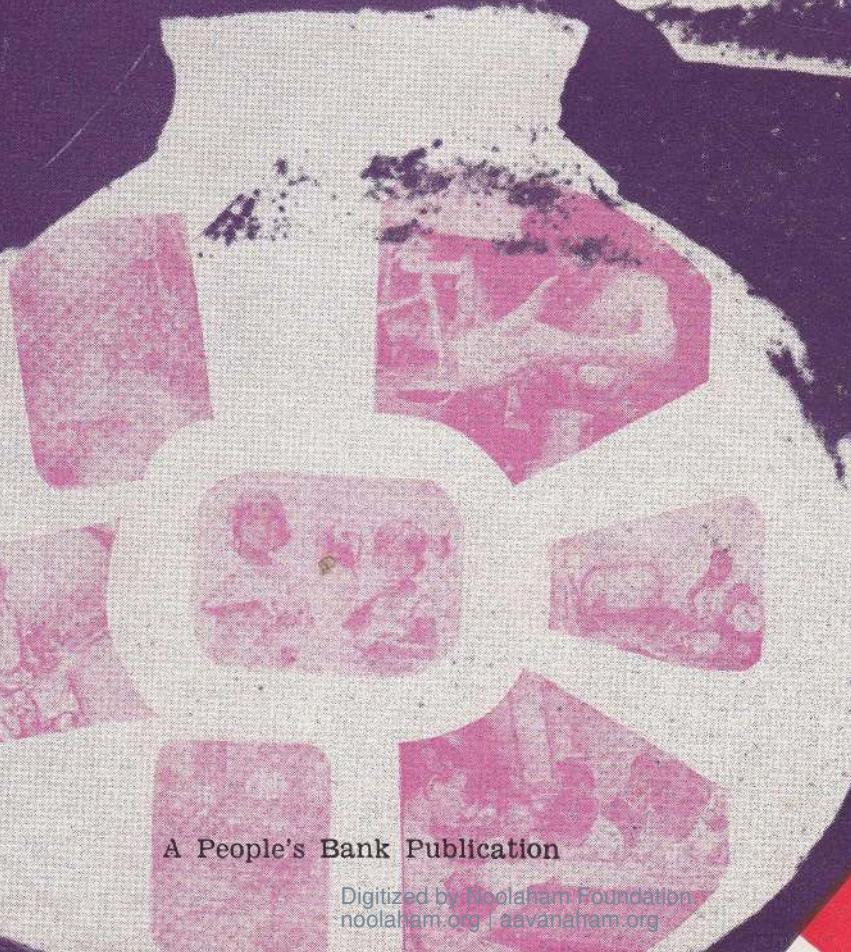


ECONOMIC REVIEW

March
1978

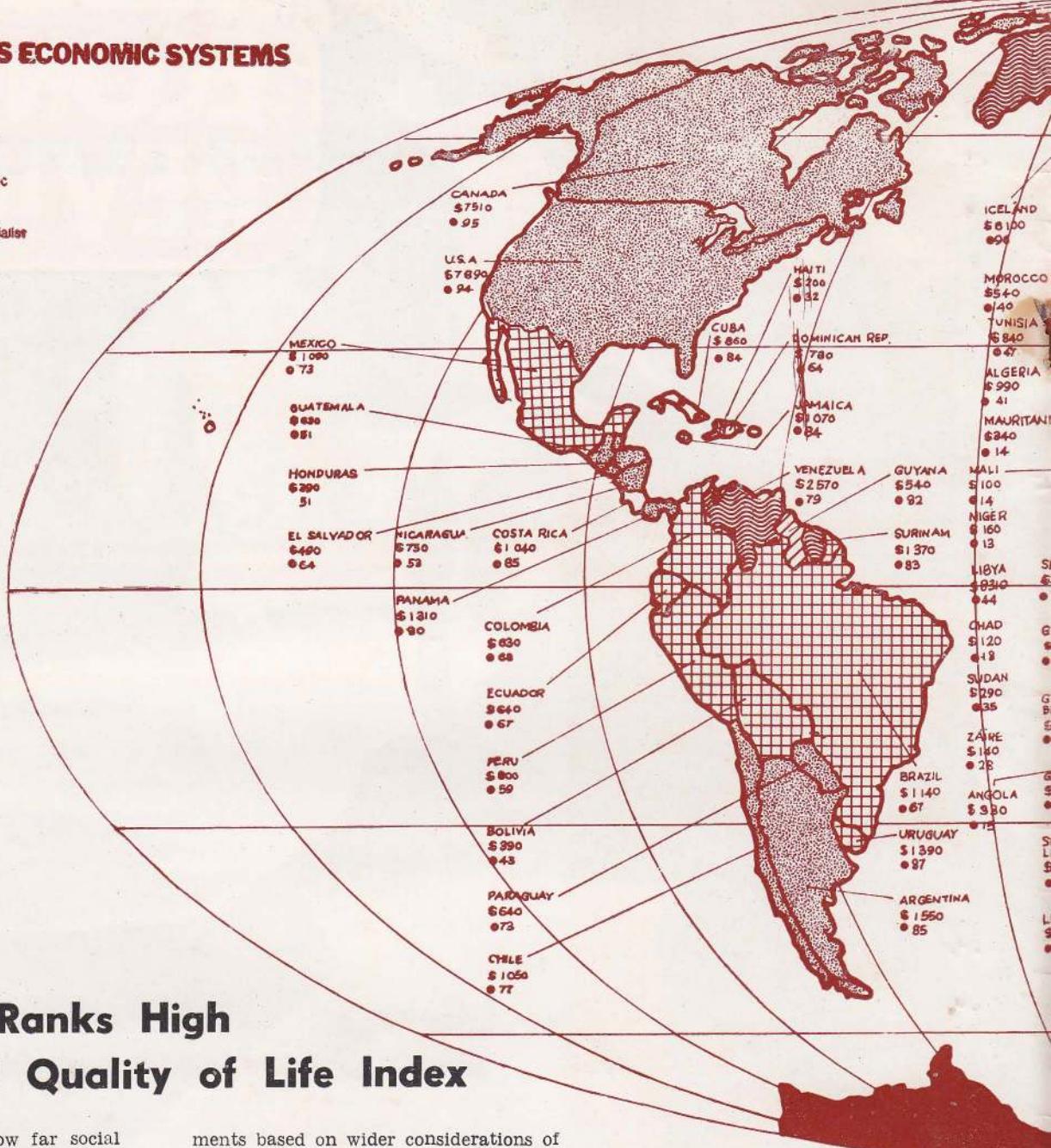


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Social Services

THE WORLD'S ECONOMIC SYSTEMS



Sri Lanka Ranks High on Physical Quality of Life Index

The question as to how far social services affect development was answered through a map of "The World's Economic Systems" published in the TIME Magazine recently. If development consists of much more than an increase in per capita income or a high Gross National Product, if it consists rather of a satisfaction of the basic needs of a country's people and a steady all round improvement in their living standards then Sri Lanka's experience could be regarded as remarkable for a developing country.

Sri Lanka's rating on the Physical Quality of Life Index, as this map shows, does stand out. And this reasonably high PQLI ratio for Sri Lanka could be regarded as a result of the consistent allocation of funds by government in the fields of health, education and nutrition and the emphasis laid on developing public invest-

ments based on wider considerations of social benefits and income redistribution.

The PQLI (Physical Quality of Life Index) is considered as a more reliable measure of the levels of development achieved by a country than that indicated by the traditional measure of economic progress the GNP (Gross National Product). The PQLI is indirectly an index, developed recently by the Overseas Development Council (ODC), a Washington Study Centre, to measure the effectiveness of social services. Alongside this measure (as seen in the above map) is the widely accepted barometer of Gross National Product per capita in US dollars based on 1976 World Bank data. If the PQLI were taken into consideration as an index of development Sri Lanka ranks high among the country's of the Asian region and the Developing

World as a whole. Sri Lanka's rating is as high as 82 as compared with Nepal 26, Bangladesh 35, Pakistan 38, India 43, Indonesia 48, Burma 51, Malaysia 62, Thailand 68 and Philippines 71. The GNP indicator, however, rates Sri Lanka at only \$ 200 per capita as against Indonesia's \$ 240 per capita, Thailand's \$ 318 per capita, Philippines' \$ 410 per capita and Malaysia's \$ 860 per capita. The comparison with Singapore too is interesting. With a PQLI of 83 Singapore is about the same as Sri Lanka on this index; while, on the GNP per capita measure Singapore is \$ 2,700 as compared with only \$ 200 for Sri Lanka. A further extreme is the case of Kuwait whose GNP stood at

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COVER

The Social Services Question — connected issues; depicted by photographer Palitha Kannangara.

