pursued in the early 70s placed the management of external finances to an extent on a more secure footing than before and helped to provide much needed immediate relief. It resulted in a decrease in the current account deficit, an improvement in the services (invisibles) account, and also in attempts to move away from earlier 'unsatisfactory' sources of finance, steps to arrest the growth of the short-term debt and bring it within manageable limits, and a general improvement in the external assets position.

In the internal finances situation too, steps were taken in the early 70s to arrest the trend towards a steady increase in budget deficits, to bring in increased revenue, containing of the food subsidy bill and recurrent expenditure, an increase in private savings and a restriction of the bank finance gap and the expansionary impact of fiscal operations.

Public Debt

Despite the prudence applied by the Government in management of the external and internal finances of the country there is no immediate way out of the "Debt Trap". Sri Lanka's Public Debt continued to increase in the 70s at an even higher rate than before. A notable feature has been the steady increase in the Foreign Debt component of the Public Debt from 17% in 1968 to 24% in 1973 and 28% by the end of 1976. What has been considered a disquieting feature is that the trend of short-term foreign liabilities incurred for meeting balance of payment deficits, which was begun in the late 60s, has been continued into the 70s to maintain essential imports of food-stuffs and fuel. Another trend in the Public Debt during the 70s has been a manifestation of the major role played by external assistance in financing government budgets and more fundamentally that of balance of payment deficits.

PUBLIC DEBT (GROSS)



Source: Central Bank of Ceylon

A significant trend in the growth of the Domestic Debt in the recent years has been the growth in the funded component of the Public Debt. This indicates the ability of the Government to raise progressively increasing amounts through the issue of rupee securities, while simultaneously decreasing its reliance on Treasury Bills. The enlargement of the "captive sector" for government securities, which came about in recent years with the centralisation of government savings institutions in the form of the National Savings Bank and the extension of the coverage of the E.P.F. scheme, have largely accounted for the increased flow of funds to the government loan programmes.

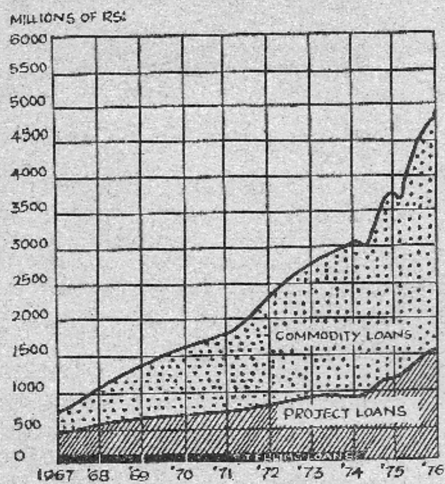
THE PUBLIC DEBT IN 1976

The *Gross Public Debt* of Sri Lanka at the end of 1976 stood at Rs. 17,659 million representing an increase of Rs. 3,095 million or 21% from the level at the end of 1975. During the five year period 1972-76, the public debt has risen by some 92%.

Of the total public debt about 28%, representing Rs. 4,968 million comprises the *External Debt*. The external public debt rose by some Rs. 1,263 million or 34% during 1976. During the five year period 1972-76, it rose by about 155%. The major component in the external debt is that of commodity loans which amounted to Rs. 3,381 million or 69% of the total in 1976. Project loans amounting to Rs. 1,524 million accounted for the balance 31% of the total. The main source of commodity loans has been the Consortium Aid Group formed in 1967 under the sponsorship of the World Bank. The Consortium (comprising some 11 countries) owned about 70% of the external public debt in 1976.

The *Gross Domestic Debt* at Rs. 12,691 million accounted for 72% of the total public debt in 1976. It rose by Rs. 1,832 million or 17% during 1976. During the five-year period 1972-76, the domestic debt rose by 75%. About 60% of the domestic debt in 1976 was owned by such captive sources as the Employees Provident Fund, National Savings Bank and the Insurance Corporation, and about 25% was owned by the Central Bank. The Treasury Bills outstanding at the end of 1976 amounted to Rs. 2,700 million accounting for about 20% of the gross domestic debt.

COMPOSITION OF FOREIGN DEBT



End of Year		*Gross Public Debt*	*Gross Domestic Debt*	*Gross External Debt*
			(Rs. Millions)	
1971	...	9,049	7,126	1,923
1972	...	10,318	7,926	2,393
1973	...	11,380	8,585	2,795
1974	...	12,380	9,406	2,974
1975	...	14,564	10,859	3,705
1976	...	17,659	12,691	4,968

Source: *Central Bank of Ceylon*

Trade

Sri Lanka's trade, in common with other colonial countries, was carried on primarily with the colonial power and constituted mainly our primary products; over 90 per cent of exports belonging to these items. After Independence attempts were made to diversify sources of imports as well as the countries to which Sri Lanka exports. One of the major attempts at a shift in this direction at diversifying dependence was the 1954 Rubber-Rice Agreement with the People's Republic of China. By this an assured market for one of Sri Lanka's primary products on a stable basis was guaranteed whilst simultaneously granting an assured source of her staple food.

Sources of imports and exports have been dramatically diversified over the last 10 years. Sri Lanka's trade has shown significant shifts, specially closer ties with Third World countries. The tables on page 13 indicate this dramatic shift between 1966 and 1975. China emerged the leading buyer of Sri Lanka's produce, purchasing 11.5 per cent of total exports in 1975. U.K. which was the principal source for Sri Lanka's exports in 1966, then taking nearly 25 per cent of our products, had fallen to third place by 1975, purchasing only 7.7 per cent of Sri Lanka's exports. Pakistan has come up as one of Sri Lanka's leading trade partners over the last few years and was the second largest source for our exports, purchasing 8.6 per cent of our total exports in 1975.

Considering the 20 major buyers of Sri Lanka's products it appears that in 1966 only five Third World countries took merely 21.5 per cent of all our exports. By 1975 the volume of exports taken by Third World countries among the major 20, had doubled. In the 20 were 10 Third World countries which were taking 40.7 per cent of all our exports.

There was also a remarkable increase in the number of countries to which Sri Lanka's exports were going by 1975. In 1966 there were 90 countries purchasing Ceylon products as against 125 in 1975. Most of the additional 35 countries were from the African, South and Central American and Middle East Third World nations.

By way of imports too Sri Lanka's trade relations with the Third World countries has grown rapidly in recent years. Among the 15 main countries from whom we obtained our imports in 1966 the Third World countries supplied only 34 per cent of our imports. By 1975 the value of imports from Third World countries among the first 15 had risen to 47 per cent of all imports. In 1966 Sri Lanka obtained her imports from 81 countries as against 97 in 1975; once again the new sources of supply being accounted for by the Third World countries.

By 1975 the pattern of imports had also changed considerably and the 3 major food items of rice, flour and sugar together with petroleum and fertilizer accounted for the bulk of our imports.

Terms of Trade

Although Sri Lanka has diversified her trade dependence, it had not helped very much in her terms of trade. Price of imports have constantly kept rising while exports have relatively declined. Between 1960-1970, the price index of all imports declined by 33 per cent whilst that of all imports rose by 68.7 per cent. The resulting deterioration in terms of trade for that decade was 43.2 per cent indicating the extent to which Sri Lanka's purchasing power abroad declined in that decade. This continued, in the 1970's; between 1970 and 1975, the All Exports price index rose by 80.5 per cent whilst the All Import price index increased dramatically by 31 per cent. Thus from a base year of 1960, the purchasing power of exports had fallen by 61 per cent by 1975. We have a vivid example in the case of tea, our major export item. Tea accounts for more than 50 per cent of Sri Lanka's export earnings. While we increased our production of tea and systematically improved its quality over the years, in

Exports—1966

	Country	Rs. m.	%
1.	U.K.	4[illegible]	24.8
2.	China, People's Rep.	[illegible]	[illegible]
3.	U.S.A.	1[illegible]	8.[illegible]
4.	Iraq	[illegible]	[illegible]
5.	U.S.S.R.	[illegible]	[illegible]
6.	South Africa ...	[illegible]	[illegible]
7.	Australia	[illegible]	[illegible]
8.	Canada	47	2.8
9.	Germany, Fed. Rep.	47	2.8
10.	Japan	42	2.5
11.	Pakistan	42	2.5
12.	New Zealand ...	34	1.8
13.	Netherlands ...	33	[illegible]
14.	Italy	[illegible]	1.4
15.	Poland	2[illegible]	[illegible]
16.	India	[illegible]	1.4
17.	Germany, Dem. Rep.	19	1.2
18.	Rumania	18	1.2
19.	France	[illegible]	[illegible]
20.	Mexico	[illegible]	[illegible]
	Sub Total ...	1,4[illegible]	86.[illegible]
	Total (all countries)	1,7[illegible]	100.0

Exports—1975

	Country	Rs. m.	%
1.	China, People's Rep.	452	[illegible]
2.	Pakistan	345	8.8
3.	U.K.	3[illegible]	7.7
4.	U.S.A.	[illegible]	[illegible]
5.	Iraq	1[illegible]	4.7
6.	Japan	1[illegible]	4.4
7.	U.A.R.	[illegible]	3.[illegible]
8.	South Africa ...	[illegible]	3.[illegible]
9.	Germany, Fed. Rep.	[illegible]	[illegible]
10.	Libya	117	2.9
11.	Iran	116	2.9
12.	Australia	11[illegible]	2.8
13.	U.S.S.R.	1[illegible]	2.5
14.	Canada	95	2.4
15.	Saudi Arabia ...	[illegible]	[illegible]
16.	Netherlands ...	59	1.5
17.	Italy	68	1.7
18.	Syria	65	1.6
19.	Kuwait	59	1.5
20.	Hong Kong ...	59	1.5
	Sub Total ...	3,278	[illegible]
	Total (all countries)	3,933	[illegible]

the 14 years since 1962, we have had to watch its real price, in terms of the prices we pay for imports, plummet by more than 70 per cent. This represents a loss for Sri Lanka today of $500 million per annum which expressed in our national currency amounts to roughly Rs. 5 billion or almost the entire budget of our country for one whole year.

Sri Lanka's trade position by the end of 1975 showed the following situation. The changes in 1976 are recorded in our "Trade" column on pages 18 and 19.

Imports

A major part of Sri Lanka's imports belonged to the Food Group. During 1975 the three main food items of rice and cereals, flour and sugar cost the country Rs. 2,451 million in foreign exchange or approximately 46 per cent of the country's entire import bill. Three other products cotton, fertilizer and petroleum made up 23 per cent of the import bill in 1975.

A comparison with the import picture in 1974 shows that significant changes occurred over the year 1975 among these six major items, which account for nearly 70 per cent of the total import bill. For instance, while the three major imported food items took up about 20 per cent of the country's import bill in 1974 and petroleum, fertilizer and cotton took up 50 per cent of the import bill; in 1975

Imports—1966

	Country	Rs. m.	%
1.	U.K.	340	16.7
2.	China, People's Rep.	217	[illegible]
3.	Burma	176	[illegible]
4.	India	135	[illegible]
5.	Japan	126	6.8
6.	U.S.S.R.	116	5.7
7.	Australia	99	[illegible]
8.	Pakistan	85	[illegible]
9.	Thailand	80	[illegible]
10.	U.S.A.	80	[illegible]
11.	Germany	74	3.6
12.	Netherlands ...	53	2.4
13.	Italy	5[illegible]	2.6
14.	France	57	2.6
15.	Poland	54	2.6
	Sub Total ...	1,692	[illegible]
	Total (all countries)	2,028	100

Imports—1975

	Country	Rs. m.	%
1.	China, People's Rep.	662	12.6
2.	Saudi Arabia ...	6[illegible]	12.1
3.	Japan	447	8.5
4.	Australia	429	8.2
5.	France	429	8.2
6.	Thailand	356	6.8
7.	U.S.A.	337	6.3
8.	Germany, Fed. Rep.	25[illegible]	4.8
9.	U.K.	[illegible]	4.2
10.	Pakistan	[illegible]	4.2
11.	Iran	218	4.2
12.	India	147	2.8
13.	Burma	121	[illegible]
14.	U.S.S.R.	112	2.1
15.	Singapore ...	104	2.0
	Sub Total ...	4,697	89.3
	Total (all countries)	5,257	100

the food bill accounted for 46 per cent of our entire imports while the other 3 items took up only 23 per cent. See table below on major items of import 1974 and 1975.

Major Items of Import 1974 and 1975

(Rs. Million)

BTN No.	Item	1974	1975
10	Cereals	8[illegible]	1,[illegible]
11	Flour etc. ...	86[illegible]	1,[illegible]
17	Sugar	[illegible]	[illegible]
27	Petroleum ...	[illegible]	87[illegible]
31	Fertilizer ...	[illegible]	[illegible]
55	Cotton	[illegible]	[illegible]
		3,[illegible]	3,[illegible]
	Total Imports ...	4,[illegible]	[illegible]

Exports

It was the exports of tea that took the country's export earnings to its highest level on record. Tea, spices and coffee brought in Rs. 2,008 m. or 51 per cent of the country's foreign exchange earnings in 1975. In 1974 these same items brought in Rs. 1,448 m. and accounted for only 40 per cent of the country's export earnings. Earnings of coconut products at Rs. 408 m. were slightly less than that of 1974 and accounted for only 12 per cent of all export earnings. There was a slightly bigger drop in earnings from Rubber—exports in 1975 being Rs. 654 m. as against Rs. 741 m. in 1974. Rubber exports accounted for approximately 18 per cent of the total export earnings. Gems and Jewellery once again emerged as a major export item, following a drop in 1974, and accounted for nearly 5 per cent of the country's export earnings. Exports in 1975 were Rs. 182 m. as against Rs. 110 m. in 1974. Together these 4 groups of products brought in nearly 85 per cent of the country's export earnings. The balance 15 per cent comprised mainly petroleum products and other industrial exports in the minerals, textiles and food groups. See table below on major items of export 1974 and 1975.

Major Items of Export 1974 and 1975

(Rs. Million)

BTN No.	Item	1974	1975
9	Tea, spices, coffee	1,[illegible]	2,008
8	Coconuts ...	[illegible]	205
15	Coconut oil and fats	[illegible]	203
40	Rubber	741	654
71	Gems and jewellery	110	182
		2,7[illegible]	3,252
	Total Exports ...	3,472	3,933

Technology

Just as much as attempts were made to diversify dependence in the trade field, there have been attempts at diversification of technological dependence over the last decade or so.