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

FEBRUARY

- 1 Sri Lanka will receive substantially greater amounts of aid from the International Monetary Fund in the next three years, in appreciation of the Government's policy of shifting from consumption expenditure to investment for economic development, the IMF's Managing Director Johannes Wittaveen told a press conference in Colombo.
- China and the Philippines has signed an agreement under which China will supply the Philippines with 1 million tons of crude oil this year, according to a *Reuter Report*.
- 2 The Government has decided to go ahead with the Rs. 2,200 million urea fertilizer project at Sapugaskanda, Kelaniya, according to a press announcement. This decision follows recommendations made by four-member Committee appointed by the Minister of Industries and Scientific Affairs.
- 3 The Japanese Government has agreed to provide Commodity Aid on a grant basis amounting to Rs. 80 million for purchase of fertilizer, tractors and agro-chemicals; and was also considering the grant of Rs. 80 million as "Emergency Assistance" to Sri Lanka. This was in addition to Rs. 292 million as Commodity Aid already made available by the Japanese Government this year; Rs. 129 million as a Project Loan for the telecommunication project; and Rs. 73 million as an outright grant for the teaching hospital at Peradeniya, according to a Finance Ministry announcement.
- 6 India has signed its biggest agreement for the supply of Soviet crude oil valued at Rs. 1,150 million (about US \$ 142 million) according to New Delhi sources, reported the London *Times*.
- Toray Industries and Mitsui of Japan said they had jointly won a \$ 25 million order from the Soviet Union for setting up a polyester plant in Minsk capable of turning out 500,000 tons of yarn, reported the London *Times*.
- 10 Representatives of private sector trade chambers who met the President to discuss new employment opportunities in the private sector agreed to initiate action to increase their existing work-force by 10 per cent.
- A Vietnamese mission arrived in Kuala Lumpur to discuss with Malaysian officials assistance they should get to rehabilitate Vietnam's rubber industry, stated a *Reuter report*.
- 11 The National Housing Department announced that it would give housing loans upto Rs. 40,000 each to persons who do not own houses.
- 13 The Regional Commonwealth Conference of leaders from Asia and the Pacific began their political and economic dialogue in Sydney in the tense atmosphere of a bomb explosion.
- 15 Cuba's National Bank Governor signed a Yen 10 billion syndicated loan contract with a consortium of 24 Japanese banks. The loan will help finance Cuban industrial development projects, stated a *Reuter report*.
- 16 Leaders of 12 Commonwealth, Asian and Pacific nations at the end of their summit session in Sydney announced they would combine their political and economic resources in an attempt to bolster living standards and expectations of their 750 million peoples and to launch a drive to reduce hunger, increase trade, exploit fresh energy resources and fight international terrorism and drug-trafficking in the region.
- 19 The Government of the Federal Republic of Germany has agreed to double its aid to Sri Lanka both in the form of loans and outright grants upto a total of Rs. 570 million (DM 78 million) this year for agriculture, industrial, transportation and telecommunication development, an official delegation from the F.R.G. announced in Colombo.
- 20 Construction work was started on the Rs. 400 million Canyon Power Project under Stage III of the Maskeliya Oya Scheme.
- 23 The National Savings Bank (Amendment) Bill, which enables an employee of the Bank to be a member of the board of directors was passed in the National State Assembly.
- 24 Announcing a change in the pattern of subsidies to the coconut industry the Minister of Plantation Industry said that in future the subsidy would be on the basis of production (the number of coconuts) and not on the acreage as calculated in the past.
- 27 A master plan to develop Sri Lanka's tea industry is being formulated with Canadian assistance as a 15 year programme, the Ministry of Plantation Industry announced.
- Senior officials of Western industrial nations met in Paris in a bid to break an apparent deadlock over ways to secure adequate world economic recovery, according to a French Press Agency report. They were meeting in the economic policy Committee of the OECD, against the background of continued controversy between leading economic powers over the sharing out of the burden of the measures needed.
- 28 India's Finance Minister cast his net to muster a massive additional tax revenue of Rs. 524.5 crores in a bid to bridge the yawning gap of Rs. 1,396 crores in the Janata Party's Budget for 1978-79, presented in the Indian Parliament.
- A US contribution of \$ 4,750 million to the International Monetary Fund's "Witterveen Facility", to help balance of payments deficit nations, was approved by the US House of Representatives.

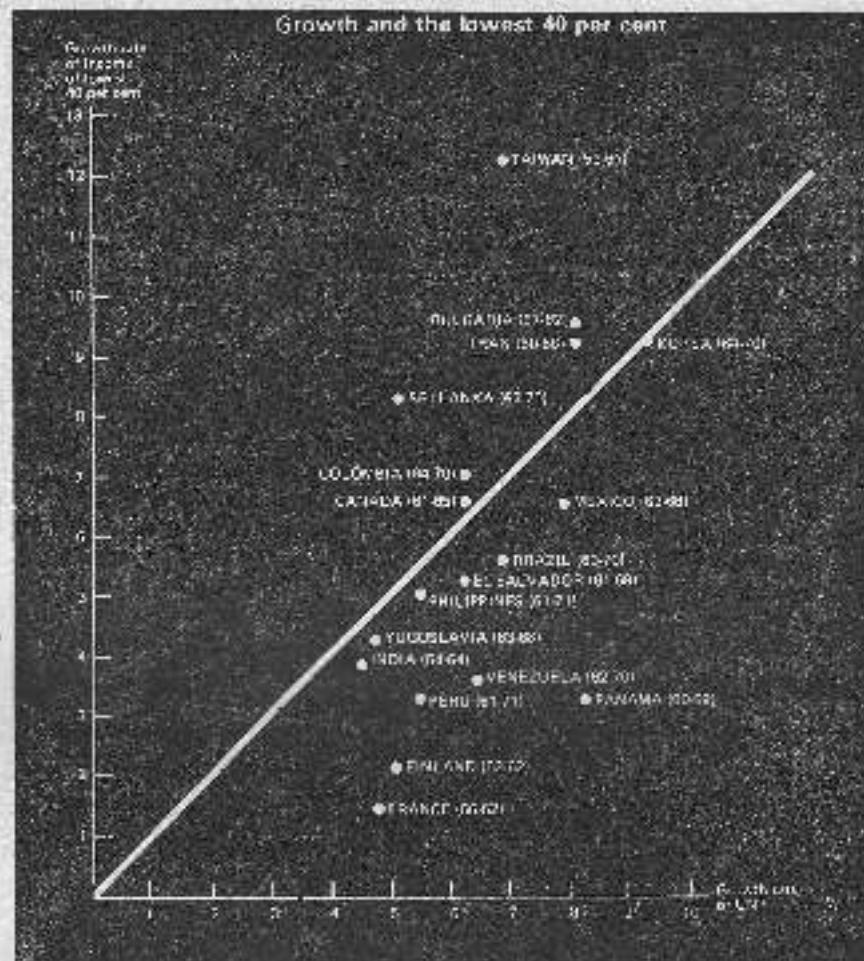
The lowest 40 per cent

Sri Lanka's position

Sri Lanka is one of those developing capitalist countries in which the incomes of the lowest 40 per cent as a whole have grown faster than the joint income growth of all groups within the country. An international study on "Incomes, Inequality and Growth" carried out jointly by the Institute of Development Studies at Sussex University and the Development Research Center of the World Bank has illustrated this point through the diagram at right. This figure plots the estimated annual growth rate of income of the lowest 40 per cent against the rate of growth of GNP for 18 countries. Countries above the 45-degree line are countries in which the income share of the lowest 40 per cent increased over the period so that the estimated rate of growth of income for this group was higher than for the economy as a whole. Countries below the 45-degree line are countries in which the relative income shares of the lowest 40 per cent declined.

The scatter suggests considerable diversity of country experience in terms of changes in relative equality. Both Peru and Sri Lanka, for example, experienced the same rate of GNP growth over the respective periods reported, but income of the lowest 40 per cent grew over 8 per cent per annum in Sri Lanka — compared to only 3 per cent in Peru — because of improvements in relative income shares.

The study analyses and ex-



plains the variations in the income share of the top 20 per cent, the middle 40 per cent, and the lowest 40 per cent. It states that there is an absence of any marked relationship between income growth and changes in income shares and little empirical basis for the view that higher

rates of growth inevitably generate greater inequality. Other results of the analysis were that income inequality first increases and then decreases with development ... and education is particularly related to equality in terms of income shares of the lowest and middle groups ...

SOCIAL SERVICE, WELFARE AND DEVELOPMENT

Sri Lanka has often been cited as an outstanding case in the developing world, where the level of social progress achieved appears to be much higher than that of many other countries with higher per capita incomes. In effect, the social development of this country (measured in terms of standard

voltare indicators such as health, education and nutrition) is comparable to that of many economically more advanced countries.

It has been possible to maintain a quality of life in Sri Lanka matched by few other developing countries, due to the unusually high allocation of funds by Gov-

ernment in the fields of health, education and food and the emphasis laid on developing public investments based on the wider considerations of social benefits and income redistribution. Thus, over the years Sri Lanka has been able to improve her income distribution pattern towards both lower income classes and from the urban to the rural sectors. Despite these significant social achievements the country's capacity to maintain these

living standards has been seriously strained by the comparatively slower growth of the economy. Further, the problem of unemployment has become more aggravated over the past two decades. The debate on whether channelling of a sizeable amount of the government's annual resource allocations for social welfare is inimical to economic growth and employment generation has now taken on a greater degree of urgency.

A country constrained by apparent scarcity of resources is always faced with the dilemma of accelerating its capital formation activities without drastically reducing the already low consumption capacity of its masses. For social services and welfare have to be given an important place in any development programme if such a programme is to be implemented meaningfully. Although they are generally regarded as consumer services, they are often so essential that every society must provide them to some extent even though

this may apparently mean some diversion of resources from production of capital goods and a consequent slowing down in the rate of economic development. This raises the question of what 'development' really means. Not necessarily the improvement of G.N.P. This type of purely "growth-oriented" development would have little meaning if the people working for it are denied their essential needs.

It is important to realise that these social and welfare services are something more than consumer goods — they are substantially, though indirectly, capital goods helping to increase production. For example, education has proved to be a valuable instrument of growth by improving general skills and technologies, and also modifying social institutions and attitudes more favourably for development.

Again, investment in health helps to raise levels of production, while housing helps to maintain healthy conditions and inadequate

or poor housing affects the health, efficiency and morale of people and undermines production. Furthermore, investment in services such as housing and education could contribute substantially to employment productivity and stimulation of other industries.

However, conventional wisdom of the neo-classical kind maintains that rapidity of economic growth would depend on the rate of increase in investment while investment in turn would depend on the capacity to save. If savings are to be enhanced consumption needs to be curtailed. Yet, there are not only economic but also socio-political factors making this task quite difficult. Thus, the objective of achieving the "optimum balance" between consumption expenditure and capital formation activities has been a problem confronting many developing nations, including Sri Lanka.

It is evident, from table I, that the average annual ratio of con-

TABLE I — ALLOCATION OF GROSS DOMESTIC EXPENDITURE BETWEEN CONSUMPTION & CAPITAL FORMATION

Year	Amount	Gross Domestic Expenditure	Consumption			Capital Formation			
			Total	Private sector	Govt. sector	Total	Govt. & Public enterprises	Govt. Corporations	Private sector
1967	Rs. mn.	9,294	7,917	6,677	1,240	1,377	446	232	699
	Percent	100	85.2	71.8	13.4	14.8	4.8	2.5	7.5
1968	Rs. Mn.	11,035	9,336	7,928	1,408	1,699	531	322	846
	Percent	100	84.6	71.8	12.8	15.4	4.8	2.9	7.7
1969	Rs. mn.	12,422	10,189	8,698	1,471	2,253	650	399	1,349
	Percent	100	81.9	70.0	11.9	18.1	4.1	3.2	10.8
1970	Rs. mn.	13,060	10,505	3,856	1,649	2,554	785	514	1,255
	Percent	100	80.4	67.8	12.6	19.6	6.0	4.0	9.6
1971	Rs. mn.	12,888	10,639	8,849	1,790	2,249	588	435	1,226
	Percent	100	82.5	68.7	13.9	17.5	4.6	3.4	9.5
1972	Rs. mn.	13,814	11,697	9,773	1,924	2,118	342	363	1,413
	Percent	100	84.7	70.8	13.9	15.3	2.5	2.6	10.2
1973	Rs. mn.	16,876	14,246	12,203	2,043	2,630	677	489	1,464
	Percent	100	84.4	72.3	12.1	15.6	4.0	2.9	8.7
1974	Rs. mn.	22,610	19,470	16,700	2,770	3,140	872	284	1,884
	Percent	100	86.1	73.9	12.2	13.9	3.9	1.7	8.3
1975	Rs. mn.	25,266	21,358	18,850	2,508	3,908	1,308	466	2,135
	Percent	100	84.5	74.6	9.9	15.5	5.2	1.8	8.5
1976	Rs. mn.	26,802	22,608	19,558	3,050	4,194	1,496	493	2,205
	Percent	100	81.4	79.0	11.4	15.6	5.6	1.8	8.2
1977	Rs. mn.	30,352	25,158	22,009	3,149	5,194	1,971	772	2,451
	Percent	100	82.9	72.5	10.4	17.1	6.5	2.5	8.1

sumption in Sri Lanka during the past decade has been over 83 per cent of Gross Domestic Product, in other words, the Gross Domestic Capital Formation has been at about 17 per cent on the average. It can also be seen that there has not been a significant increase in the capacity to save over time, as the ratio of capital formation in the Gross Domestic Product has been relatively stable during the period 1967-1977. It is also noteworthy, that there has not been a marked shift in the composition of consumption and capital formation activities by the Government and private sectors, as the relative shares of these two sectors have remained virtually constant over the years.

One significant socio-economic and political factor associated with resource allocation in Sri Lanka is that due to various constraints it has not been possible to favourably raise the country's savings ratio or conversely to reduce its consumption ratio. As such, the growth performance in the economy had to be confined to a very moderate or low level. For example, during the period 1960-1977 the annual rate of (real) growth was less than 4 per cent on the average. When allowance is made for the growth in population (which averaged about 2.2 per cent during the same period) the per capita income is estimated to have grown by less than 2 per cent.

The commitment to maintain, at least, the existing level of consumption, particularly in view of rapidly growing population, caused problems for the government budget as well. Since, and even before, the country gained political independence Sri Lanka has been quite liberal in extending welfare services to the masses. Subsidized food, "free" education and "free" health services formed the main elements of this welfare policy. The grant of universal adult suffrage in 1931, the outbreak of the Second World War and the Depression in the 1930s contributed heavily towards the launching of such welfare programmes. Since independence the rapid rate of population growth accompanied by a "bottom-heavy" age structure, and an increased political consciousness of the masses, and the corporative political party system generated further impetus in expanding the social welfare expenditure of the government.

TABLE 2. GOVERNMENT REVENUE AND EXPENDITURE 1947/48 — 1977
(Rs. Millions)

Period	Total Revenue	Expenditure		Current Account Balance		As a % of Revenue
		Current	Capital	+/-	140	
1947/48—1951/52	660	264		+ 140	+ 18.42	
1952/53—1958/59						
(annual average)	1,131	811	367	+ 320	+ 27.32	
1959/60—1961/62						
(annual average)	1,430	+ 1,265	507	+ 65	+ 4.26	
1962/63—1968/69						
(annual average)	3,781	1,796	871	5	0.13	
1969/70	2,158	2,157	849	- 1	- 0.05	
1970/71	2,487	2,433	1,112	+ 84	+ 2.56	
1971/72	2,736	2,600	1,028	- 128	- 4.58	
1972/73	2,818	2,629	1,054	- 274	- 9.72	
1973/74	3,282	2,440	1,207	158	- 4.81	
1974	4,034	3,818	1,543	+ 118	+ 2.81	
1975	4,707	4,543	1,841	+ 242	+ 5.06	
1976	5,084	5,226	2,558	- 142	- 2.79	
1977	5,739	5,666	3,448	128	- 2.23	
	6,608	6,498	3,210	+ 188	+ 2.81	

There has been a steady increase in the government expenditure since independence, as shown in table 2. However, the increase in rupee terms is partly due to the inflationary tendencies in the economy, and if discounted for inflation the real values would be much less. Yet the more important aspect to note, in this table, is the growth in current expenditure of the government as against the growth in the total government revenue.

In the early years, the current account of the government (i.e., revenue minus current expenditure) did generate savings of a substantial magnitude, and so most capital projects could be financed by such savings. For instance, during the five year period 1947/48 to 1951/52 the current account balance averaged nearly 20 per cent of the total revenue; and during the subsequent five year period 1962/63 to 1966/67 this ratio rose to more than 27 per cent. The importance of such positive balances in the current account is that the government could then divert more of its resources for investment. Table 2 reveals that from the mid sixties the current expenditure of the government increased at a faster rate than the revenue and the current account recorded deficits. This trend (with the exception of 1968/69) continued till 1973 indicating that even the current commitments of the government could not be met with the revenue generated by the

budget between the period 1962/63 and 1971/72.