The modern technological spectrum has begun to change rapidly after Independence and with numerous development plans. Accompanying the new development thrust was a diversification of technological sources away from the British to the American, French, German, Japanese, Soviet, Chinese, Yugoslav, Czechoslovak, Rumanian and Indian sources. This was facilitated by the new credit lines made available by these countries. Many of the industries, established in the last few decades were therefore from non-British suppliers. To take the state sector alone, such non-British technology is now evident in the Tyre, Steel, Cement, Flour Mill, Ceramics, Petroleum, Plywood, Paper and Textile factories which account for a good part of the major state industries. The breaking of colonial ties also resulted in the training of engineers both at the post-graduate and under-graduate level, in non-British traditions. Engineering graduates from countries such as U.S.S.R. Poland, France, USA, Japan, East and West Germany, China, Yugoslavia, India, Pakistan, Israel etc. man many positions in today's industrial sector. In addition, many technical personnel with British or Ceylon University backgrounds have had practical training in many of these countries as well.

Although technological sources have been diversified, the spread effects have not been much felt. The imported technology exists in virtual enclaves with much of their physical inputs still coming from sources abroad. However, a good reservoir of trained technical skills have been built up. In recent years, as a response to the need to generate employment, an attempt has been made to develop so-called intermediate forms of technology from the technological base of local craftsmen. Thus, blacksmiths and carpenters and the like have been organised to make new products with the provision of new technical inputs if and when the need arises.

Social Development and Income Distribution

Two of the main achievements of Sri Lanka are in the fields of health and education. Levels have been reached in these fields which are comparable with levels reached in countries with higher productive capacities. (See growth in Other Services, (sector II) in the table below.

Free education has actually existed in Sri Lanka, for one generation now since 1945. The number of enrolled pupils has consequently risen dramatically from a figure which stood at one million in 1946 to nearly three million in the 1970s. Pupils at secondary levels of education have increased four-fold during the period and the number of university students ten-fold during this period. Government expenditure has also increased dramatically from Rs. 105.7 million in 1950 - 51 to Rs. 512 million in 1969 - 70. The number of teachers over the same period 1950 - 1970 increased from 39,000 to about 100,000.

The education system had however been very much a colonial transplant with courses largely not geared to local requirements. Within the last few years a fundamental reorientation has been attempted in the education field with courses and methods of teaching geared to the local environment.

Sri Lanka is one of the oft-quoted success stories in the field of health, with widespread attempts after the second World War to eradicate malaria and install an islandwide health service.

GROSS NATIONAL PRODUCT AT CONSTANT (1950) FACTOR COST PRICES

(Rupees Million)

Sector	1959	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
1. Agriculture, Forestry Hunting and Fishing	2,302.4	2,821.2	3,060.6	3,239.7	3,280.5	3,406.6	3,311.2	3,478.4	3,387.6	3,558.3	3,601.8
2. Mining and Quarrying	31.3	37.1	37.0	37.3	55.0	65.2	66.6	67.5	266.2	190.9	248.2
3. Manufacturing ...	682.1	1,008.1	1,052.1	1,154.0	1,260.5	1,331.8	1,378.9	1,400.5	1,417.2	1,359.4	1,461.5
4. Construction ...	282.9	293.2	350.8	457.8	504.4	577.2	549.5	505.0	516.2	552.8	503.4
5. Electricity, Gas, Water and Sanitary Services	9.5	14.3	14.7	15.0	17.6	21.3	28.6	31.0	31.3	31.5	33.3
6. Transport, Storage and Communications	540.9	791.8	772.9	848.5	900.6	913.2	920.3	987.6	1,018.7	1,053.7	1,100.1
7. Wholesale and Retail Trade	8,00.8	1,144.1	1,193.8	1,245.0	1,361.1	1,393.2	1,315.7	1,327.2	1,383.2	1,449.8	1,501.4
8. Banking, Insurance and Real Estate ...	50.9	83.0	99.6	110.4	113.7	118.0	128.5	135.6	141.9	164.9	183.6
9. Ownership of Dwellings ...	200.6	272.8	263.1	291.8	290.9	301.5	307.4	312.6	318.1	344.4	350.0
10. Public Administration and Defence ...	301.0	396.5	388.9	432.4	445.4	458.8	488.1	522.2	566.6	609.1	645.6
11. Other Ser ices ...	727.6	992.3	1,012.4	1,104.8	1,138.9	1,183.7	1,297.0	1,334.0	1,379.4	1,440,6	1,512.8
12. Gross Domestic Product	5,930.0	7,854.4	8,254.9	8,936.7	9,368.6	9,770.5	9,791.8	10,101.6	10,426.4	10,755.4	11,141.7
13. Net Factor Income from Abroad ...	−36.7	−36.1	−44.5	−35.7	−67.5	−84.1	−66.9	−71.9	−43.9	−24.9	−26.9
14. Gross National Product	5,893.3	7,818.3	8,200.0	8,901.0	9,501.1	9,686.4	9,724.9	10,029.7	10,382.5	10,730.5	10,114.8

Estimates for 1972 to 1975 are provisional

Source: *Central Bank of Ceylon*

PERCENTAGE OF TOTAL INCOME RECEIVED BY EACH TENTH OF INCOME RECEIVERS AND SPENDING UNITS (ALL ISLAND) 1953-73

Deciles	By Each Tenth of Income Receivers			By Each Tenth of Spending Units		
	1953	1963	1973	1953	1963	1973
Highest 10	42.49	39.24	29.98	40.62	36.77	28.03
Second	15.66	16.01	15.91	15.20	15.24	14.92
Third	10.99	11.46	12.63	12.10	12.03	11.55
Fourth	7.94	8.98	10.55	8.52	9.22	9.91
Fifth	6.21	6.82	8.75	6.90	7.54	8.73
Sixth	5.23	5.55	7.10	6.29	6.27	7.43
Seventh	4.37	4.51	5.70	5.22	5.21	6.32
Eighth	3.36	3.55	4.38	4.17	4.00	5.60
Ninth	2.56	2.70	3.17	3.32	2.91	4.35
Lowest	1.51	1.17	1.50	1.92	1.50	2.79

SOURCE: *Reports of the Survey of Ceylon's Consumer Finances 1953, 1963 and 1973.*

General indications of this dramatic increase of the health of the population is given by the following:

Crude death rate declined from 13.2 per thousand of population in 1948 to 7.9 per thousand in 1968; infant mortality has dropped from 92.1 per thousand live births in 1948 to 50 per thousand in 1968 and life expectancy had increased from 44 for males and 42 for females in 1934 to 65 and 67 respectively in 1968. A further demonstration of the impact of health services is seen in the geographical distribution of the most healthiest and unhealthiest areas in the country. Judging from child death rates, the then malaria-infested regions of the dry zone which 40 years ago had death rates of 200 - 300 per thousand have today the lowest rates of 20 - 39 deaths per thousand.

Both measures in health and education are largely attributable to a growth, specially since the 1950s, of policies increasingly responsive towards some mass needs. With increase of education the articulation of these needs has grown. One of the effects of this responsiveness has been also an effective redistribution of the country's income in favour of the rural areas and towards lower income groups.

In the non-socialist developing world Sri Lanka's performance in these spheres is almost unique.

The table shown indicates some of the broad trends in this direction as far as total income received, by each tenth of income receivers go and spending units on an all-island basis. A definite trend towards levelling of incomes is seen. A similar process of redistributing income to the rural sector has also occurred.

Unemployment

With a worsening of the terms of trade the post-war strategy of Sri Lanka of investing export earnings from the primary commodities in other fields has had a severe set-back. Consequently, targets of new projects and hence of employment have fallen back so drastically as to indicate the limits of solution of the unemployment problem within the present socio-economic framework.

The Ten-Year Plan of 1959 estimated (on somewhat inadequate data) that unemployment was about 3.4 per cent of the labour force at the time. The next Five-Year Plan 1972-76 estimated unemployment in 1971 to be about 550,000 persons out of a total labour force of 4.5 million which is a rate of over 12 per cent. A nation-wide sample survey of the Central Bank of Ceylon in 1975 has estimated that the total unemployed had in the meantime risen to 984,000, a startling 19.8 per cent of the total labour force. (The sample used in this survey is small, being only 5,000 households, and the interpretation of these results have to be tempered by this knowledge).

The recent plans as well as a special ILO Mission on unemployment in 1971 have had apparently little impact on the unemployment problem. The Government has attempted encouraging various labour-intensive development strategies specially through the Divisional Development Councils. But this and other programmes have not yet had much impact on the magnitude of the problem.

Conclusion

Thus, seen globally the performance of the Sri Lankan economy, since Independence has been a struggle to get away from the structured limitations of the colonial plantation economy. Attempts were made to tap some of the surplus of the plantation sector and channel it to the traditional sector and break through the enclave situation. Attempts were also made to industrialise, to diversify the economy and resurrect the non-plantation agricultural sector. These attempts were made largely within the existing socio-economic structures, both locally and internationally.

The initial industrialization programme was largely through import substitution of products demanded by the higher income groups in the country. This led not to diversification and independence of the economy but to increased dependence on imported technology and raw materials, and to an emphasis on services and goods for demand-oriented individual luxuries rather than for need-based mass consumption. In agriculture, both in food crops and plantations, gains in output have been impressive in pure physical terms. But again in the plantation crops the drop in real purchasing power has offset these physical gains. With continued degeneration of the terms of trade manoeuvrability for development within the present strategy has become extremely limited. Recourse to short-term foreign borrowing for current consumption and not development, has grown in significance in recent times.

Sri Lanka has shown impressive gains in education and health services and some success in redistribution of income. But unemployment remains a strong structural feature needing attention, with the prospect of it worsening in the years to come. Sri Lanka still seems trapped within the socio-economic framework set during colonial times.

THE ECONOMY

The Economic Consequences of the Drop in our Coconut Crop

Domestic Consumption

The most conspicuous effect of the rise in the price of coconut prices has been the impact on the cost of living, given the fact that coconut occupies a central place in the family budget. According to the Socio-Economic Survey of 1969/70, the average per capita consumption of coconuts (as food nuts) is 7.5 nuts per month or 90 nuts per year. In addition, there is an average per capita consumption of 0.5 bottles of coconut oil (equivalent to nearly 5 coconuts) per month or 6 bottles per year (equivalent to nearly 54 coconuts) for household uses mainly as a cooking oil. Hence the average per capita consumption of coconuts and coconut oil amounts to about 12.5 coconuts per month or nearly 145 nuts per year. These figures broadly tally with the findings of earlier surveys such as the Consumer Finance Survey of the Central Bank. An average household (with five members) consumes about 37 coconuts and 2.5 bottles of coconut oil per month. These statistics readily demonstrate the effects of the escalation of coconut prices on the cost of living. The consumer demand for coconuts can be assumed to be highly inelastic with respect to modest price changes. But the price increases of the magnitude witnessed in recent months would have undoubtedly led to a decline in the conventional consumption levels. The retail price of coconuts which is generally below 50 cents, has shown a continuous increase from about October and by the end of January the price had risen over Rs. 1.00 per nut representing a price increase of over 100%. The price of coconut oil which was generally below Rs. 2.50 per bottle had shot up to nearly Rs. 3.50 - 4.00 by the end of January.

The decline in the coconut crop and the consequent escalation in the coconut prices in the domestic market has served to focus public attention on the current state of the coconut industry in Sri Lanka and the need for urgent measures to develop the industry.

Animal Husbandry Industry

An important sector of the economy adversely affected by the high price of coconuts is the animal husbandry industry. Poonac, a by-product of the coconut oil milling industry, has traditionally been the principal animal feed stuff in the country. The price of poonac which has generally been below Rs. 500 per ton, stood at Rs. 800 in August last year and a continuous price increase has been recorded since then and by the end of January this year the price had reached almost Rs. 2,000 per ton. This price increase had a crippling effect on the poultry and cattle industry; the prices of eggs moved up sharply and the cost of production of milk too would have gone up sharply. In this context the government decided to import poonac to prevent a breakdown of the animal husbandry industry.

Soap Manufacture

Another important industry adversely affected by the high coconut prices is that of soap manufacture, where coconut oil is used as the main raw material. Here the problem arose as a result of fixing the maximum selling price of soap under price control in the context of a sharply rising coconut oil price. At the time the soap prices were fixed under price control the price of coconut oil was Rs. 2,500 per tonne. However, from about July last year the prices rose to nearly Rs. 3,000; and by December it reached Rs. 4,000 and by January this year the price had reached almost Rs. 5,000 per tonne. In this context, and given the fixed price for soap, the manufacturers of soap had to suffer heavy losses. The government however did not agree to any upward revision in the price of soap and the leading soap manufacturers were specifically instructed to maintain adequate production levels to meet the consumer demand. In order to provide some relief the government has decided to permit import of tallow to be used as a substitute for coconut oil.

Exports Decline

The decline in the crop has led to a corresponding drop in the exportable surplus of the principal coconut products. In both 1975 and 1976 export earnings from coconut products (including by-products) amounted to around Rs. 500 million per year and this is the third important source of foreign exchange earnings for the country. Consequent upon the decline in the crop, the export of coconut oil, copra and fresh coconuts have come to a complete halt and the export volume of desiccated coconut has declined by about 40 to 50%. Since desiccated coconut is a 100% export industry, a certain minimum level of exports had to be maintained in order to protect employment in this sector and to prevent a loss of foreign markets to competitive suppliers. The exportable surplus in 1977 is expected to decline by about 50% in relation to 1976 levels resulting in a foreign exchange loss of at least Rs. 200 million.

The coconut production during 1970-76 has varied from a high of nearly 2,800 million nuts to a low of 1,950 million nuts and the exportable surplus (in nut equivalents) has varied from 1,250 million nuts to 350 million nuts. The bulk of the decline or increase in the coconut crop in a given year is reflected in the level of the exports since exports are the residual after local consumption or demand, which is relatively inelastic, is met. With the growth in the population and the consequent increase in the domestic consumption of coconuts, the exportable surplus of coconuts is bound to decline over the years unless production levels are raised. The policies so far followed, e.g. replantation, rehabilitation and fertilizer subsidy schemes, have failed to make a substantial impact on coconut production in Sri Lanka. The response of the small holder in particular to such policies has not been very encouraging. The current coconut crisis calls for new approaches and new thinking on the development of the coconut industry.