Although the situation improved slightly since 1973 it had not been stable enough to sustain positive balances of a high order. Similarly the mere ability to generate a small surplus in the current account could not be considered an improvement in the overall budgetary position as the surpluses thus achieved reflected a very small proportion (between 2 and 5 per cent) of the total revenue. In other words, the ability to save a substantial portion of the government revenue to finance the capital outlays was no longer possible. Therefore the government had to resort to both domestic and foreign borrowing and inflationary financing for capital investment.

Of the total government budget, about 21 per cent of the current expenditure and about 13 per cent of the total capital expenditure during the past decade have been channeled into social services such as education and health. In the pre-1970 period these ratios were even higher as the social services accounted for nearly 25 per cent of the current expenditure and 18 per cent of the capital outlays of the government.

In table 3 statistical information is given of the various social services provided by the Government. The data reflects both current and capital expenditure incurred by the government on account of education, health, housing and other social and community

services. It is evident here that social services form more than 17 per cent of the entire government expenditure. There has been a gradual decrease in the share of government funds allocated for social services as the ratio has fallen from nearly 22 per cent in the first half of the past decade, 1968/1977, to about 17 per cent in recent years. This may have been due to a shift in the allocation of resources from "consumption" to "investment" as was envisaged in the last Five Year Plan (1972-76).

In terms of the Gross National Product also the percentage representing social services has dropped slightly from over 7 per cent in the pre-1970s to about 6 per cent by 1977. The per capita expenditure (in rupee terms) on social expenditure has almost doubled from Rs. 58 to Rs. 111 over the period 1968-1977. This, however, does not mean that there has been a two fold increase in social welfare activities. For despite the growth of population higher rupee figures partly reflect the higher costs of producing the social services, with inflationary tendencies showing their impact. Yet, allowing for even a 10 per cent inflation, the country has been able to at least maintain a constant level of real per capita expenditure on social services in spite of a growing population.

Of the different social services, education accounts for the largest share of government expenditure. In general, about 60 per cent of the total social expenditure has been absorbed by the education sector. About one half of that for education or a little over 30 per cent of the total social services expenditure has been spent on health services. Housing, special welfare services

and community services account for the remaining 10 per cent. It is important to note that the above indicated pattern of allocation of government expenditure, within the social services sector, has been more or less stable during the past decade or so.

In discussions on social welfare expenditures by government there is a general tendency to consider transfer payments as an item representing income transfer to households and therefore to treat such payments as welfare expenditure. If this procedure is followed a number of different types of transfer payments will have to be included in Sri Lanka's social welfare expenditure. Table 4 provides

it is difficult to treat all such payments, particularly interest on public debt, as constituting a monetary grant to the households. Therefore, it may be more realistic to consider only the subsidies (consisting of mainly food subsidies) as welfare expenditure. Of the total transfer payments food and other subsidies account for about 40 per cent at present. This ratio was as high as 55-60 per cent in the pre-1970s.

As total transfer payments form a significant proportion (50 per cent) in the current account of the government, the category that makes up nearly one half of such payments (i.e. the subsidies) appear as another significant item in the

TABLE 4. GOVERNMENT EXPENDITURE ON TRANSFER PAYMENTS*
(Rs. Million)

	Food & other subsidies	Interest on Public Debt.	Pensions	House- holds	Local Autho- rities	Others	Total
1968	610	166	155	44	53	34	1,063
1969	674	206	161	40	62	63	1,206
1970	622	253	183	63	59	76	1,257
1971	665	337	225	51	60	85	1,422
1972	627	413	254	52	61	58	1,830
1973	757	514	270	66	65	224	1,896
1974	1,046	580	292	71	70	231	2,901
1975	1,362	699	331	100	73	199	2,765
1976	1,091	840	378	279	85	168	2,842
1977	1,169	1,013	414	197	91	202	3,085

* Current transfer payments only.

data on these different types of transfer payments.

While it is true that transfer payments such as consumer and producer subsidies, interest on public debt, pensions etc., have a similarity, in an accounting sense, in that no productive services were provided by the recipients directly; yet, from a welfare point of view

current expenditure of the government. Taken together current social expenditure and subsidies account for 42 per cent of the total current account expenditure.

In table 5 total government expenditure (i.e. both current and capital) on social services and the subsidies are indicated and are compared with the total government expenditure and the Gross National Product of Sri Lanka. Per capita expenditure on these two welfare items are also reported in this table.

The proportion of total government expenditure spent on social services and subsidies has dropped from 41 per cent in 1968 to 30 per cent by 1977. As stated in an earlier context, this reflects a gradual shift in emphasis in the allocation of government expenditure towards production oriented programmes. The low level of economic growth rates in the past decade which arrested a satisfactory

TABLE 3. GOVERNMENT EXPENDITURE ON SOCIAL SERVICES*
(Rs. Million).

	Education	Health	Housing	Special Welfare Services	Commu- nity Services	Total
1968	410	221	32	15	13	691
1969	442	248	37	16	13	756
1970	512	274	36	17	14	853
1971	527	266	16	18	23	850
1972	569	280	35	23	25	932
1973	602	298	45	18	26	989
1974	625	329	31	21	28	1,034
1975	708	411	45	29	28	1,221
1976	911	499	51	28	37	1,526
1977	900	473	74	45	37	1,529

* Includes both current and capital expenditure.

growth in per capita income in the country might have compelled the government to limit the expansion of social programmes and concentrate more on the developmental activities. The need to absorb the growing labour force into productive sectors and solve the aggravating problem of unemployment would also have necessitated such a shift away from welfare expenditure to other sectors.

It can be seen from table 5 that the per capita expenditure on social welfare (including social services and subsidies) amounted to about Rs. 230 in 1977 compared with Rs. 108 in 1963. The increase in rupee terms also indicates the price changes in the economy. However, raising the per capita social welfare expenditure as a ratio of the per capita GNP (at factor cost prices) of respective years, it can be observed that the ratio has varied between 13 per cent and 19 per cent. In other words, if equally distributed, the social services and subsidies provided by the government should have contributed about Rs. 300 to the per capita income (in current terms) or about 19 per cent of the gross per capita income in 1977.

In terms of the Gross National Product social welfare expenditures reflect over 10 per cent in 1977 compared to over 13 per cent a decade earlier. Despite these observable declining trends in the relative share of social welfare expenditures the amounts spent in the recent years on these programmes

still appear relatively high for a less developed nation.

From the foregoing analysis it can be concluded that Sri Lanka has been committed to a high level of social welfare expenditure since independence and the governments were reluctant to effect a drastic reduction in its welfare expenditure programmes. However the recent years have witnessed a gradual shifting away in expenditure from such programmes in favour of specific production oriented activities.

Importance of Human Capital

Traditionally, expenditures on social services and subsidies have been viewed as mere consumption outlays but, in recent years, there has been a tendency to recognize such expenditures as investments in human capital. In other words, expenditures on education, health, housing and food subsidies are now being treated as factors which contribute to enhancing the quality of human resources. Recent studies on economic growth have highlighted the importance of human capital as a source of growth.

However, the growth experience in Sri Lanka during the past decades does not indicate that this expenditure directly contributed to a high level of productivity. This may be because investment in human capital is not a sufficient condition for economic growth though it is a necessary condition. In other words, in a developing country such as Sri Lanka, investment in human

resources, to be economically productive, would have to be complemented by investments in physical resources as well.

The problem is one of organizing the human and physical resources in a proper manner so that, for example, the 1.2 million unemployed become not only consumers but also producers. The problem is not with "social services" alone but in the total system.

It was observed earlier that the economic growth rates during the past decade have not been very high, particularly when compared with the population growth rates. The data in table 6 illustrates this clearly.

It is now generally accepted, however, that the GNP indicator does not reflect accurately the growth rate, social standards and general developmental progress of every section of the population. But, the low levels of increase in the average per capita income of the country, as shown in the table 6, (overleaf) gives the impression that during the past decade a substantial improvement in the living standards of the people does not seem to have taken place, though the Physical Quality of Life indicators lead to different conclusions. The impact of social expenditure in improving the production capacity of the country and the effects on human resources cannot be clearly identified, through the GNP indicator, in Sri Lanka's case.