The recent drop in coconut production is primarily a result of the adverse weather conditions that prevailed in the country from about late 1975 to the middle of last year. (It takes approximately one year for the weather to affect the coconut crop). The decline in the crop which began around September-October last year is expected to continue until about May this year when some recovery is expected. This is the highest production shortfall recorded in recent history and coconut prices have never before risen to such high levels.

State of the Industry

Although coconut is generally grouped along with tea and rubber as a plantation crop, there are certain characteristics which sharply distinguish coconut from other plantation crops. The estimated acreage under coconut (1.1 million acres) is only second to the acreage under paddy (1.4 million acres) and is twice that of the acreage under tea or rubber (around 600,000 acres). Unlike other plantation crops, coconut is primarily a smallholder's crop with around two-thirds of the acreage below 25 acre holdings and with 35% of the acreage below five-acre holdings. Only 10% of the coconut lands came under the Land Reform compared with 63% in tea. Only 6.6% of the coconut lands were owned by companies compared with 40% in tea. Foreign capital and ownership and the use of Indian labour were never an important feature in the coconut plantations. Coconuts were planted and developed by the villagers as home gardens and small holdings and by the indigenous (land based) capitalist class as estates. Despite the large acreage, employment creation in coconut cultivation is quite low. According to the Socio-Economic Survey of 1969-70, the number of persons employed in coconut cultivation was only 84,000 compared with over 600,000 in tea cultivation. The employment per acre is less than 0.1 persons compared with over 1.0 in tea. However, unlike tea or rubber, coconut has been the base for the development of a substantial industrial sector in the rural areas. There are around 30 coconut oil mills, 75 desiccated coconut mills, over 600 coconut fibre mills, and thousands of cottage industry units engaged in the making of coir yarn, rope and other coir manufactures and in the production of coconut shell charcoal. Besides, the soap industry uses coconut oil as its principal raw material, the animal husbandry industry uses coconut poonac as its main feed stuff and the local distillery industry is almost wholly dependent on the coconut palm. In this way the coconut industry has been able to develop linkages with the village economy and to integrate with the village economy in contrast with the 'enclave' nature of the tea and rubber plantations. Another distinguishing characteristic of the coconut industry is that on the average about two-thirds of the production in an year is consumed locally and the exports represent the surplus once the requirements of the local market are met. Both in tea and rubber local uses account for less than 10% of the production.

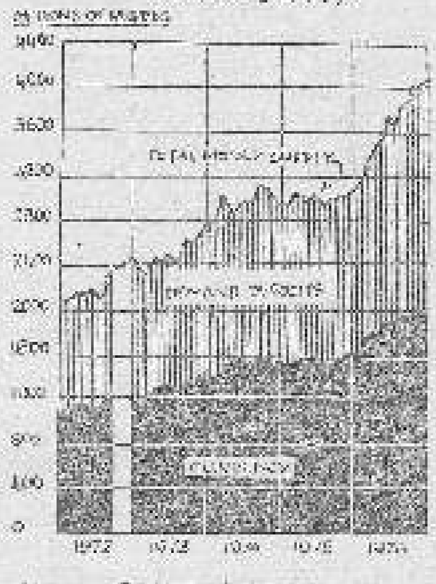
MONEY SUPPLY RISES BY 35 PER CENT

Sri Lanka's money supply (defined as the sum of currency and demand deposits held by the public) rose from Rs. 3,088 million at the end of 1975 to Rs. 4,166 million at the end of 1976. This represents an increase of Rs. 1,078 million or 35% during 1976. This is the highest increase in the money supply recorded in recent years. The increase in the money supply in 1975 was less than 3% and in 1974 it was 6%.

	End of Year Money Supply Rs. m.	% change over previous year
1972	[illegible]	15.4
1973	[illegible]	12.0
1974	3006	6.0
1975	3088	2.8
1976	4166	35.0

An important factor which led to this increase in the money supply was the increase in the net external assets of the banking system (Central Bank and Commercial Banks). The gross external assets of the country stood at Rs. 1,402 million at the end of 1976 representing an increase of Rs. 568 million or 68% during the year. This increase was largely a result of higher export earnings and aid flows, lower import payments and also under utilisation of import allocations. In contrast, both in 1974 and 1975 the external assets of the banking system recorded a decline thereby exerting a contractionary influence on the money supply. The other major contributory factor to the expansion of money supply in 1976 was the increase in

MONEY SUPPLY



Source: *Central Bank of Ceylon*

the bank credit expansion to the (a) private sector and (b) to the Government, on a scale much larger than in previous years. The higher credit expansion to the private sector could have been partly a result of the higher credit requirements of the export trade following the rise in export prices. There was also an increased recourse to Central Bank and Commercial Bank credit during the year to finance government operations. On the other hand, there was a sizable increase in the time and savings deposits of the private sector which exerted a contractionary influence on the money supply. The principal factors which changed the money supply during January-December 1976 are summarised below:

		Rs. m.
Expansionary Factors		
(a)	Increase in the external banking assets (net)	470.1
(b)	Increase in the commercial banks' credit to the private sector ...	559.5
(c)	Increase in banks' credit to the Government	729.9
(d)	Other factors	167.3
Contractionary Factors		
(a)	Increase in time and saving deposits of the private sector ...	308.1
(b)	Other factors	321.4
	Changes in money supply +	1074

TRADE

SRI LANKA'S TRADE BALANCE IMPROVES

Sri Lanka's merchandise trade showed a favourable balance in 1976 for the first time since 1965, according to our Customs data. Throughout the period 1966 to 1975 the country had been running a persistent deficit in the merchandise trade account and in 1975 this deficit reached a record figure of Rs. 1,318 million. The favourable balance registered in 1976 amounts to Rs. 127 million which is a result of higher export earnings and a decline in our import bill. Customs data shows that in 1976 export earnings totalled Rs. 4,815 million, registering an increase of Rs. 882 million or 22% over the previous year's earnings of Rs. 3,933 million. Meanwhile, the value of imports which reached a peak of Rs. 5,318 million in 1975 registered a drop of Rs. 630 million or 12 per cent from the 1975 figure to reach Rs. 4,688 million in 1976. The food import bill particularly was far less than in 1976 though the increased value of petroleum imports nullified much of this reduction.

Sri Lanka's foreign trade position over the last 13 years is seen in the table below.

FOREIGN TRADE 1964-1976
(Rs. Million)

Year		Exports* (f.o.b.)	Imports (c.i.f.)	Balance of Trade
1964	...	1876	1975	— 99
1965	...	1958	1474	+ 484
1966	...	1700	2018	— 318
1967	...	1690	1738	— 48
1968	...	2035	2173	— 138
1969	...	1916	2543	— 627
1970	...	2033	2313	— 280
1971	...	1947	1986	— 39
1972	...	2009	2064	— 55
1973	...	2617	2715	— 98
1974	...	3472	4524	—1052
1975	...	3933	5315	—1326
1976	...	4815	4688	+ 127

*Including re-exports.
Sources: *Central Bank Annual Reports and Ceylon Customs Returns.*

A significant feature in Sri Lanka's pattern of trade has been the consistent rise in the trade deficit since 1971 when it reached a peak of Rs. 1,318 million in 1975 and then showed a dramatic reversal with a surplus in 1976.

It may be noted that the conclusion regarding a favourable trade balance is based on the Customs records and that these statistics often do not reflect the actual trade flows owing to the delay in recording actual exports and imports. However, even when this data is all adjusted to correct the drawbacks, there can be no doubt that the balance of merchandise trade in 1976 should show a considerable improvement relative to the previous year.

Imports

Food imports have always taken up a major part of Sri Lanka's import bill. In 1976, however, for the first time petroleum products took a larger slice of our import bill than rice and cereals. Petroleum imports which upto 1973 have always been below 10% of the total import bill have shown a continuous rising trend over the last three years. At Rs. 1,196 million petroleum took up 26% of the total import bill in 1976 while the major food items of rice, flour and sugar took up about 33%. With the fall in prices of rice, flour and sugar in the international market, the total import value of these commodities was only Rs. 1,540 million as compared with Rs. 2,453 million in 1975 and Rs. 1,767 million in 1974.

The other major items of import were fertilisers amounting to Rs. 78 million, and textiles and synthetic fibres and cotton yarn amounting to Rs. 94 million in 1976. Two other significant items of import in 1976 were machinery and appliances; and motor vehicles. See table below on major items of import in 1975 and 1976.

Exports

The exports of Sri Lanka reached Rs. 4,815 million in 1976, the highest on record for any single year up to date. Mainly responsible were the earnings from the leading primary commodities: rubber, coconut, tea, spices and coffee. These three groups of exports amounted for as much as 75 per cent of the total export earnings in 1976. Tea, spices and coffee brought in Rs. 2,713 million or 44 per cent of the country's export earnings in 1976. In 1975 these same items accounted for 55 per cent of all export earnings. Earnings from rubber, however, showed the highest increase in value terms for any product. The additional earnings from rubber amounted to Rs. 238 million in 1975. The 1976 increase in earnings from coconut were negligible amounting to an extra Rs. 3 million only. Among the non-traditional items where significant increases were reached were gems and precious stones Rs. 82 million or 45 per cent increase; textiles and textile articles Rs. 62 million or 57 per cent increase; mineral fuels Rs. 81 million or 138 per cent increase; and fish and crustaceans Rs. 53 million or 245 per cent increase, the largest for any product group. See table on next page for major items of export.

Countrywise too there were significant changes in Sri Lanka's trading pattern according to data recorded by the Sri Lanka Customs; the most important being the drop of the People's Republic of China as a supplier of imports from number one in 1975 to number 19 in 1976.

MAJOR ITEMS OF IMPORT 1975 AND 1976
(Rs. Million)

Item	1975 Value of imports	1975 % of total imports	1976 Value of imports	1976 % of total imports
Petroleum	591	11	1196	26
Rice and Cereals	1158	22	787	18
Flour	1036	19	660	14
Textiles, Synthetic Fibres & Cotton ...	167	3	261	6
Fertilizers	205	4	78	2
Sugar	250	5	66	1
Sub Total	3723	70	3074	69
Total Imports	5318	100	4688	100

MAJOR ITEMS OF EXPORT IN 1975 AND 1976

(Rs. Million)

Item		1975 Value Rs. m.	1976 Value Rs. m.	Increase in 1976 Rs. m.	%
Tea, Coffee and Spices	...	2,257	2,508	219	22
Rubber	...	803	655	253	57
Coconut and its products	...	508	505	3	—
Gems and Precious Stones	...	264	182	81	45
Textiles and Textile articles	...	175	122	61	57
Fish and Crustaceans	...	73	22	18	243
Mineral Fuels	...	140	59	81	238
Sub Total	...	4,290	3,542	748	
Total Exports	...	4,815	3,933	882	

Sources of Supply

A notable feature in our import pattern during 1976 was the increasing value of imports from the Middle Eastern countries. This trend was strengthened over the last three years and in 1975 as much as 17 per cent of our imports were from the Middle Eastern countries. In 1976 the value of imports from these countries amounted to nearly 25 per cent of all Sri Lanka's imports. The main reason being that petroleum has been figuring larger in our import bill.

The value of supplies from Third World countries has also increased and the significance of this shift is observed when comparing the difference over a ten-year period. In 1966 only 24.5 per cent of our foreign purchases were from the Third World countries, by 1976 it had increased to 48.5 per cent. The two largest suppliers to Sri Lanka were Saudi Arabia and Iran from where nearly all our crude petroleum was imported.

U.S.A. and Japan continued to be important sources of imports for Sri Lanka in 1976. U.S.A.'s share of our imports moved up from 6.4 per cent in 1975 to 8.1 per cent in 1976, while U.K.'s share moved up from 4.3 per cent to 5.9 per cent.

China which was our leading foreign supplier over the last several years and was the chief supplier of imports in 1975 providing Rs. 662 million or 12.6 of our total imports, in that year recorded a heavy drop in 1976. According to the Customs Returns, Sri Lanka imported goods from China to the value of only Rs. 56 million or 1.2 per cent of total imports in 1976. In terms of this data China had dropped to number 19 as a source of imports for Sri Lanka. The main reason for this situation, however, is that a large part of China's annual rice supplies came to Sri Lanka from other sources. According to Food Department sources as much as 100 tons of rice

IMPORTS 1975 AND 1976

Sri Lanka's 25 main suppliers of foreign products

Country		1975 Rs. m.	%	1976 Rs. m.	%
Saudi Arabia		657	12.1	595	12.8
Iran	...	258	4.7	490	10.6
U.S.A.	...	337	6.4	379	8.1
Japan	...	447	8.5	376	8.1
Pakistan	...	220	4.2	317	6.7
Iraq	...	449	8.2	294	6.2
U.K.	...	225	4.3	273	5.9
Australia	...	489	8.2	273	5.5
Burma	...	121	2.5	231	4.9
Germany, Fed. Rep.		252	4.8	183	3.9
India	...	150	2.9	181	3.9
Thailand	...	356	6.8	171	3.6
Canada	...	62	1.2	105	2.2
Singapore		104	2.0	79	1.8
U.S.S.R.	...	212	4.0	72	1.5
Netherlands		40	2.8	70	1.5
Sweden	...	36	0.7	59	1.3
Belgium	...	17	0.3	59	1.2
China, People's Rep.	...	662	12.6	56	1.2
Italy	...	35	0.7	52	1.1
Korea, South		13	0.3	37	0.8
German, Dem. Rep.		24	0.5	35	0.7
Sudan	...	13	0.3	28	0.6
Hong Kong		8	0.2	25	0.5
Yemen	...	Nil		19	0.4
Sub Total		4,959	94.7	4,468	95.3
Other Countries		292	5.3	220	4.7
Total (all countries)		5,251	100.0	4,688	100.0

from Burma and 40,000 tons of rice from Thailand were supplied under the Chinese Trade protocol for 1976. Also, about 24,000 tons of China's 1975 supplies were received at the end of the previous year and were recorded under 1975 imports.

Pakistan moved into position number 5 from number 10 in 1975. Her importance as a trading partner of Sri Lanka ever since the birth of Bangladesh has come to be established; in 1976 she took up position number five as a supplier to Sri Lanka and position number three as a buyer of Sri Lanka's products.

Foreign Markets

China continued to occupy top position as a buyer of Sri Lanka's products purchasing 10% of our total exports. U.K. and Pakistan shared position number two and three respectively, while USA held the same position as in 1975 of number four. By way of markets for our produce the proportion of developed countries in the West increased slightly in 1976. The share of purchases by the developing world which reached 53.1 per cent in 1975 dropped to 48.7 per cent last year. Most significant were the Middle Eastern markets which took 20.3 per cent of our exports in 1975 and only 15.3 per cent in 1976. See details in table below.

EXPORTS 1975 AND 1976

The 25 main buyers of Sri Lanka's Products

Country		1975 Rs. m.	%	1976 Rs. m.	%
China, People's Rep.	...	580	11.7	481	10.0
U.K.	...	314	7.9	465	9.7
Pakistan	...	335	8.8	365	7.6
U.S.A.	...	219	5.6	377	7.9
Japan	...	175	4.5	213	4.4
Germany, Fed. Rep.		118	3.0	163	3.4
U.S.S.R.	...	105	2.6	153	3.2
Iraq	...	193	4.8	163	3.5
Singapore		57	1.5	143	3.5
South Africa		121	3.1	141	2.9
Italy	...	68	1.8	131	2.7
Australia	...	130	2.8	129	2.7
Saudi Arabia		94	2.4	122	2.5
Hong Kong		59	1.5	121	2.5
Canada	...	95	2.4	117	2.4
Netherlands		69	1.8	116	2.4
Kuwait	...	59	1.5	102	2.1
U.A.R.	...	122	3.1	101	2.3
Iran	...	117	3.0	100	2.1
Syria	...	65	1.7	79	1.7
Mexico	...	27	0.7	57	1.2
France	...	40	1.1	56	1.2
Tunisia	...	48	1.2	54	1.1
Libya	...	198	5.0	44	0.9
New Zealand		54	1.3	42	0.9
Sub Total		3,215	82.0	3,852	82.7
Other Countries		728	18.0	949	17.3
Total (all countries)		3,929	100.0	4,801	100.0

COMMODITIES

TEA

Tea Prospects Bright

The prospects for tea appear bright for at least another year. One of the major factors in the current tea price boom was the drastic drop in production of coffee and stocks during 1976. London's Tropical Products Institute has forecast that the outlook for coffee during 1977-1978 still indicates "a considerable shortfall in supplies, which are likely to remain tight until the turn of the decade". Exportable production of coffee has been estimated at some 44 million bags, around 10 million bags below roasters' likely requirements during 1977. Reflecting the forthcoming global shortage of supplies the demand by roasters has continued to remain very firm.

The local tea brokers summed up the position at the end of 1976 on a jubilant note. Among the factors they attributed to causing the affluence that pervaded the tea industry in 1976 were that "the tight liquidity position forced Packers and Wholesalers to adopt a 'wait and see' attitude with regard to stocks. This boomeranged when crop from the major producing centres suffered acutely due to drought, land alienation, non-application of fertiliser and increased internal consumption in India and Indonesia. This pressure built up and gradually enveloped all buyers as the year progressed. It was also evident that global consumption increased by around 4% whilst production rose by only around 3%. Other factors that made an impact on tea prices were the increased consumption of tea in the oil- rich nations and the boycott of coffee by US consumers, owing to its prohibitive price".

Tea prices zoomed to unprecedented heights and a new price level was established. Twelve records were notched as against nine the previous year.

The catalogue of Sri Lanka's new records for the year 1976 reads as follows:

(1)	Highest	High Grown Gross Average	: Rs. 9.63 per kilo
(2)	,,	Medium Grown Gross Average	: Rs. 8.72 per kilo
(3)	,,	Low Grown Gross Average	: Rs. 9.27 per kilo
(4)	,,	Total Offerings Gross Average	: Rs. 9.21 per kilo
(5)	,,	High Grown Turnover	: Rs. 636 million
(6)	,,	Medium Grown Turnover	: Rs. 533 million
(7)	,,	Low Grown Turnover	: Rs. 504 million
(8)	,,	Total Offerings Turnover	: Rs. 1,673 million
(9)	,,	Record price of Rs. 460/- per kilo for a FBOPF Super Silvery Tips Special.	
(10)	,,	Record price for a Dimbula BOP of Rs. 18.50 per kg.	
(11)	,,	Record price for a Dust I of Rs. 21 per kilo.	
(12)	Highest-ever Weekly Averages of:		

(a) Rs. 11.81 per kilo for High Growns on 5-10-76.
(b) Rs. 10.97 per kilo for Medium Growns on 31-8-76.
(c) Rs. 10.81 per kilo for Low Growns on 23-11-76.
(d) Rs. 11.08 per kilo for Total Offerings on 21-12-76.

Production and Disposal

The increases recorded in production and disposal of tea in 1975 was halted last year with the 17 million kilogrammes fall in our corp in 1976.

Production and disposal of Sri Lanka crop as compared with the three previous seasons were as follows:

	1973	1974	1975	1976
	(in Million Kilos)			
Annual Crop	211.2	204.0	213.6	196.6
Offered in Colombo Auctions (excluding reprinted teas, sampling allowance and withdrawals)	186.0	177.8	193.0	181.7
Shipped to London Auctions ...	21.0	23.2	17.3	14.3
Total Shipments from Sri Lanka ...	251.1	175.2	212.5	199.9

Prices Increase

The increase in the average price of tea last year, over that of 1975, amounted to Rs. 1.67 per kilogramme. The increase in 1975 over that of 1974 was only cents 28.

Net average prices per kilo for teas sold in Colombo Auctions during the last four years were as follows:

NET SALE AVERAGES

	1973	1974	1975	1976
	(in Rupees per Kilo)			
High Grown ...	4.61	6.11	6.25	8.06
Medium Grown...	3.88	5.51	5.78	7.45
Low Grown ...	3.97	5.88	6.35	7.82
Total Offerings...	4.17	5.84	6.12	7.79

U.K. Tea Imports

A significant feature in the imports of tea into U.K. was that Kenya overtook Sri Lanka as a supplier to U.K. in 1976. Another striking feature was that U.K. turned to several new suppliers for increased supplies in 1976 among whom were China, U.S.S.R., Argentina and Malawi. Of the approximately 225,000 metric tons imported into U.K. about 10 to 12% was re-exported, the largest amount going to Japan followed by Canada and the continental countries France, Sweden, West Germany, Italy, Netherlands, Denmark and Norway.

Particulars with regard to the quantities of tea imported into the United Kingdom during the period January to December 1976, together with the comparative figures for the same period of 1975, according to a leading broker's report are shown below:

JANUARY/DECEMBER
(in Metric Tons)

Imports from—	1976	1975
India	72,343	81,159
Bangladesh	10,905	6,878
Sri Lanka	28,507	27,463
Indonesia	8,182	8,419
Kenya	29,592	26,467
Uganda	6,235	6,744
Tanzania	7,349	8,275
Malawi	16,418	13,284
Mauritius	348	277
Mozambique ...	9,735	8,677
Zaire	1,983	1,720
Other Africa ...	3,393	3,699
China	7,969	5,648
Taiwan	974	637
Argentine	9,584	6,753
Brazil	799	469
Netherlands ...	403	1,733
U.S.S.R.	5,005	4,856
Papua, New Guinea	1,761	1,776
Other countries ...	3,127	3,427
Total imports ...	224,612	218,361

FEATURES

The Perpetuation of Underdevelopment as a Factor in the decline of Fertility: —A Study of a Kandyan Village

Newton Gunasinghe

The problems associated with development and population have aroused wide interest in many parts of the Third World. The conventional view has been that development causes a drop in population growth, as occurred historically within the developed countries in the West. In this Case Study the author from the Institute of Development Studies, Sussex, shows how the reverse has occurred in Sri Lanka; namely, underdevelopment has led to a drop in fertility.

The Demographic Theory has generally associated the declining rates of fertility with the processes unleashed by economic development, i.e., a shift of a substantial proportion of the labour force from agriculture to industry, a rise in the real income of the people, urbanisation, spreading of education and health facilities, disintegration of traditional family organisation and the increasing participation of women in industrial and service sectors. Historically, the gradual decline of fertility in Western Europe and North America and the sharp decline in Japan, resulted precisely due to these processes. More recently the islands of Taiwan, Singapore and Hong Kong have also been added to this group of societies, which experienced a decline in fertility due to economic development.

During the past one and a half decades, Sri Lanka has also experienced a substantial decline in fertility. The crude birth rate, which was 37.0 in 1959 came down to 29.4 in 1970 and the downward trend seems to be a continuing one. The objective of this essay is to argue that this decline in Sri Lanka is not related to economic development but on the contrary, to a process that runs in the opposite direction, namely the perpetuation of underdevelopment.1 The hypotheses advanced can be summarised as follows:

(1) **The underdeveloped economy of Sri Lanka is incapable of creating sufficient employment opportunities for the young adults who are currently in the marriageable age groups. High rates of unemployment compel the young adults to depend on their parents, which gives rise to a high dependency ratio. This raises the age at marriage and effectively reduces the most fertile period of a woman's child bearing age, thus contributing to a general fertility decline.**

(2) (a) **The general decline in marital fertility that pertains to all the social classes is caused, in the last instance, by the incapacity of the economy to absorb a growing number of labour units.**

(b) **The differential decline of marital fertility, which indicates a lesser rate of decline among the poor is related, on the whole, to the condition of underdevelopment.**

I will attempt to substantiate these hypotheses primarily, in relation to data obtained from 'Dalumgoda'.

The village Dalumgoda is located in the Udunuwara District Revenue Officer's Division, Kandy District. It is about 11 miles away from Kandy, which is the district capital.

But whenever necessary, nationwide data will be presented to supplement them.

The social history of villages such as Dalumgoda are invariably linked with the structural changes going on in the country as a whole. The introduction of the plantations, the resultant expansion of the roads to serve them and the accompanying growth of towns as commercial centres exercised a dominative influence over the Kandyan villages from the mid-nineteenth century.

The forces unleashed by these structural changes are manifold, which reacted on the structure and further reinforced the changes that were taking place. For instance,

Land: Part was claimed by the colonial state and was sold to the British companies to be turned into large-scale plantations. The ancestral lands held by the peasant families were converted into commodities sold in the market, thus always tending to alienate the poorest groups of peasants from the land that ancestrally belonged to them.

Commodity Production: In agriculture, the surplus product became a commodity that could be sold in the market. This led to the increasing commercialisation of agriculture and the worsening of the condition of the rural poor who could not rely on the village grain surplus any more.

Monetisation: As a result of the expansion of commodity production, the exchange relations became mainly monetised. Whenever money penetrates a traditional economy, where barter used to be the predominant traditional form, it has a tendency to reify the exchange relations and set them against those social relations on which the traditional social order was based.

Integration: Commodity production and the monetisation of exchange, logically implies that the village economy gets increasingly absorbed into the national structure and through it inevitably into the world economy. In consumption, as well as in production inputs, the village becomes an organic but a dependent part of the national and the global economy.

Wage Labour: Working for a wage, where the actual producer is alienated from the means of production, emerges in the countryside as an important production relation. This new form of employment as against the old forms, such as labour rent (*Rajakariya*),

1. The word 'underdevelopment' is used here in the sense that it is employed in the works of Baran (1957), Frank (1969) *et al.* Underdevelopment is not a condition that existed in the 'Third World' countries prior to the colonial domination. It is a condition created and perpetuated by the colonial powers on the basis of the transfer of resources to the metropolitan centres. Underdevelopment is mainly a process of uneven development, accumulation in the metropolis and stagnation in the hinterlands. In order to facilitate the resource transfer to the metropolitan centres, the service sector consisting of transport, communication, etc. has expanded to a certain degree in the hinterlands, which must not be taken as economic development. On the contrary, the societies subjected to resource transfer are not developing countries but underdeveloping countries.

exchange labour (*attam*) and share-cropping (*ande*) reduces the content of the social relationship between the employer and the employee (or the partners) into a mere cash nexus and disrupts the traditional social fabric.

All these processes, with their attendant disruption of the traditional social relations can be seen at work in Delumgoda. 90 acres of land bordering the adjoining village of Hiddaula was claimed by the colonial state and was converted into a tea plantation in the late 19th century. This reduced the land area the village could have possibly extended to. But it also provided employment for some of the village poor. Buying and selling of land started in the mid-nineteenth century, alienating the poor from the land and tending to further concentrate the land in the hands of the affluent. The land records are full of instances of mortgage, lease and outright sale.

A single non-resident family group owns 19 acres of paddy land and over 50 acres of highland. 55.7% of the heads of households in the village do not own any paddy land. Nearly half of them however, possess cultivation rights as they work as share-croppers for various landlords. 69% of the heads of households do not own any highland (defined as non-irrigated land excluding house and garden). The ownership of houses is more widespread, with only 19% of the heads of households having no legal title to their houses.

Agriculture, especially in the past decade, has become definitely market-oriented. The old division between the commercial crops and the subsistence crops no longer holds. Rice, the subsistence staple *par excellence*, has also become a major commercial crop. Even the poorest share-croppers, who do not produce enough rice for their own subsistence sell their grain in the market. The bulk of the product going to the market however, comes from the affluent landlords.

In exchange relations, with the exception of the share-cropper-landlord relation, money dominates. The villagers have become consumers inextricably linked with the national market. Barter has disappeared, except in those cases where it represents a monetary relation in content. In production as well as in consumption, Delumgoda has become integrated in the global economy. All the cultivators in Delumgoda use modern high-yielding varieties of paddy, which require expensive inputs such as fertilizer and insecticide. The extent of mechanisation is very limited. Inspite of this, paddy agriculture has become increasingly dependent on the inputs coming from outside. In consumption too, the villagers are heavily dependent on the commodities coming from outside: rice, flour, oil, sugar, clothes, manufactured products, etc.

The employment structure also indicates the increasing integration with the national economy. 21% of the heads of households (consisting of school teachers, supervisors and urban workers) are employed on a regular basis in the modern sector and earn monthly salaries.