TABLE 5. IMPORTANCE OF SOCIAL WELFARE EXPENDITURE (Rs. Million)

	1963	1966	1969	1971	1972	1973	1974	1975	1976	1977
1. Total Social Expenditure by the Government	631	758	853	850	822	889	10,34	1,221	1,506	1,829
2. Food and other Subsidies	610	674	622	605	627	767	10,18	1,262	1,091	1,169
3. Total of 1 & 2	1,301	1,432	1,475	1,515	1,559	1,746	2,080	2,583	2,617	2,696
4. Social Expenditure and Subsidies as a % of Cost Expenditure	41.26	39.97	37.88	36.12	28.85	31.67	36.73	38.94	38.24	33.80
5. Social Expenditure and Subsidies as a % of the GNP	18.17	19.53	15.78	12.05	12.26	11.51	10.66	11.78	10.88	9.26
6. Per capita expenditure on Social Services & Subsidies (Rs.)	108	117	118	119	120	130	158	191	191	193

On the other hand, the growth in unemployment over the past decade indicates the inability of the

there is one physician per 6,100 people and the ratio of population per hospital bed is 330. All these

lined from 0.46 in 1953 to 0.35 by 1973. Meanwhile the lowest forty percent in the income groups have gained a higher share of the total income as they have received 19 per cent in 1973 compared to 14 per cent in 1953. Correspondingly the share of the top income bracket (the highest twenty percent) has dropped from 53 percent in 1953 to 43 percent by 1973. These trends indicate the gradual improvement in the income distribution pattern of the country.

One significant factor that emerges, however, from Sri Lanka's experience with respect to social welfare policies is the importance of combining welfare oriented government policy with production oriented strategies. There is always a problem of balancing resource allocations for different purposes; but the more crucial problem lies in identifying the priorities at a given point of time and switching the priorities when the proper time comes. In this context, Sri Lanka has to be very cautious in developing strategies for rapid economic growth at the expense of its basic social needs policy and egalitarian tendencies that are so vital for not only economic growth but more so for socio-political reasons.

It is clear therefore, that the path of development pursued in Sri Lanka has helped to alleviate a part of the problems of the large majority of poor households but at the same time resulted in a different set of problems. The unusually positive character of performance in the social sector appears to have been accompanied by negative developments in the economic field. These developments include a relatively slow rate of growth incapable of matching the expectations generated through social change, together with a steady increase in unemployment levels and a deterioration in the country's balance of payments situation. The emergence of these problems need not necessarily be attributed to the diversion of substantial resources to social welfare, but lagging efforts on the economic front con-

economy to absorb the growing labour force in view of low levels of capital formation and non availability of productive capacities. Recent studies on unemployment in Sri Lanka have shown that the problem is more acute in the case of youth; particularly among the youth with relatively higher educational qualifications. As the probability of finding a job tended to diminish with the achievement of higher educational status, the argument that the expenditure on education was not contributing to enhance the country's productivity came to be strengthened. When the investments in human resources are not designed to suit the man-power requirements of the country such maladjustment in the demand for and supply of human capital can cause structural unemployment as has happened in Sri Lanka's case.

However, due to the pursual of a liberal policy on social welfare for over three decades Sri Lanka could claim to at least have prevented a serious deterioration in the average living conditions, despite the continuous growth in the population. The country has achieved a remarkably low death rate of less than 8 per thousand compared to 20 per thousand prior to political independence in 1948. Furthermore, mortality has fallen from 141 per thousand live births to 41 per thousand over the same period; while maternal mortality is even less than 2 per thousand. The expectation of life at birth has increased from 42 in 1948 to nearly 68. The calories intake as a percentage of the prescribed requirements is very close to one hundred;

are clear indicators of the improvement in health care.

In terms of education, the adult literacy rate is placed at as high as 78 per cent; while, primary school enrolment comes close to 88 per cent. Today there are 22 pupils per teacher which is an improvement considering the pupil-teacher ratio a decade ago; 1:28 in 1968. Similarly the proportion of graduate teachers in the total teaching staff of the country has shown a two fold increase from 8 per cent in 1968 to 16 by 1977. There has been a considerable increase in the number seeking University education too.

Income distribution trends in recent years are another positive indicator of social welfare and progress. It needs to be emphasised that the high level of social welfare expenditures has been a major instrument of an income redistribution policy pursued by successive governments. These expenditures have contributed both directly and indirectly towards the achievement of a greater equality in income distribution patterns. Consumer Finance Surveys conducted by the Central Bank indicate the following trends with respect to the reduction of income concentration over time.

The Gini ratio, reflecting the concentration of income, has de-

TABLE 7. MOVEMENT OF INCOME CONCENTRATION 1953-1973

	1953	1963	1973
Gini Ratio (of spending units)	0.46	0.45	0.35
Income share of the highest twenty percent	53.8	52.3	42.9
Income share of the lowest forty percent	14.5	13.7	19.3

THE MEANING OF DEVELOPMENT

Dudley Seers

From a presidential address to the 11th World Conference of the Society for International Development, held in New Delhi in November 1969, which is still very relevant.

While it is very simplified for us to confuse development with economic development and economic development with economic growth, it is nevertheless very understandable. We can after all fall back on the supposition that increases in national income, if they are faster than the population growth, sooner or later lead to the solution of social and political problems.

But the experience of the past decade makes this belief look rather naive. Social problems and political upsurges have emerged in countries at all stages of development. Moreover, we can see that those afflict countries with rapidly rising per capita incomes as well as those with stagnant economies. In fact, it looks as if economic growth may not merely fail to solve social and political difficulties; certain types of growth can actually cause them.

Now just the complexity of development problems is becoming increasingly obvious, this continued addiction to the use of a single aggregative yardstick in the face of the evidence looks on a rather different appearance. It begins to look like a preference for avoiding the real problems of development.

The starting point in discussing the challenges we now face is to brush aside the web of fantasy we have woven around "development" and do more precisely what we mean by it. "Development" is inevitably a normative term and we must ask ourselves what are the necessary conditions for a universally acceptable aim the realization of the potential of human personality.

If we ask what is an absolute necessity for this our answer is obvious—enough food. Below certain levels of nutrition, a man lacks the merely bodily energy and good health but even interest in much besides food. He cannot rise significantly above an animal existence. Recent studies show that undernourishment of children leads to permanent impairment of both their physical and their mental capacities.

Since to be able to buy food is a matter of income, the criteria can be expressed in terms of income levels. This enables it to take account also of certain other minimum requirements. People will never spend all their money and energy on food, however poor they are. To be enough to feed a man, his income has also to cover basic needs of clothing, footwear and shelter, but the utility of money clearly declines sharply as these needs are satisfied.

Another basic necessity, in the sense of something without which personality cannot develop, is a job. This does not just mean employment; it can include studying working on a family farm or keeping house. But to play none of these accepted roles i.e., to be chronically unemployed, dependent on another person's productive capacity, even for food, is incompatible with self-respect, especially for somebody who has been spending years at school, perhaps at university, preparing for an active role.

It is true of course that both poverty and unemployment are associated in various ways with per capita incomes. If per capita incomes are falling, absolute poverty can hardly be reduced much, nor can unemployment (except in the very short run and exceptional circumstances). But certainly increases in per capita income are far from enough, as the experience of the petroleum economics

shows to achieve either of these objectives. In fact, a rise in per capita income, as we well-will know, can be accompanied by even *more* cause, growing unemployment.

This is indeed the growth in per capita income averaged more than 5 per cent a year during the whole period 1953 to 1968, while overt unemployment showed a steady increase to more than 10 per cent of the labour force.

The direct link between per capita income and the numbers living in poverty is income distribution. It is a truism that poverty will be eliminated much more rapidly if any given rate of economic growth is accompanied by a declining concentration of incomes. Equality should however be considered an objective in its own right, the third element in development. Inequalities to be found now in the world, especially (but not only) outside the industrial countries, are abominable by any religious or ethical standards. The social barriers and inhibitions of an unequal society diminish the possibilities of those with high incomes no less than of those who are poor. Trivial differences of accent, language, dress, customs, etc., acquire an absurd importance and contempt is engendered for those who lack social graces, especially country dwellers. Perhaps even more important, since race is usually highly correlated with income, economic inequality lies at the heart of racial tensions.

The questions to ask about a country's development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result "development", even if per capita income doubled.

stantly raise the question as to whether social welfare and redistribution measures could not be geared to yield more positive results.