The paddy cultivated area has remained nearly static since 1891. It is possible that the slight increase indicated in Table I is due to better recording methods, rather than to any actual increase in the paddy acreage. The shift from single cropping to double cropping, which occurred nearly twenty years ago and the application of labour-intensive methods, such as transplanting adopted more recently, would have definitely made the village economy capable of absorbing more labour units than it earlier did. But the labour absorption capacity of agriculture, in paddy cultivation or in the cultivation of other crops is necessarily limited. Delumgoda would have passed the capacity of providing employment for all the members of the village labour force, in agriculture and related occupations, at least two decades ago.

The primarily agrarian economy of Delumgoda, becomes incapable of supporting the growing population, which is a result of the historically maintained high fertility rates, supplemented by the declining mortality rates. If the members of the labour force are to be employed, it becomes imperative to create employment opportunities in the non-agrarian sector, either within or outside the village.

TABLE I

Population Growth and Area of Paddy Cultivated in Delumgoda

	1881	1891	1901	1911	1921	1931	1946	1953	1963	1974
Population	228	186	223	255	254	335	370	417	513	683
Paddy land in acres ...	37.5	38.5	—	—	—	—	—	—	43.	43.
Paddy land / Population ...	.16	.20	—	—	—	—	—	—	.08	.06

Sources: *Census Reports, unpublished records of the Department of Census and Statistics and Lawrie* (1896: 358).

In the period 1901-1974, the population of Delumgoda has increased threefold. In the inter-census period 1946-1953, the rate of increase was 12.7%; the growth rate for the decade 1953-1963 is 22.4%; and the highest growth rate is for the eleven-year period 1963-1974, which is 33.0%. The very high growth rate for the 1963-1974 period is not entirely due to the maintenance of high fertility rates, but primarily to 'migration' into the village. A number of landless families from the adjoining village of Rabbegamuwa, moved into the village and occupied some land owned by the government in the relevant period. The declining fertility trend emerges however, from the age pyramid. The age group 10-14 is the largest with 87 persons, followed by the age group 5-9 consisting of 81 persons. The drop is sharp in the 0-4 age group which includes only 64 individuals.

Such a programme would require a high degree of capital accumulation which in the last analysis rests on the amount of the surplus extracted and the ways in which it is disposed of. Baran has demonstrated the availability of two varieties of surplus in the underdeveloped countries (i) the actual surplus and (ii) the potential surplus. (Baran: 1957).

A part of the actual surplus is directly exported to the international metropolitan centres and the rest is conspicuously consumed by the upper classes. The potential surplus however, is never realised due to the irrational nature of the social organisation of production.[2] The perpetuation of underdevelopment thus makes it impossible for a country to create sufficient employment for its labour force, which could only be created in the non-agrarian sector.

A step in the right direction however, was made when a powerloom factory, administered by the Department of Small Industries was established in Delumgoda. The factory primarily depends on female labour and employs 180 women. But the factory recruits labour from the entire Udanuwara Revenue Division which had a population of 66,368 in 1971. As a result, there was great competition to get employment in the factory and only twelve women from Delumgoda succeeded in doing so.

Though Delumgoda is located only 11 miles away from Kandy, the unemployed young adults of the village find it extremely difficult to find employment in the city. Kandy, like so many cities in the 'Third World' is not a manufacturing centre, but a centre of circulation. As an administrative and commercial nucleus, the amount of employment opportunities it could create are limited.

The insufficient employment opportunities in the non-agrarian sector, thus emerge as the basic factor related to the prevalence of high rates of unemployment among the young adults. The gravity of the problem is heaviest among the educated youth (defined as those who have completed their G.C.E. 'O' Level). This does not however, imply that the less-educated youth have sufficient employment opportunities. Some of them in Delumgoda have become seasonally migrant agricultural workers, travelling 70 miles or more to the North Central Province where the wages are high during the peak periods of the agricultural cycle. In the village context they can only hope for casual employment, which means being idle for ten to fifteen days per month. The young adult, especially in the rural lower middle classes, often continues to be dependant on his parents well into his/her late twenties. Among the mid-peasants, the young adult may help his parents in working the land, but if he is educated (which he often is) he would not take to cultivation as a 'job'. Among the poor peasants and the rural workers the degree of dependence of young adults on the parents is lesser than in other classes, but it is by no means absent.

TABLE II

Age-Specific Marital Statistics in Delumgoda, 1974

	Total No.	Male No.	Female No.	*Married** Male %	*Married** Female %	*Not Married* Male %	*Not Married* Female %
15 - 19	86	38	48	0.0	2.0	100.0	98.0
20 - 24	70	37	33	5.4	18.1	94.6	81.9
25 - 29	65	27	38	39.4	58.0	60.6	42.0
30 - 34	42	21	21	47.6	71.4	52.4	28.6
35 - 39	42	21	21	71.4	90.4	28.6	9.6
40 - 44	28	15	13	86.8	92.3	13.2	7.7
45 - 49	21	7	14	85.7	100.0	14.3	0.0

**Includes persons divorced and widowed.*

As seen in Table II 98.0% of the women in the age group 15-19 are unmarried. Even in the age group 20-24, the marital rate does not change significantly and about 82% of the women are unmarried. 42% of women continue to be unmarried in the age group in 25-29 as well. Only in the age group 30-34, does the rate change significantly with only 28.6% being unmarried.

The data in Table III pertains to the island and the relevant zone indicates a number of important trends.

(i) The overwhelming majority of women in the age group 15-19, remained unmarried; a substantial proportion of them get married in the age group 20-24, but still more than half of them continue to be unmarried. In the age group 25-29, nearly 80% of them are married and the proportion of unmarried women significantly declines thereafter.

(ii) The comparison of figures that pertain to 1963 and 1970 indicates an increase in the proportion of unmarried women in all the three relevant age groups in between 15-29. In the relevant zone there had been a sharp increase in the proportion of unmarried women in the age group 20-24. The proportion went up from 36.3% in 1963 to 58.5% in 1970.

TABLE III

Proportions of women not married by age group for Sri Lanka, the Relevant Zone and Delumgoda

	Sri Lanka 1963	*Sri Lanka* 1970	*Zone** 1963	*Zone** 1970	*Delumgoda* 1974
15 - 19	85.0	91.3	85.1	96.8	98.0
20 - 24	41.3	56.2	36.3	58.5	81.9
25 - 29	17.2	22.9	12.8	19.2	42.0
30 - 34	8.4	9.6	5.8	5.5	28.6
35 - 39	4.8	5.2	5.4	3.0	9.6
40 - 44	4.5	2.8	5.2	2.2	7.7
45 - 49	3.9	2.3	2.6	2.1	0.0

**The relevant zone consists of Kandy, Matale, Nuwara Eliya, Badulla, Ratnapura, Kegalle and Kurunegala Districts.*

(Source for statistics on Sri Lanka and the Zone; Fernando 1974)

The village data indicates more or less the same tendency, i.e. a very high proportion of unmarried women in the age group 15-29. They vary however from the national and zonal

2. A share-cropper who obtains his inputs (seed paddy, insecticides, fertilizer etc). from the landlord can be cited as a case in point. Since he is compelled to pay 50% of the produce and the cost of the inputs to the landlord after the harvest, the share-cropper does not show much interest in applying all the inputs. It may be more profitable from his point of view, to sell them to some other cultivator on the blackmarket. I have come across several disputes between landlords and share-croppers which resulted from such sales of inputs. If every cultivator owned the plot that he cultivated and was not obliged to pay rents, this is unlikely to occur, and the harvest would also be greater. The concept of potential surplus refers to such unrealised wealth, which does not actualise itself precisely due to the irrational organisation of production.

figures, as the tendency is particularly pronounced in Delumgoda. Further, a comparatively higher proportion of women seem to remain unmarried, even in the age group 40-44. It is likely that this is due to a number of factors :

(i) The figures that pertain to the Zone include the population living on the plantations. The socio-economic structure and the cultural values among the plantation workers are quite distinct from those of the Kandyan villagers. In general, the plantation workers tend to marry early and it is possible that the data pertaining to them has raised the general proportion of married women.

(ii) It is obvious from the zonal figures that the rate of increase of the proportion of unmarried women in the age group 20-24 between 1963 and 1970 is 22%. If one assumes a linear trend, by 1974 the proportion would have increased to 70.9%, which is closer to the proportion of women unmarried in Delumgoda.

(iii) The Kandyan areas are hinterland communities, in relation to the coastal areas in the Western Province. The process of underdevelopment is most pronounced here. Since the employment opportunities in the non-agrarian sector are at least available in the Kandyan villages, the proportions of women unmarried also may be high.

The nationwide decline in the proportions of women unmarried has also been explained in relation to purely demographic factors. Fernando (1975) for instance, has attributed it to an imbalance in the sex ratio of the corresponding age groups. Thus in 1971, there were only 81.1 males per 100 females (relevant age group being 15-29 for females and 20-34 for males). The figures for Delumgoda are comparable; for 100 females in the age group 15-29, there are 82.1 males in the 20-34 age group. No doubt, this imbalance has contributed to the problem, but nevertheless it does not casually explain its existence. If the problem is entirely due to the imbalance one would expect a higher proportion of males in the relevant age group to be married. In Delumgoda, in the age group 20-34, 23.9 of men are married by comparison, in the age group 19-29, 22.3% of women are married. The difference is too marginal to warrant an explanation based on an imbalance of the sex ratio.

TABLE IV

Average number of children ever born per currently married women by age group and social class in Delumgoda, 1974

	15-24	25-34	35-44	45-54
Class I ...	0	1.6	5.0	6.0
Class II ...	0	2.2	4.0	6.2
Class III ...	1.0	3.6	7.2	8.1
Class IV ...	0	1.3	5.5	7.0
Class V ...	1.0	3.9	5.7	10.0

Class I consists of teachers, supervisory workers and other salaried white-collar employees who often are land owners. In this class, the age at marriage is high. The young women, whose parents hold the above positions, are forced by social values to get married to males with regular employment and a monthly salary. The bridegrooms of this stratum expect a dowry, especially if the woman is unemployed. This creates problems particularly in those families with a number of daughters. The marital fertility rate in this stratum is also comparatively low. The parents expect their children to complete at least their secondary education. They also tend to attend the better schools located outside the village, which implies daily commuting by bus. Moreover, the children of this stratum do no agricultural work. They start earning only in the mid-twenties. The benefits coming from the state welfare system are more than offset by the heavy expenditure involved. The members of this class are strongly motivated by an ideology of social mobility. Seen in terms of this ideology, a large family, though one is capable of maintaining one, does not make much sense.

Case A: MGJ, a school teacher is 35 years of age. He was born to a family of land holding cultivators and attended a government school 6 miles away from the village. He joined the Education Department as a teacher, after completing his secondary education and entered a teacher's training college later. He married MA, also a school teacher, whom he met at the teachers' training college. It is a cross-caste union. Their joint income in the form of salaries received, is in excess of Rs. 750/- per month. MGJ has not yet inherited the land due to him from his father as the latter is still alive. Last year he purchased ½ an acre of paddy land, which is given out for share cropping. He obtains around 40 bushels of paddy per annum, as his share.

MGJ married 5 years ago, when he was 30 years of age; his wife was then 27 years old. They have two children, a boy aged 4 and a girl aged 2. He would like to have another child, but not as yet. He is also thinking of moving closer to Kandy when his children grow up.

MGJ is aware of family planning techniques, but has relied mainly on natural methods. No child of this family has died in infancy.

Class II consists of owner-cultivators who are not compelled to sell their labour. They own plots of paddy land and highland which provide them with a sufficient income to maintain their way of life. In this social class too, the age at marriage is comparatively high. The younger members of this class are also education-oriented, but their chances of getting employment are not as high as those of the former class. Their parents do not possess the same influence as those of Class I, in rural society, to find them employment.[3] When they get employed in the modern sector they tend to get less prestigious jobs in spite of their educational accomplishments. In seeking partners, the young women of this class are not entirely motivated to find one with regular employment and a monthly salary. But they are unlikely to get married to a rural worker with no land. The marital fertility in this class is *lower* than that of Class I, but is *higher* than the rate that pertains to the poor peasants and the rural workers. The children of this class are not as alienated from

3. The state is the major employer in Sri Lanka's modern sector. The recruitment into these much-sought-after positions in the state and the semi-state sector, *de jure* occurs on the basis of merit. However, in the *de facto* recruitment procedure, political influence plays a highly important role. A recommendation from the local representative to the State Assembly, is thought to be necessary to obtain many jobs in the state sector. Only the people with sufficient influence in rural society are capable of getting these recommendations.

agriculture as those of the former class. They help their parents in agriculture. But the economic benefit gained from this loses its significance due to the money that has to be spent on their education.

Case B: DMD (aged 49) is an owner cultivator, who owns a home garden one acre in extent, an acre of paddy land and two acres of highland. In addition, he has leased on money rent, half an acre of paddy land. He also owns a small building, where a boutique used to be located, but now he derives no income from this, as there is no tenant. His monthly income from land exceeds Rs. 200/- per month.

He was 47 years old when he married DMS who was then 23 years old. They have five children, two boys and three girls. Their age distribution is as follows: 14, 12, 8, 4 and 8 months. The three elder children attend the school located in the village. The spacing of children, especially in the case of the younger three indicates that DMD is conscious of the problem of having too many children.

DMD thinks that it is better to have sons than daughters. In fact, he had been expecting a son this time, when the baby girl was born. Though he is aware of family planning methods, he believes that the force of *Karma* operates in deciding the number and the sex of children.[4]

The two boys aged 12 and 10 help their father in agriculture, performing less demanding tasks. But DMD would prefer them to have jobs in the modern sector when they grow up.

DMS (the wife) has obtained family planning advice from the midwife. No child in this family has died in its infancy.

Class III consists of poor peasants defined as those who either own small plots of land or who are share-croppers. All the poor peasants obtain an income from land, but are compelled to sell their labour to supplement it. The age at marriage is slightly lower than in the case of the former two classes. The young members of this class are not as education-oriented as those in I and II. They attend the village schools but often drop out without completing their secondary education. When someone from this stratum completes his secondary education, he is less likely to find a job in the modern sector. Thus the possibility of marrying early among the young, who primarily consist of secondary school drop-outs, depends on the labour requirements that the agrarian sector can generate. The sons of this stratum are unlikely to inherit sufficient land from their parents to depend on owner-cultivation. The double process of fragmentation of land and population growth drives the young members of this class towards unskilled irregular employment. The marital fertility is comparatively high, as the investment the children require is less. In this stratum also the children help their parents in cultivation. They would have earned money if the demand for unskilled labour would have been high. But Dunagoda does not provide enough opportunities in that direction.

The state social welfare system also emerges as an important variable influencing the fertility patterns of this class. The welfare system could be manipulated to suit the necessities of a family living at the bare subsistence level. In Sri Lanka, all who do not pay income tax (children as well as adults) receive 1 lb. of rice per week free of charge and another two pounds at a special subsidised price. The ration card also entitles these people to obtain various other commodities, such as dried fish, sugar, clothes etc. At the poorest level, food habits of the villagers change and rice becomes a luxury. Some of the free rice obtained from the co-operative store is sold and the money is used to buy bread and yams. The ration card entitles everyone to 3/4 lb. sugar per month. The price of sugar in the blackmarket varies between Rs. 8.00 and Rs. 10.00. It is possible to sell a pound of sugar for Rs. 6.00 to a peddler and one spends only 72 cents in buying it. If one had seven children, one would have nine ration cards and by selling sugar alone one would earn Rs. 54.00, which is more than the wages of the head of the household for ten days.

But even in this class the marital fertility is slowly declining, which must be related to the general lack of employment opportunities. The rate of infantile mortality is high in this class and the life expectancy is comparatively low.

Case C: HGS (aged 45) is a share-cropper who cultivates a plot of paddy land half an acre in extent. In addition, he also cultivates a half acre plot owned by the temple of Lankatilaka and pays labour rent in the form of carrying the insignia of the deity in the annual temple procession. The landlord charges the cost of the inputs which he advances, plus 50% of the produce. From paddy cultivation and wage labour, HGS earns around Rs. 200/- a month. His eldest son contributes another Rs. 60/- to Rs. 80/- to the family coffers.

He married YGHM (now aged 40), in 1952. It is a *Binna* (matrilocal) union and the woman is his cross-cousin. YGHM gave birth to eight children but one of them died in infancy. The age distribution of the surviving children is as follows: 21, 19, 17, 15, 13, 10 and 6. None of the children are married. The three elder children are secondary school drop-outs. The younger children, except the one aged 6 are currently attending the village school. The elder children help the parents in agriculture activities.

HGS has not invested very much in his children. In fact, they have become economic assets to a certain degree, as they help him in agriculture, earn some money and also valuable assets in manipulating the state social welfare system. But the children would have been of greater benefit if (i) HGS held more land and/or (ii) if employment opportunities in the modern sector were readily available. Since this is not the case even in the poor peasant stratum, the rationality that was once attached to having a large family is gradually being eroded.

Class IV consists of urban workers who are resident in the village. They generally come from the owner-cultivator families and are employed in the urban areas as watchers, peons, drivers, etc. The majority of the urban workers own land in the village which accounts for their continued residence there. Generally, they enjoy living standards superior to the poor peasants and the agrarian workers.

As far as value-orientations are concerned, they are closer to Class I than to any other agrarian stratum. An ideology of social mobility pervades this stratum; they who are blue-collar workers are interested in pushing their children to the white-collar stratum. Hence, education becomes an important field of investment. The majority of them however, cannot afford to send their children to the prestigious urban schools. The children of this class attend either the village schools or the government secondary schools located near to the village.

The girls of this class are interested in getting married to a man with a monthly salary and regular

---

4. Buddhism teaches that every willful action has its result which may come to one either in this life or in the later lives. *Karma* is the force that is attributed to these actions that one has committed in the past births or in the past of the present birth. Good volitional actions are capable of giving good results i.e. birth in an exalted position and well-being, while bad actions cause birth in an inferior position and much suffering. Thus both fortune and misfortune can be explained in terms of the *Karma* theory.

employment, even if he is a blue-collar worker. This raises the age at marriage and the proportion of young women unmarried in this category is high.

Marital fertility in this class is closer to that of Class I. Since the urban workers are less agriculture-oriented than the other agrarian strata, children are not important to them as labour units in agriculture.

Case D: DGW (aged 38) is a Police Constable, attached to the Kandy Police Station. He commutes for work daily. He owns half an acre of paddy land, a house and a garden. The paddy plot is cultivated by means of wage labour and he obtains approximately 50 bushels of paddy per annum. His salary is Rs. 400./-

He married LGB (now aged 36) from Kandy, seven years ago. They have three children, two boys and a girl, respectively aged 6, 4, and 1. None of the children are yet old enough to attend school. DGW is conscious of the burden of having a large family. When his children grow up he will have to invest in their education. Moreover, since the land owned is cultivated by wage labour, the children are not important as labour units.

DGW is practising modern family planning methods; he obtained advice from a doctor attached to a rural maternity hospital six miles away. No child in this family has died in infancy.

Class V consists of rural labourers who possess no rights over productive land and who entirely depend on income from wages for their sustenance. This excludes the share-croppers and temple tenants who possess some form of right over land. The members of this class are rural labourers, who work in the paddy fields and the high land. They are also engaged in various unskilled tasks such as carrying weights and assisting skilled workers of certain categories. Their employment is of an irregular nature and they are fully employed only at the peaks of the agricultural cycle. The paucity of demand for their labour in the village has driven them to become migrant workers and some of them travel to the North Central Province in the planting and harvesting seasons.

In their value-orientations they are not very different from the poor peasants. Their children attend only the primary school and many of them drop out. Though the Government schools do not charge fees, the cost involved in buying books and dressing the children properly is exorbitant in comparison to the income. The investment on children is low. On the contrary, just as in the case of the poor peasantry, in manipulating the social welfare system the children become valuable assets. Hence, the marital fertility rate is high.

The age at marriage is comparatively low in this class. A girl cannot expect to marry a man with regular employment or a land-owning cultivator. Dowries are not expected nor given. As soon as a young man is capable of getting regular employment, if he has no major obligations to his parents and siblings he is in a position to get married and frequently does so.

Case E: KMA (aged 41) is a rural labourer. He owns no land; the hut which he occupies stands on a plot of land owned by the aristocratic land-owning family. He does not pay any monetary rent, but he is expected to work on his landlord's fields in the peak seasons, without payment. He undertakes any irregular employment that comes his way, both agricultural as well as non-agricultural. When he works on the paddy fields, he receives Rs. 5.00 per day plus tea and snacks. He is not given food when he works on the highland or when he is engaged in non-agricultural unskilled work. Mostly piece-rates prevail and the wage is negotiated. His wife, TGB (aged 38), also works for wages when she can find work, which generally happens in the peak periods of the paddy cultivation cycle. She earns Rs. 3.00 to Rs. 4.00 per day when she finds employment.

KMA married TGM in 1955 when they were respectively aged 22 and 19. She came from Delumgoda itself and is a callificatory cross-cousin of KMA. TGB gave birth to nine children but one died in infancy. The age distribution of the remaining eight children is as follows: 18, 12, 10, 8, 6, 5, 4 and 1. The two elder daughters did not attend school. The son aged 10 attended primary school but dropped out after completing only grade 2.

The grown-up girl does not earn any money, but spends her time looking after her younger siblings. KMA thinks that the number and the sex of the children is decided by *Karma*. But he is more concerned with the sex of the children than with their number. If his first born had been a son, now he would be in a position to lessen his father's burden. His second born had been a son but he died due to KMA's *Karma*.

KMA is aware of family planning methods, but is not convinced of the benefits that these methods could bring him.

Conclusion

The decline of fertility in Sri Lanka is directly associated with two factors: (i) very high proportions of unmarried women in the 15-29 age group, and (ii) a general decline in the marital fertility rate. In a social system, where pre-marital sex is highly disapproved of, the fertility of these unmarried women is near to zero, which contributes to fertility decline of the general population in a most significant way. I demonstrated the causal relationship between these high proportions of unmarried women and the underdeveloped economy, which is incapable of generating sufficient employment opportunities. The decline in the marital fertility trend has two observable features: (a) The rate has declined in relation to all the classes, which partly results from the declining rates of infantile mortality and partly from the low capacity of the economy to absorb labour, which reduces the importance of the children as labour units. (b) The differential rate of decline in relation to various classes results from the operation of secondary variables such as the high investment in children the affluent engage in and the manipulation of the welfare system on which the poor rely.

The declining rate of fertility in Sri Lanka, cannot be explained in terms of the standard demographic transition theory, which assumes sustained economic development as its base. The service sector in Sri Lanka, the transport system, the communication network, the education and the health services have definitely made some advances. But this expansion is heavily service-oriented, which implies that the bulk of the population is still engaged in the agrarian sector and their real income has remained static or is even decreasing. The expansion of the service sector is not a sign of economic development but a structural incongruity of the economy which in itself is a facet of underdevelopment. Sri Lanka's case demonstrates that even the perpetuation of underdevelopment, given a certain degree of expansion of the service sector, can generate the necessary conditions for a decline in fertility.

References

Baran, Paul A., *The Political Economy of Growth*, New York, Monthly Review Press, 1957.

Fernando, D. F. S., "*Differential Fertility in Sri Lanka*', *Demography*, Vol. 11, No. 3, August 1974.

Fernando, D. F. S., '*Changing Nuptiality Patterns in Sri Lanka*, 1901 - 1971', *Population Studies*, Vol. 29, No. 2, July 1975.

Frank, Andre Gunder, *Capitalism and Underdevelopment in Latin America*, New York, Monthly Review Press, 1969.

Lawrie, A. D., *A Gazetteer of the Central Province of Ceylon*, Colombo, Government Printers, 1896.

Mass Sterilization in India

Ashok Mukerjee

Sterilization was growing into a controversial issue in India in 1976. This article from the *New Asia News* which was reproduced in the American journal *[illegible]* records first-hand observations of an Indian writer.

"The farmers tell us the reason we go hungry is that we have too many children."

The Scene: A village in the heart of India. Thirty women, untouchable labourers, speak with bitterness of their poverty, helplessness and resentment against the government which has left them worse off than in the days of British rule when "we earned less but our stomachs were full". They do field work at 15 cents a day and several hours of housework in addition; on the days when they can't get work they try to sell grass in the market and "go to sleep starving". The large landowners in this era farm with hired labour but do not invest in the land. There is little irrigation and productivity is the lowest in India, while the people's labour power which could develop the land goes waste. Still, "they tell us we're poor because we have too many children".

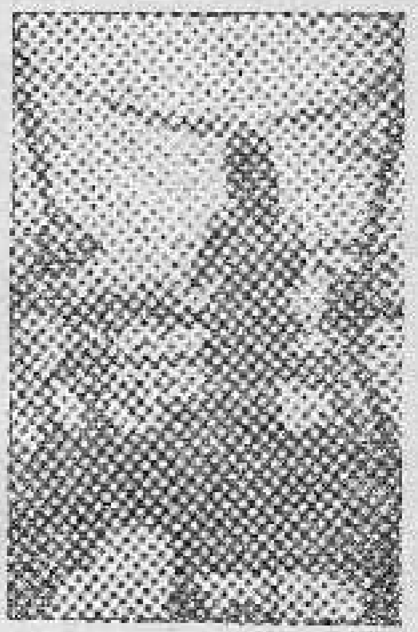
A year later in the same village and similar ones throughout the region.

Around January 1976, the government began to use its powers to enforce family planning, and this meant, in India, no playing around with "uncertain" methods like pills, loops or condoms, but massive, precipitous, enforced sterilization operations.

In the states which went ahead with vigour to enforce this, quotas were assigned to districts and villages. Twenty operations by the end of the week, the headman is told. If there are no volunteers, police are sent. Poor peasants spend nights hiding in the fields, but the quotas are inexorable. "We call it 'coercive persuasion'", say government officials blandly.

"There have been hundreds of operations in my village", says one young factory worker. "There should be family planning, but not this way".

In the small town of Barsi in Maharashtra a quota of 1,000 operations was set for the week ending February 3, 1976. According to a reporter for *Patriot* magazine of Bombay, 1,042 were performed, overwhelmingly on men. But to do this the police snatched up visiting peasants on trucks, and operated not only on men of reproductive age but on those too old to have children, on many months married, on men who had already had operations. "What do you care? You'll get 50 rupees!"



Patient undergoing sterilization in Bombay —"The cutting edge!"

In several states it was declared a "misconduct" for government employees to have more than two children. In Delhi and elsewhere school teachers were told to bring in three volunteers each—via pressure on their students—or lose pay and benefits. In many areas the poor were told to bring 'operation' certificates before they could get jobs at government worksites or any government welfare benefits. In municipal hospitals, doctors under pressure to show "results" refused to perform ordinary operations unless the patient signed approval for a sterilization.

Compulsion had been preceded by a widespread propaganda campaign estimating that with two million operations a year the "problem" could be solved. Some states, such as Punjab and Maharashtra, passed compulsory family planning bills, promising as many as one million a year. The first intensified drive was against men, and generally remained so, especially in the cities. But in the remoter villages, it seems the state was going after women also. According to official figures in 1975, 888,900 men and 945,000 women were sterilized, though the women's operation is much more arduous.

The campaign was identified with Sanjay Gandhi, Indira's pro-right and anti-communist son, and reflected also Western pressure. Sanjay began touring villages to say that the old slogan "Two or three—enough" has now changed: Two is the number. All over Delhi billboards appeared: "You have two, that will do—Sanjay Gandhi".

But it is the government's Emergency powers that turned this pussy-footing moral injunction from a simple "campaign" into a massive assault on the rural and urban poor.

Why the sudden emphasis on compulsory population control? In one sense it is a culmination of long trends. India was one of the first Third World countries to institute a program of "family planning", and at international conferences it has taken a "moderate" i.e. compromising stand between the militant Third World emphasis on development and the imperialist emphasis on population.

Family planning is crucial for countries like India, especially for women, many of whom are prevented mainly by their husbands from limiting their families. But in practice, India's program has not meant successfully giving the people access to techniques so that women could "control their own bodies"; rather it has increasingly meant the state's control of bodies.