The foregoing discussion of the social welfare development policies and programmes over the years indicates that wide sections of the mass of the population are protected from the worst effects of poverty as a result of the efforts of successive governments to concentrate on a broad base of social security. The main ingredients of such a programme have included free health services, a minimum ration of free food, free education and several other subsidised facilities. This programme has been supported by further anti-poverty measures such as the distribution of land among the landless, an agricultural package scheme to increase production levels of the less privileged peasant cultivators and also various forms of support to those sectors such as fisheries, handlooms, handicrafts and cottage industries, where income is uncertain and often paltry. It is in this regard that Sri Lanka's experience in social welfare development is somewhat exceptional for a developing country.

SOCIAL SECURITY

In addition to the social welfare measures which are meant to protect the large numbers of poor households against the deprivation of their basic needs there are also a wide range of social security measures. These benefits are largely concentrated in the formal organised sector where unionisation and collective bargaining provides secure conditions of employment, while on the other hand an Employees Provident Fund, workmen's compensation, medical leave privileges and other fringe benefits provide a significant protection against loss of income due to illness, accidents and old age. In this context "Social Security" is normally associated with public measures which are essential and are an essential concept of wage labour and labour relations in an organised market in the modern capitalist sector.

The subject of "Social Security" is gaining increasingly in importance in most developing countries today, and the ILO has taken the initiative to encourage its members countries to work out comprehensive social security programmes to cover their entire populations. In

the ILO's view this social security covers "the protection given by society to its members, or various categories of them, through a series of public measures, from the economic distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment, injury, unemployment, invalidity, old age, and death, for providing medical care to these groups in the population and also for subsidising families containing a number of children".

Through long experience it has come to be recognised that social security is an effective instrument of social progress and a right of the working people of a country. There is also widespread recognition that social and economic programmes should be closely combined, for properly designed social security schemes have an important role to play as factors in both social and economic development.

The evolution of social security programmes, in most developing countries in Asia and elsewhere, gained their main impetus by the conditions existing in the organised sector of employment in urban areas with the process of industrialisation getting under way. The systems of mutual aid that were prevalent in rural communities hardly existed to the same extent among urban workers and so the formal sector has been in greater need of alternative forms of social protection. Governments in this situation have turned to social security measures as a solution to the problem.

Organised working groups as well as legislators and policy makers began to realise in recent decades the need for provision of welfare services and goods (such as basic food rations, free education and health services), in the interests of the country's labour force. Over the years there also evolved various social security schemes which in time of need provided cash benefits to employees in the organised sector.

Social security schemes in Sri Lanka, as in most other countries, have evolved from particular relief programmes for the indigent and also from those designed for particular occupational groups. In the Western industrialised countries these measures were introduced in order to compensate workers for the

loss of security following general disruption in the particular occupations in which they worked. In Sri Lanka the earliest form of social security was that which provided for protection of Indian immigrant labour in the plantation sector. This was gradually extended to cover other sections of the organised sector following on the growing socio-political pressures. Upto World War I labour legislation mainly regulated conditions of recruitment and employment of immigrant labour on estates; while in the 1920's labour legislation went on to emphasise the co-ordination of labour policy and enforcement and establishment of minimum wage levels for plantation labour. Over the 1930s and 1940s, with the growing political awareness and demands of organised workers groups, there was a progressive extension of labour welfare legislation to other sectors and also the beginnings of social security legislation. Following this phase greater emphasis was given from the 1950s to more labour legislation, industrial conciliation, collective bargaining, labour tribunals and all the more recent forms of social security afforded to workers in the organised sector.

These services were extended to include security of employment; medical care and maternity benefits; industrial safety and hygiene; workmen's compensation; retirement gratuities and death donation schemes; provident fund for employees and various forms of social assistance and relief programmes for the indigent.

These social security programmes came to be increasingly accepted as useful and necessary instruments for the protection and stability of the labour force and at times to even maintain and guarantee the purchasing power of workers. In recent years, the scope of labour legislation has been extended to cover workers in all sectors, though enforcement of such measures and effective coverage of the labour force has not been completely successful, even in the organised sector. There have been various practical problems in the operation of these programmes. For instance, for industrial workers minimum wages and conditions are determined according to their trades; but there is a marked difference in the amount of wages determined by the industrial wages boards as opposed to agricultural trades. Minimum

wage decisions cover only about one and a half million workers and have often to be made without due consideration for the actual economic needs of the workers concerned. Thus though wage trades in the industrial sector trading under the Wages Boards Ordinance are compensated by changes in the cost of living index, the index used for measuring these wages is generally not regarded as realistic.

Also, the effectiveness of social security legislation depends entirely on how well it is enforced. But ineffective enforcement has been found to affect the coverage of the major social insurance scheme in Sri Lanka, namely, the Employees Provident Fund; for out of 78,765 businesses registered in 1978 only 24,000 or 31 per cent were contributing to the Fund.

On the whole such social security programmes have not been found to contribute significantly to income redistribution due to the rather limited coverage and also because, as in the more widespread schemes such as the Employees Provident Fund, the benefits received are usually proportional to what the beneficiaries have paid in. The more significant schemes, from the point of view of their redistributive effects, are those which provide goods and services (food, health, education welfare) since they cover almost the entire population and are financed from a system of general taxation. It has even been suggested that in order to improve the coverage of social security schemes in Sri Lanka, the problem of very low and sporadic incomes will have to be dealt with first.

The regular wage earners in the modern urban and formally organised plantation sector as we have seen tend sometimes to be comparatively better off in regard to social security than those in the traditional rural sector where there is scarcity of work, self employment and a high degree of casual occupations. The conventional type of social security for the organised formal sector has little meaning for these latter groups. For them the problem of social insecurity cannot be viewed in isolation from the problem of development. The task of transforming the backward nature of their conditions and production systems and minimising unpredictable losses through various circumstances has to be more closely considered. Unlike in the develop-

ed countries where social security is essentially an effort at coping with financial uncertainties and marginal insecurity, social security in economically less developed societies demands a more comprehensive strategy. This situation needs to consider policies of redistribution and income transfer; a clear identification of the most vulnerable and disadvantaged groups within the economy, and the promotion of development programmes which will help to raise the income capacity and levels of living of these people.

For Sri Lanka therefore the approach to social security needs to be far more comprehensive than what has been provided through the conventional schemes for the organised sector. The large majority of the active work force in Sri Lanka, as in most other developing countries, are engaged in occupations which are outside the organised modern sector. For most of this work force, the flow of income from their occupations is often irregular and subject to wide fluctuations. The approaches to social security for these sections of the population must necessarily be different. For them to benefit from the social security concept such a goal would have to be pursued as an integral part of a local development strategy which would give a central place to the satisfaction of their basic needs and the elimination of poverty. A proposal where this type of social security could be integrated with a development strategy was effectively put across at a recent seminar on 'Social Security and National Development' in Sri Lanka where the speaker argued that 'the trust towards social security in which income earners become increasingly self-reliant in protecting their income earnings mainly would then be seen as an essential element in a strategy aimed at the satisfaction of basic needs and the development of these communities on a progressively self-reliant basis. Such an approach calls for a process of planning which relies to a substantial extent on participation and decision making by the local communities themselves. It is through such participation that local communities will acquire the capacity for self-reliance and determine how social security programmes can contribute to the viability of their economic activity. It would be possible to envisage a stage where the funds mobilised through social security programmes could become assets of plan-

ning for development programmes at the district level so benefit the communities themselves who participate in these social security programmes. In this manner the social security programmes could be more closely integrated to the overall strategy of development.'

SOCIAL ASSISTANCE AND RELIEF SERVICES

A particular area among the Social Services in Sri Lanka has been those measures relating to the needs of disadvantaged groups and for general relief of distress. These services include assistance in the form of financial grants to the destitute and those suffering from diseases which prevent them from earning; relief, resettlement and rehabilitation of victims of disaster; welfare services for the aged and infirm and promotion of voluntary community participation in welfare work; and rehabilitation services for the physically and mentally handicapped and socially disadvantaged.

Most of these Social Assistance Services were mainly started after World War II in the late 1940s, with the emphasis on immediate remedial action. But with the problems of poverty and destitution gaining in proportion these remedial welfare services catered only to the poorest sections of society and this in a marginal manner. Furthermore, with the increasing social and economic changes taking place over the years the structures and functions of these state social services have apparently been outlived. The present structures still tend to be hierarchy oriented and more a bureaucratic organisational exercise rather than being a people oriented and people based developmental oriented welfare programme. With these social services continuing to be largely remedial or palliative they have received low priority in overall national planning. In addition the expenditures of the Ministry of Social Services have been considered to be merely consumptive expenditures.