It has also meant propagation and widespread acceptance of the official ideology of family planning. The idea that "population causes poverty" in many ways fits the prejudices of the bureaucratic elite. Government officials, experts, professors and planners have spoken and written about India's vast masses as if they were an inert, dull force to be cajoled, forced or manipulated into "progress". To these elite, the people seem dark, mysterious and an unknown force, and one may hear a long-time upper class social worker, after complaining that social movements never reach the villages (the "real India"), suddenly break in with, "But how they breed, babu!" A large section of the lower middle class has also been brought up to believe that the problem is too many children. Landlords, meanwhile, can freely use this cliche to disclaim responsibility for the misery of their labourers.

It is doubtful if India's more sophisticated rulers really believe the ideology. There are too many Indian agricultural experts saying that India could double its food production with relative ease; even the California Farm Bureau has estimated that if India had rice yields at the level of Japan it could easily feed all of South East Asia.

But real agricultural development would involve both investment and large scale mobilization of human labour power; it would have to be part of an integrated program that would both build an internal market and provide work for the masses. But this is not the development policy that the government of India has been following. Increasingly since the Emergency, in spite of rhetoric of self-reliance, the emphasis has been on production for export, and reliance on Western multinationals and production co-operation ventures with the Soviet Union to push industrial growth. According to K. N. Raj, a leading Indian economist, this is simply the "Brazilian model", which requires a relatively small but "disciplined" (i.e., repressed) labour force.

There has been resistance, however, to compulsory family planning in India. Most of this has been spontaneous, for with threat of arrest under Emergency regulations no political party has been able to organize opposition, though the Muslim League has spoken out most strongly against it. The greatest clash occurred in April 1976 in Delhi, when thousands of Muslim, Hindu and Sikh slum dwellers rioted, angered both by compulsory sterilization and by the levelling of a long-established slum colony.

In the end the government drive, which hit its peak in the first months of 1976, subsided. In spite of speculation about a national bill for compulsion, this was rejected and police are no longer being sent around.

Some Proposals for Effective Management of Public Corporations

Ranjith M. Withana

Public Corporations have come to play an increasingly important role in the national economy and changes in their organisational form and internal management practices, with a view to improving their performance, are desirable today. In this paper Mr. Withana, who is General Manager of the Ceylon Tyre Corporation and was earlier Management Consultant at the Academy of Administrative Studies, focuses attention on these issues.

The important role Public Corporations play in developing countries like Sri Lanka, which is committed to a policy of direct intervention and control of the national economy by greater involvement in manufacturing and trading activities, is clearly evident today. The question as to how far the state should intervene in manufacturing, trading or similar activities is now, in most developing countries, only one of degree rather than of principle.

The present form of the Public Corporation in Sri Lanka is based on the British model first established in U.K., by the Labour Government of the 1940s, as an instrument for the state's intervention and management of some of the important manufacturing and service industries. In Sri Lanka, Corporations were set up on the same lines, on the recommendations of the Commission on Government Commercial Undertakings in 1953. This Commission examined the most desirable manner in which the industries and services set up during the second World War should be run. The requirement for the enterprise to be relieved of close Treasury control on finance and personnel procedures and have a commercial organisational framework whilst being subject to ministerial control and public accountability, were ideally met by the then established British Morrisonian type Corporation. The State Sponsored Corporations Act No. 19 of 1955 was the outcome of this Commission's recommendations which provided for the running of these industries under this type of Corporation. The State Industrial Corporations Act No. 49 of 1957 which was enacted later, provided for new Industrial Corporations to be set up as well as to manage those established under the 1955 Act. Most of the present industrial Corporations such as Steel, Cement and Tyre are managed and operated under the Act No. 49 of 1957.

There are also a number of Corporations set up under separate Acts including some industrial undertakings such as the Petroleum Corporation, the Milk Board, the Fisheries Corporation and Air Ceylon. These reflect only certain differences in capital structure, auditory provisions, procedure for pricing, borrowing powers, composition of Boards etc., compared to the provisions of the State Industrial Corporation Act. However, with the enactment of the Finance Act No. 38 of 1971, Part II Financial Control of Public Corporations, the provisions for financial control and allied matters are now uniform among all Corporations.

This paper makes certain proposals for effective management of these Corporations based on my present brief experience as a practising manager in an Industrial Corporation and my continuing interest in such organisations as a student of management. It is my intention to focus attention mostly on the Industrial Corporations because, firstly I have within a short period obtained some basic information and data on some management practices and approaches in these Corporations. Secondly since they comprise a group with a sizeable capital investment which is involved in manufacturing and activities using modern technology they present interesting demands on management; and since the organisational form and statutory provisions for general control and operations are basically identical among all Corporations, a discussion centred around Industrial Corporations would, I feel, indicate the general applicability of such issues to all Corporations.

Before examining the proposals for effective management, I feel it is necessary to briefly indicate the significant role the Corporations play in the economic life of the country, by reference to some economic indicators and parameters. Such reference enable us to focus attention sharply on the need to effectively manage the Corporations.

1. It has been estimated that the activities of Public Enterprises (i.e. of Corporations) accounted for nearly 15% of the G.N.P. for 1974 with the value of goods and services produced by them being estimated at Rs. 2360 million.
2. The Corporations capital formation of Rs. 445 million in 1974 accounted for nearly 11.5 per cent of Gross Domestic Capital Formation; whilst all Public Corporations and Public Enterprises accounted for 17.6% of the Gross Domestic Capital formation.
3. The total capital invested in the Public Corporations upto 1975 was Rs. 5688 million.

Considering only the Industrial Corporations it has been estimated that they accounted for nearly 31 per cent of the manufacturing sectors contribution to G.N.P. in 1974. Capital invested in the Industrial Corporations being Rs. 2,964 million accounted for nearly 52 per cent of the capital invested by Corporations.

Another feature, specially of the industrial Corporations, is that during the first phase of industrialisation in the late 1950s and early 1960s, most of the Corporations spearheaded the then Industrial development programme of import substitution. Some of the items manufactured by these Corporations were sophisticated products such as tyres, steel, cement, textiles etc., which require a particular technology and the technology used in these local industries was comparable with those of other developed countries. In the present strategy, of the next phase of industrial development, namely to promote and expand industrial exports these Corporations will no doubt have to play the same leading role. They will therefore have to expand production, initiate new projects as well as develop products that could compete in export markets at least in items that have a distinct economic advantage in foreign markets. For example, it is an accepted fact that Sri Lanka would have an economic advantage in the rubber-based industries, coconut industries, tea processing industry and other industries for which raw materials are freely available locally.

In view of this it has to be accepted that even though some of the developing countries are looking towards intermediate technology and manufacturing processes which are less sophisticated and more labour-intensive, we cannot lose sight of the fact that there has to be a manufacturing sector with and advanced technology which could compete and expand in exports in certain lines and products so as to provide the main industrial base. This for obvious reasons will have to be from the industrial Corporations. The need to improve the management of these Corporations therefore takes on an added dimension and serious consideration will have to be given to measures necessary for their effective management so that they would be able to meet this challenging situation.

The subject of performance and efficient management of Public Corporations both in developed and the developing countries has attracted considerable interest both among policy makers and academics alike, in view of the above outlined critical role Public Corporations play in the national economy.

This has been well summed-up by R. H. Tawney, a distinguished academic and a respected leading figure in the British Labour movement of the 1930s and 1940s who said "nationalisation then, is not end, but a means to an end, and when the question of ownership has been settled the question of administration remains for solution".

The specific interest in the Public Corporation stems from its unique organisational form which expects it to fulfil, according to some, the conflicting objectives of 'commercial and business success' and the 'national or wider public interest'. This situation is well expressed in the words of the architect of this type of Corporation, Herbert Morrison, the Deputy leader of the British Labour Party in the 1940's thus: "we seek a combination of public ownership, public accountability and business management for public ends".

The studies on the performances and management of Corporations both by academics and policy makers elsewhere (i.e. mainly in U.K., other European countries and developing countries like India, Pakistan, Malaysia) have focussed mainly on the somewhat delicate and indeterminate boundary between 'business autonomy' and 'ministerial control'. The position of this boundary according to these studies has had its influence on many factors affecting performance namely, pricing, investment policies, overall business strategy etc. Unfortunately there have been very few studies here that have examined these issues so comprehensively. It is my contention that in countries like Sri Lanka for very good reasons, both from the point of view of the prevailing political ideology and government policy and the failure of Boards to display their capacity for effective management the dividing line has moved more in the direction of greater Ministerial and Central Governmental control.

It is unfortunate that the term 'commercial' has often been interpreted here only in terms of profit, return on capital, accumulation of surplus and repayment to the Consolidated Fund. These criteria do not have the same significance for enterprises operating under monopolistic conditions with protected markets. Commercial consideration should also, equally, include certain other performance criteria such as cost reduction, consumer satisfaction and service, market coverage, growth and diversification, better material utilisation and labour productivity. Unfortunately in Sri Lanka, in the evaluation of the performance of Corporations and also in their management these aspects have not been given due consideration and importance.

With these remarks let me now outline some of the measures that should be taken to improve the management of Corporations, which is the main theme of this paper.

I wish to present these proposals under 4 main categories namely:

1. Changes in the organisational form of the Corporation.
2. Framework for governmental control.
3. Measures for effective management within the organisation.
4. Personnel and related policies.

Though for purpose of analysis the proposals have been classified separately, as above, it would be evident in the rest of the discussion that they are to some extent interconnected.

Changes in Organisational Form

Though Corporations have been created under separate Acts, the organisational form as mentioned earlier is generally the same. The capital is generally owned wholly by Government and the Board is nominated by the Minister. Though this form of organisation has worked satisfactorily possibly in the developed countries inspite of their operating in some cases under monopolistic conditions, because certain public opinion, effective consumer pressures have ensured that the interests of the consumers are met. The same cannot be said for Corporations in developing countries and though the interests of the 'wider public' which implies more the national interest and public accountability are met by closer Ministerial and Governmental control, it is clear from experience that the interests of the limited public, namely consumers of the products and services have not been satisfactorily covered. Therefore, my proposal is for the representation of these consumers in the management of the Corporation, by issue of not less than 25% of the capital in the form of preference shares, to the consumer group. By this automatically there would be provision for proportionate representation on the Board and for these Board members to be elected by the consumer shareholders. A specific requirement should be that a Board representative before election should satisfy the Minister and the shareholders that he has no political affiliations. This of course has to be exercised more in spirit than in law and the main objective is to ensure that the interests of the consumer are represented in the management of the Board which I consider a very important measure for improved performance.

In fact the first enactment, namely, the State Sponsored Corporations Act No. 19 of 1955, has provision for issue of limited shares to outside shareholders.

The present form of the Board, apart from the above mentioned shortcoming, does not in my opinion function as a very effective planning group. I will be mentioning elsewhere the importance of planning and the need to have a corporate strategic plan for the Corporation for a period of 5 years or more which would enable the Corporation to relate its growth and development on the basis of this corporate plan.

In view of this, it is important that the Board as the policy making body effectively exercise the planning function for which there should be as far as possible two full-time working directors; one for Finance and the other Technical. These could be career officers who hold executive positions and could be heads of the relevant departments. Elsewhere, I will mention the importance of building a specialised competent management group who would be able to move from Corporation to Corporation at this level. It should be noted that in other countries, specially in U.K., the Board consists of of a small proportion of full-time members in addition to part-time members. India also, after the Corporations were set up, had a specially selected and trained pool of administrators and managers for the management of Corporations. This proposal would also enable the Corporation to ensure a certain continuity of Board policy in the light of possible changes in Boards with the change of government.

Framework for Governmental Control

The lack of definite operational objectives for Corporations, other than a general statement of objectives in the Corporation Acts, has left the financial and economic obligations of Corporations somewhat vague even in U.K., until the 1961 and 1967 White Papers on 'Financial and Economic objectives of Nationalised Industries' were published. These clarified the objectives and since then in U.K., specific performance targets in terms of financial rate of return and profits are expressed every year. These White Papers, apart from stating that revenue should cover operational cost also explained the basis for meeting financially unremunerative but socially beneficial activities. Some of the provisions of the Finance Act No. 38 of 1971 introduced here cover these aspects and this was the first occasion that some clear statement on the expected financial performance was stated. Even so, it has not enabled the Government with prior consultation with the Corporations to decide on specific targets of profits or return on capital or cost of the products, except that each Corporation according to this Act, is expected to prepare an annual budget and forward it to the supervising Ministry and the Treasury. Any deviation from these budgeted costs and profits have not been scrutinised by any of the overseeing authorities like the Ministry, the Treasury or the Planning Ministry and no action taken for such deviation. Therefore, one of my specific proposals is that annually an agreed target of profits, the return on capital and cost structure, be published on the basis of a critical evaluation of the budget. This would enable the performance to be reviewed in relation to this definite performance indicators.

Similar to the requirement to submit to the Minister the annual report and annual accounts by the Board, there should be a statutory requirement for the Board to present each year, a Corporate plan of the enterprise which spells out its programme of product improvement and technological development, contemplated expansion, market opportunity etc. A corporate plan is generally an integrated plan of the different functional aspects of the enterprise which has as its main purpose the examination of the economic environment of the Corporation both local and foreign, the essential characteristics of the industry, its development market and trends, future opportunities and risks, and strengths and weaknesses of the Corporation in relation to external competition—competition not necessarily in the local market but in the South East Asian region in view of the concerted efforts at exports and the idea of regional industrial development among the Governments of the region. Though there is provision for tabling an annual report on the exercise, discharge and performance by the Corporation of its powers, functions and duties during that year and on its policy and programme under the Finance Act 38 of 1971, generally it is seen that this does not cover the requirements of what I propose regarding a corporate plan.

This measure would also to a large extent ensure continuity of Board policy, even with the change of Board because fundamentally a Corporation has to work within an already prepared corporate plan. I would refer later on to a brief survey on aspects of management in Industrial Corporations I had done, and it is significant to note that according to this survey none of these Corporations have a corporate planning division.

For more effective governmental control a Select Committee, on the lines of the U.K. Select Committee on Nationalised Industries, should be seriously considered. As the functions of this body would overlap with those of the present Public Accounts Committee it is suggested that on the creation of such a Committee the P.A.C. would not examine the annual accounts of Corporations, but the Auditor General, with an inter-ministerial body functioning under the Planning Ministry or the Treasury, would service this proposed Select Committee on Corporations.

The need for carrying out a management or an efficiency audit of Corporations is another important requirement. It is noted that the Auditor-General has made efforts at widening the scope of the audit of Corporations. But it is my contention that suitable personnel, competent in aspects of commercial management should be available to do such an efficiency audit. Such an efficiency audit should be referred in the first instance to the Minister in charge before it finally reaches the proposed Select Committee on Public Corporations. It is evident that the functions of this inter-ministerial body would be wider if it is expected to review the corporate plan of the Corporation in addition to an examination of the budget and annual accounts.

It is well known that technological development as well as product improvement and growth of industries depends to a large extent in the developed countries on the investments in research and development. It is therefore suggested that there should be a statutory requirement for Corporations to provide a certain minimum amount of investment, say 5 per cent of the annual budget, for R & D activities. The specific progress of this R & D programme should be an important part of the proposed corporate plan. In the event of certain Corporations being unable to have an R & D division and therefore the stipulated investment due to lack of qualified personnel etc., such Corporations should make financial grants to scientific institutes like the C.I.S.I.R. or the University to work on particular research programmes that have a direct bearing on their product improvement.

I have indicated earlier that due to various good reasons the trend in Sri Lanka has been for greater central control of Corporations, and this has been more so in establishment and personnel matters. This may not be in keeping with the original concept of the Corporation. But looking back on the activities of the Corporations, when they functioned under less ministerial and central control on these matters, it often has led to situations which have proved more harmful than beneficial to the organisation and the Corporation sector as a whole. Possibly due to this experience, fundamental matters on personnel and establishments including certain recruitments, salary scales, rates of allowances, loans, bonuses, disciplinary procedures, trade union privileges etc. now operate under close ministry control. In view of this it is suggested that this position be formalised by the preparation of some uniform regulations and procedures in the nature of an establishment guide for all Corporations. This would relieve the Corporations of a large amount of unnecessary correspondence with Ministries as well as overcome the unnecessary pressures they have to face from their employees.

Another major difficulty encountered by most Public Corporations, both in Sri Lanka and elsewhere, is that of general labour unrest. It is accepted that genuine and responsible activities of Trade Unions on legitimate work conditions is a desirable feature and has no doubt contributed in large measure to improve conditions for labour, as well as prompted the management to respond more effectively to labour problems. However, it is also known that activities of Trade Unions far outside the scope of their due functions and actions in violation of some of the fundamental requirements of industrial relations have caused considerable problems and difficulties for Corporation management. It is therefore suggested that the functions of the Trade Unions be scrutinised more closely by the Commissioner of Labour with a separate Division dealing with Corporations. This would mean that there should be statutory provision for this Division to supervise elections, ensure that the general body is consulted in the event of trade union action, and that such decisions are taken on a secret ballot. Along with this, labour disputes which cannot be resolved by management should be referred to an independent arbitrator by the Commissioner of Labour and such decisions should be mandatory for both parties to accept. To ensure the ministerial involvement in these arbitrations and resolution of labour disputes, the Commissioner of Labour will not communicate the decision except with the concurrence of the Minister in charge of the Corporation.

It has been mentioned earlier that the prices of the basic consumer commodities and industrial goods produced by Corporations have a critical bearing on the general price structure in the country. In all countries the prices of Corporation products are subject to ministerial control. Here too any change of price, particularly an upward revision requires the approval of the relevant ministerial Sectoral Committee, and sometimes of the Cabinet. However, it is my contention that the applications for price revisions do not receive the scrutiny that they should get, due to various reasons. Essentially before a price revision is approved an exhaustive overall management study should examine cost of manufacture, specially in relation to whether cost reductions are possible. In U.K. the National Board for Prices and Incomes is equipped to do such a study and before approval of any price revision they satisfy themselves that the cost increase on which the price revision is requested is outside the control of the industry. In Sri Lanka the National Prices Commission is supposed to play the same function. However unfortunately it has neither examined any price revision requested in this manner, nor has it made public the results of such investigation on the basis of a request for a price increase. Looking in general at some of the price increases of the past few years among the Corporations, the main reason advanced is the increasing cost of imported materials. However, a detailed examination may reveal in many instances that the overall cost increase on which the price revision is requested is not based only on increase in the cost of the import content of the product. In countries like Sri

Lanka where inflation is due more to the 'imported inflation' it is the duty of the management to contain price increase to levels not beyond that contributed by the increased component of imported materials. It is therefore, suggested that the National Price Commission or the inter-ministerial body of officials suggested earlier should, with competent personnel, examine this aspect thoroughly before any price revision is approved by the Government.

Measures for Effective Management within the Organisation

A Corporation is like a normal business entity except that certain decisions are outside areas of management discretion. Even so when one looks at the 'core' of its operations the more effective and proven internal management approaches and methods of successful business firms could be used.

I have outlined two of them earlier, namely the need to have a corporate planning division and a 'Research and Development' or 'Product Development' division. The creation of such divisions and thereby giving importance to these functions is a fundamental requirement when one considers the commercial practices of most successful enterprises in the world. The magnitude of the operations and the technologies that are used today all point to a definite indication, that these two functions should form a part of the internal management processes.

Product improvement and consumer services are the cornerstones of any successful commercial organisation. However, it is common knowledge that most Corporations here do not give sufficient importance to this aspect. In fact my earlier proposal to have certain representations of the consumer group at the Board should initiate the necessary management practices to give weightage to these aspects.

In this context I draw attention to the results of a limited survey on some aspects of management of Industrial Corporations I had conducted. This study revealed that—

(i) **None of the Corporations had a Corporate Planning Division.**

(ii) **Only 1/5 of the Corporations had a Planning Manager or a Planning Group.**

(iii) **Only 1/5 of the Corporations had a 'Research & Development' or 'Technical Development' or 'Product Development' division under a Senior qualified manager.**

(iv) **Though over 3/4 of the Corporations stated that they had machinery to deal with customer complaints or quality defects none of these have been taken up at Board level.**

Management of a commercial enterprise requires a very good control of its finances and therefore it is imperative that its higher management be both competent in financial management as well as place the necessary emphasis to this function in the management of the enterprise. Vast strides have been made in the business world in the transformation of the concept of finance from merely financial accounting to that of a more dynamic financial management. I have stated elsewhere that the Head of the Finance Division should be represented at the Board as the Finance Director. Along with this there should be very effective cost accounting as well as management accounting practices adopted in the Corporations. The survey which I referred to earlier of course indicated that most of these Corporations have introduced a fair amount of the modern financial control and management practices. If this is so there is no need for any further changes to be brought about.

The analysis of the subjects that came up for board discussion, in the form of Board Papers, provides a clear indication of the relative emphasis placed by managements on these subjects. The survey carried out by me revealed that some of the important functions from the point of view of effective management, do not get the necessary management and board attention as evident from the following:

(i) **Only 1 per cent of board papers were devoted to long-term and short-term planning.**

(ii) **Only 1 per cent of board papers were devoted to product development and improvement.**

(iii) **Only 5 per cent of board papers were on technical/production aspects and improvements.**

(iv) **Marketing, advertising, sales promotion and distribution were covered by only 3% of the papers.**

(v) **Personnel matters, appointments, disciplinary matters etc., were covered by 28% of the papers.**

Personnel and Related Policies

One of the major shortcomings for the effective management of the Corporations is a lack of suitable competent personnel and with this an arrangement to develop such a management cadre. I referred earlier to the need to build such a group of managers who could move to the highest position in the Corporation, of course accepting the fact that a certain amount of transferability is possible though the work of Corporations is within specific industrial specialities.

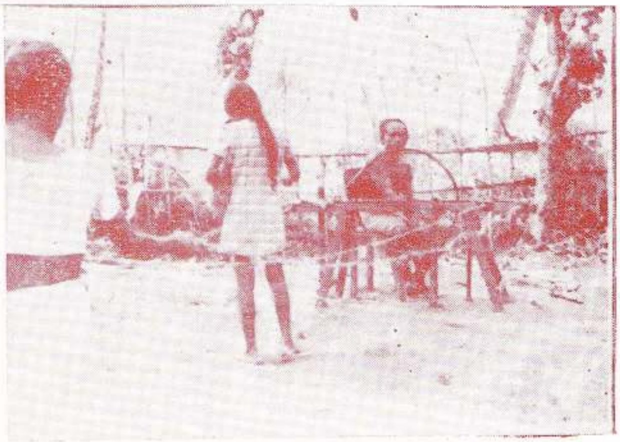
Along with this it is necessary to consider providing attractive remuneration as well as other benefits which would not be second to the management benefits in the private sector here, and in similar industries in other countries. This has been referred to on many occasions before. It has been accepted that unless there are such incentives the environment for the growth and development of such managers would not emerge.

I mentioned earlier that these public Corporation will have to provide the leadership for a concerted export drive along with expansion and diversification. It is therefore imperative that technical managers be given full opportunities to acquire the rapidly advancing technology of their industries. It is my contention that these aspects have unfortunately not received the attention they deserve and the technologists are expected to work without the desired exposure to new technological ideas as well as research findings. India quite rightly placed a heavy premium on technical and scientific development by which they provided the necessary facilities and incentives for their technical and scientific personnel. It is suggested that special attention be given to this aspect and provision for frequent travel and an exchange of ideas of our technologists with other scientific personnel be provided through some fund to be administered by an appropriate body like the National Science Council or the C.I.S.I.R.

.... AND THE "DEVELOPING"

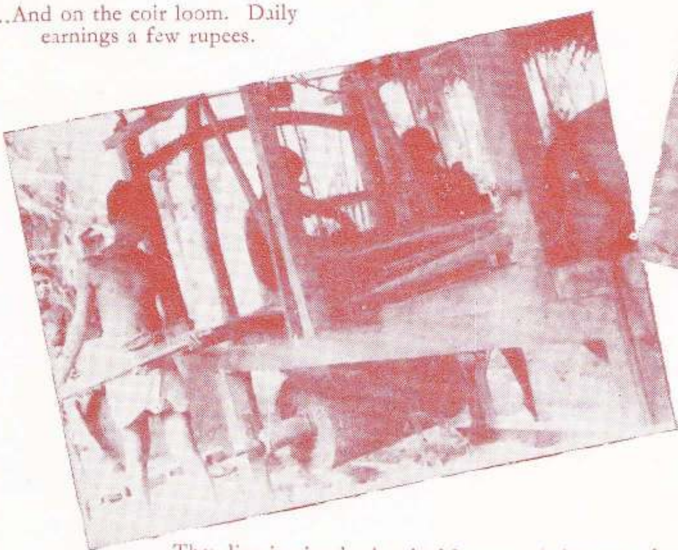
The village to be "developed" ...... a collection of humble dwellings... belonging to almost another world from the "developed" surroundings we have seen.

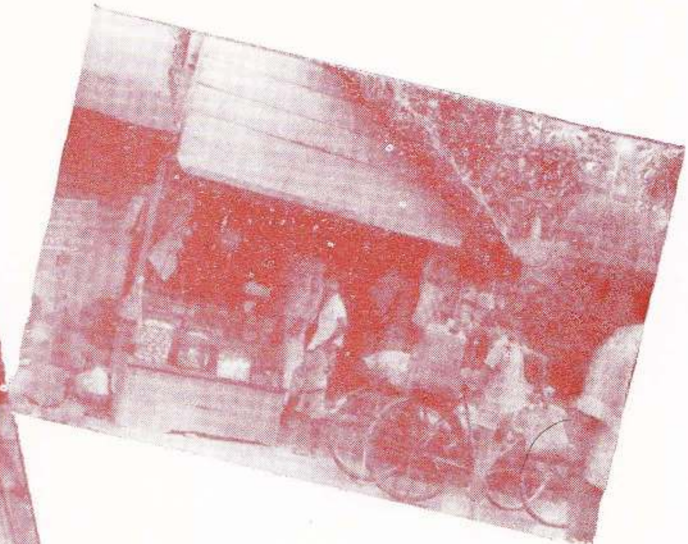
Their livelihood consists of backbreaking work such as this at the pits....



. . . or labouring at the coir wheel for a greater part of the day.

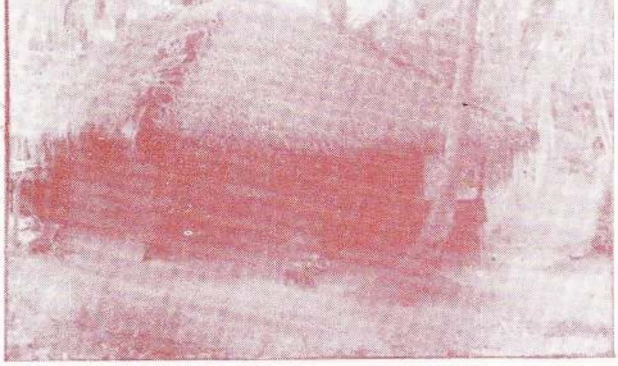
...And on the coir loom. Daily earnings a few rupees.



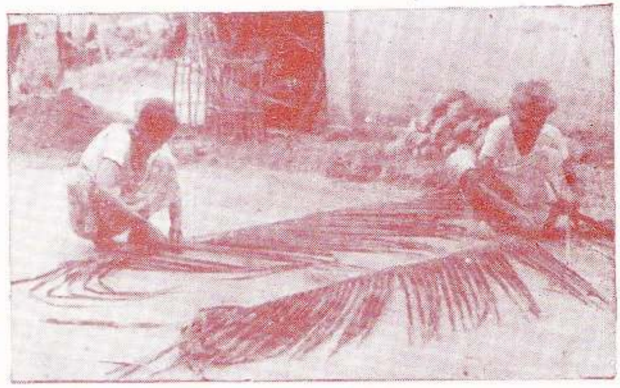


This is the "Supper Club" of the village. Cost of a plain tea 20 cts., a plain biscuit and plantain fill the stomach.

They live in simple thatched houses. A different dwelling from the Rs. 300,000 spent on a room for a developed hotel.



They weave their thread of life ... a life of quiet desperation.



Registered as a Newspaper at the G.P.O.

ECONOMIC REVIEW

Price 2/-

Printed at Tisara Press 137, Dutugemunu Street, Dehiwela.