In several other developing countries, on the other hand, during the last few decades the emphasis in Social Welfare and Assistance Services has shifted from being purely palliative to one of prevention and development. In Sri Lanka too the need is now being felt and asserted for a shift in the emphasis of our services in the same directions. The policies and

organizational structures of other state sectors, notably agriculture and lands, industries, transport, education and housing, have effected changes in order to meet themselves to the growing needs and emerging socio-economic challenges. It is thus therefore that the programmes of these Assistance Services received an overhaul in the objectives and organization, through a more comprehensive approach to social welfare, and adopted a social policy of concern for all sectors of the population. This will also enable the Ministry of Social Services to integrate itself more closely with the mainstream of the national development efforts.

Though this position was established as far back as 1938 when the United Nations summoned an International Conference of Ministers Responsible for Social Welfare there has been little impact in Sri Lanka's case. The approaches of that time are still of relevance here. For the immediate purpose of that Conference, it was assumed that although the Minister responsible for social welfare may not have to deal directly with such major social sectors as education, health, employment or housing, they had nevertheless a general responsibility to ensure that no one is left behind in the process of development and that no one falls below the social standards that are recognized as a right for all. The concern of the Minister responsible for Social Welfare extended to the population as a whole, with special attention to those individuals or groups who were considered as more vulnerable. It was also part of the responsibility of social welfare leaders to encourage citizens to play their full part in efforts towards their own and the society's betterment....!

These Ministers also recognized a function of social welfare activities, which they called "supportive" of other sectoral programmes. In that "social welfare provided necessary supportive services to the development of health, housing, education, manpower training and employment as well as to broad policies related to rural and urban development, industrialisation and population".

Thus, in preventive and developmental social welfare programmes, these services cease to be purely charitable and humanitarian but rather aim to "conserve and

develop human resources vital for economic expansion".

This form of welfare and assistance has come to be looked upon as an effective social institution for the more equitable, though temporary, distribution of national wealth to benefit the lowest levels of income earners and the underprivileged groups. The redistribution aspect in such social welfare programmes is achieved not merely through the distributor of relief, but also with a package of services and skilled intervention which would help individuals and families to remain "within the mainstream of development and reap the full benefits of development programmes."

Social Assistance a Positive Force

When this form of social assistance becomes a positive force it has certain basic functions to perform. For instance, the development function in social welfare gives recognition to the place of man in development. It is mainly engaged in the development of human resources including the strengthening of family life and preparation of people, especially children and youth, to emphasize their own role and contribution to national development. The preventive function of social welfare anticipates social problems and makes necessary provisions for such eventualities, thus reducing the need for curative or remedial intervention later.

The remedial function of social assistance makes provision for those whom dislocation or pressures made dependent on the community; and these include abandoned or neglected children, aged and disabled persons, people deprived of a means of livelihood and other disadvantaged and vulnerable groups. Social assistance also has a major role to play in the development situation through its supportive services and activities for better implementation of health, housing, education and other development programmes. The importance of supportive services comes out when we realize that poverty is a major cause of social disorganization and a barrier to development in the country. Poverty brings with it ignorance, disease, suffering, low productivity, neglect and apathy and constitutes a threat to development. If public assistance programmes are therefore to play a positive role they

should provide facilities and services so that over a limited period of intervention individuals and families can be assisted to return to normal functions within the community. This does not happen for those groups at the very lowest levels of subsistence and living conditions who have been described as the "poorest of the poor". (See Box).

Social services in the form of relief and public assistance services or social security programmes made available mainly to the organized formal sector, cannot in themselves raise the general economic level, although they can do more than redistribute some of the economic resources of the country and in doing so do more than only alleviate distress. The foregoing description of these services makes it clear that they are sometimes a means of creating wealth, although primarily one of distributing it indirectly and also over a long period. They also help production by establishing and maintaining a mentally alert working population, but the overall impact is far more deep rooted than this.

Sri Lanka's case is peculiar to its own socio-economic conditions. Although the performance of the Sri Lanka economy is often cited as an exemplary case of redistribution with growth, the question has also been asked as to how fully the poorest groups share in the benefits of these redistribution policies. Investigations into the distribution pattern of food subsidies and education benefits have shown that three lower income groups do not benefit as much as they should from these services (See Box). The widespread practice of pawning of ration books to meet their desperate needs, because they lack any purchasing power, often deprives them of the quantity of subsidized food which they are entitled to. Again, the distribution of educational benefits indicates that while participation at primary level is not affected by very low incomes, at secondary and tertiary levels the participation of these groups declines and they cannot avail of those opportunities to improve their positions or prospects. The table on page 14 illustrates this more clearly.

The paradox in the situation is that, though these social services should reach and help the economically most disadvantaged groups, these groups are unable to derive

Poorest of the Poor

The term "Poorest of the Poor", describing the economically worst off groups in the developing countries, has gained currency in recent years. A team of specialists in Social Services, who reported last year on the state of these services in the Colombo District, found evidence of the existence of such a group who were at the lowest levels of subsistence. The characteristics of this "Poorest of the poor" group have been described by the team as follows:

"They have no national identity but are in local pockets of urban and semi-urban areas or in rural areas. They have no means to avail of or to come to know or initiate or pursue the labyrinth of forms, procedures or officialdom to receive welfare services. For today even obtaining services means time, effort, expenditure. To avail of the free health services, one has to have the wherewithal, to meet travel expenses for medical treatment purchase of food and extras, after care in the home, frequent visits to clinics, etc. In the case of sick children, employed parents have to forego their daily earnings until medical treatment is completely satisfactory. In the sphere of education, parents have to meet costs of books, clothing, food and transport expenses of school going children. Even to receive public assistance applicants have to incur initial expenditure on travel for purposes of having their applications processed. Recipients of T.B. assistance who are unable to meet expenses of travel to Medical Clinics for a certificate would have their allowances eventually suspended. Although education is free, attending school and gaining from education implies basic requirements for the child including an adequate stable home life.

In a society which is heavily biased towards the giving and receiving of favours at all levels, the "poorest of the poor" are elbowed out in their progression to receive welfare services. They have to contend with petty bureaucracy, local animosities or political patronage.

To keep themselves alive, the "poorest of the poor" have to resort to a variety of desperate and often socially disapproved practices. Children of school going age, drop-out of school or have no schooling and turn to casual employment; or they are parted from parents as child servants or given away for adoption to better off families or encouraged to swell the ranks of child beggars scavenging for scraps of food. These children live on their wits and contribute to other crime, drug abuse, trade in illicit liquor etc.

Basic food and other rations if drawn, are sold off to meet urgent pressing commitments. The rising prices of food and other essentials have further depressed their family levels of living so that even the subsidised food given as a welfare measure are not utilized by the "poorest of the poor" group thus adding to the lowering of living conditions and resulting in malnutrition, ill health, disease, etc.

Another feature of the "poorest of the poor" groups is that large numbers of them are heavily indebted and readily take to pawning of their personal effects, rice ration books, or public assistance certificate. Here again the objectives of the welfare programme of food subsidies are nullified.

The "poorest of the poor" group do not appear to have sufficient political support or voice. They have to depend on their own voice or that of civic minded persons, social workers or organisations.

Among adults in the "poorest of the poor" group when opportunities for work or help through private sources, welfare agency and

the public diminished, frustration sets in and they take to crime, vagrancy, begging and prostitution.

It is also known that in terms of housing and shelter the 'poorest of the poor' live in over crowded or substandard slums and shanties exposing themselves and families to hardship, ill-health and lowering of the quality of family life.

These conditions can spawn a host of social problems which would involve increasing heavy state expenditure in welfare services. The future indeed is bleak for these families who represent extreme disparity in the social development of our times. The children especially have no means of development and growth to become useful citizens of the country or sharing in benefits of progress which have favoured other sectors and sections of the population.

It will have to be determined as to what fraction of the 48.3% of the population who received incomes of less than Rs. 100 per month (see table below) includes this "poorest of the pool". But the severity of their conditions and hardships are not commonly visible. Being committed to social justice, we cannot afford to ignore or put off formulation of social development measures which would strike at the roots of their problems and bring about a meaningful change in their lives in this generation. Can the social cost of continually maintaining an increasing number of this group be ignored?"

The "poorest of the poor" pose a serious problem and challenge to all development efforts. The Welfare Services do not adequately reach them. They have been "left behind" in the development and would not be able to get into it unless a massive development thrust is imparted into the social welfare services.

TABLE 8. Percentage of Income Receivers

Rupees per month	All Island	Urban Sector	Rural Sector	Estate Sector
Below —	100	48.3	19.6	44.1
100 —	199	27.4	30.8	32.0
200 —	399	18.9	33.1	20.0
400 —	599	3.5	9.2	2.9
600 —	799	1.0	3.3	0.6
800 —	999	0.4	1.1	0.3
1000 and over		0.5	2.6	0.1

Source: Socio-Economic Survey of Sri Lanka 1969-70.

TABLE 9. Participation Rates in Education by age of Student and Household Income Groups - 1969-70

Income Groups	Age Groups			
	5 - 9	10 - 14	15 - 19	20 - 24
Below Rs. 100	61.9	65.7	28.1	6.3
Rs. 100 - 199	69.9	73.9	20.9	2.2
Rs. 200 - 399	70.8	61.3	28.1	6.0
Rs. 400 - 599	79.8	80.7	42.7	6.3
Rs. 600 - 799	85.6	83.6	57.5	16.6
Rs. 800 - 999	78.2	83.8	55.3	22.2
Rs. 1000 and over	86.6	81.3	61.5	18.9
All Groups	73.8	79.3	38.0	6.3

Source: Socio-Economic Survey of Sri Lanka 1969-70.

the fullest benefits from such services because of their very low incomes and negligible means. One answer to this dilemma would be to increase subsidy levels further, in order to cover, for example, the additional costs these persons would incur through increasing participation, for students proceeding to higher education or for meeting other emergencies; but at this juncture it may not be economically feasible.

The first priority undoubtedly is an acceleration in the pace of development but this raises another aspect of the issue of growth and redistribution. What has to be guarded against is that the mechanisms which promote economic growth should not also promote economic concentration, and a worsening of the relative and perhaps even absolute poverty of the lowest income groups. Both relative poverty and absolute poverty (poor inequality as well as deprivation) must be a target for elimination. There is a possibility that developmental strategies which succeeded in raising the level of per capita income may not have much impact on the poverty problem if they are accompanied by a deterioration in relative income shares. There is little firm empirical basis, however, for the view that higher rates of growth inevitably generate greater inequality. Although this may happen in particular cases it could not be generalized. Taking the argument further it could be maintained that rising levels of output do not necessarily result in rising levels of employment in the less developed countries, just as growth by itself does not connote development. On the other hand, it is equally important to realize that more growth is necessary even if it is not a sufficient condition for solving the problems of unemployment and underemployment.

The now familiar "basic needs strategy", promoted by the ILO through its World Employment Programme, is directed mainly at those poorest sections of the community in the developing world. This strategy includes a programme for the provision of basic personal consumer goods; access to public services; and the infrastructure (for capital goods production and surplus generation) necessary in order to provide the personal consumer goods and public services required. This programme also includes the provision of employment productive enough to allow the output require-

ments of all groups to be met and fairly remunerated so that each worker could find his and his family's basic consumption needs from his remuneration.

The need for such a strategy has become more urgent particularly in developing countries such as Sri Lanka which lack nation wide social security schemes and where the traditional extended family system is no longer adequate for distributing income or even meeting people's basic needs. In these circumstances new jobs and the wages they produce are the only way of providing a living for most people. Further, by providing employment the inequalities of income and wealth could be somewhat reduced.

A significant economic reason as distinct from the purely ethical for a more equitable distribution of income could be found in the effects such a distribution would have on the patterns of consumption and growth. Generally, an unequal distribution stimulates demand on the part of the rich for more sophisticated goods, often with a relatively high capital and foreign exchange content. Another more general

DEVELOPMENT AND WELFARE Points of View

"I think there should be a balance between welfare measures on the one hand and measures on the other hand to increase savings so that development can take place. It is I think too short sighted to increase welfare measures to such an extent that there is no savings so that consumption cannot be increased."

In every country a choice has to be made between present consumption and future consumption. That is really the point. Therefore, I think some balance is needed.

JOHANNES WITTEVEEN,
Managing Director of the
IMF in an interview in
Colombo, Feb. 1973.

"There are considerations which suggest that social services should obtain a place of importance in a Plan. In the first place, though they are consumer services, they are often so essential that every society must provide them to some extent even if this means some diversion of resources from the production of capital goods and a

slowing down of the rate of development. Actually, development itself would have little meaning if the people working for it are denied their essential needs. No promise of future abundance can be a compensation for the current denial of basic needs."

The Ten Year Plan,
Sri Lanka, 1970.

inequalities existing disparities, create new ones, and in a spiralling fashion stage the setting for the articulation of relative deprivation".

SATISH K. ARORA,
"India's Rural Politicians"

reason why the relief of the poverty of the unemployed and underprivileged needs to be given closer consideration and a higher priority than a further growth in the incomes of those already employed is that fuller employment for the former group would also serve as a means of more distribution of incomes and a more widespread participation of the mass of the people in the effort as well as the fruits of economic development.

In the course of a recent address Sri Lanka's President himself raised this entire issue when he asked "what are the basic purposes of development". His answer was "Providing the minimum services of food, clothing, housing, health and education.

Adopting special measures for the promotion of employment and raising of incomes among the middle and lower income groups in village and town.

Restructuring society so that ownership of the new development production and distribution patterns and processes belong to the people. They should enjoy the products rather than an élite minority".

A discussion of the role of social services, however, inevitably raises many issues connected with consumer and capital expenditures, welfare and development or redistribution and growth. Growth, however, has become a very religious term and it is now clear that the skepticism about growth itself has two major sources: doubts about its feasibility and doubts about its equity. Both these possibilities, imaginable and improbable growth, have led to a great deal of interest today in the distribution of income as a policy objective; the intention being to alleviate the condition of the poorest sections in the absence of growth benefits and also to serve as a partial determinant of the growth process itself.

Worsening inequalities of personal wealth and income distribution as well as opportunity have become a pronounced feature in both the developed and developing worlds. In the developing countries, however, in the context of underdevelopment and poverty an equality of opportunity for productive employment has become the leading goal for achieving greater equity; though the pre-conditions for achieving this goal often do not

exist sufficiently in most developing countries. The need for built-in mechanisms for reducing any possible conflict between employment creation and income growth are thus considerably emphasized. It is in this context that the line of distinction between investment and other categories of expenditure, in relation to the development of the social system becomes blurred. Investment, as was stated from the start, is necessary for development yet judicious development expenditures on health, education, nutrition etc. have been found to yield returns in far greater proportion to the size of these expenditures. The

creation of social overheads, public works, housing, sanitary and health facilities, transport and communication systems also help to improve the production sectors' abilities to absorb investment resources more effectively. There is no doubt that imaginative plans for providing these services can become a means of creating a large number of employment opportunities. Thus investment and consumption planning as a means for making incomes secure directly to as great a section of the poor as possible, and providing more equitable economic opportunities, is a vital need in the present situation.

District Ministers

(Continued from page 36)

private philosophy may be, the cumulative effect of having to live in the outposts, to be in constant contact with each other both at official and informal gatherings, of having to cut off to a great extent the rural and rustic elements from their lives due to the nature and pressure of their work, is that, they become very much the unfortunate victims of the society whom they dominate. On the other hand, at the district level there is no such alliance or common attitudes binding the group together. They are from mixed backgrounds with very different social

contact with each other, and above all, the dominant political sector of this group is very much more rural and rustic than its counterpart in Colombo. Further, the very nature of the work they are involved in exposes the decision-making process to a very high degree to rural and local influences. This, then is the theory on which is based the claim that the institution of District Ministers symbolises a process of democratization. To these apologists of 'democracy' no argument is offered. It is admitted that this is indeed a valid judgment.

To be concluded in our next issue.

Catastrophe or New Society

(Continued from page 32)

pressure on available resources, helping the poor countries indirectly in this way.

It was shown that in the year 2060 (at which the computer runs were terminated) there would still be inequalities expressed in economic indicators, between the levels of well-being in the developed and poor countries, particularly with respect to Asia. To evaluate correctly the significance of this remaining gap, it should be borne in mind that the results of the model over such a long period of time could change considerably with relatively small fluctuations in some of the variables used; a moderate increase in the rate of technological progress, for example, could easily close the gap.

Lastly the model shows within the obvious limitations of this type of work that the fate of man does

not depend in the last instance, on insurmountable physical barriers but on social and political factors that man must modify. Their solution is not at all easy, because to change the organization and values of society, as history has shown, is much more difficult than overcoming physical limitations. To attempt the task, however, is the only way open to an improved humanity.

It could possibly be said that this proposal is utopian, and that it would be more realistic to propose solutions that involve less radical modifications to the socio-political structure of the world. Those who hold this position should be reminded of the words of John Stuart Mill more than a century ago:

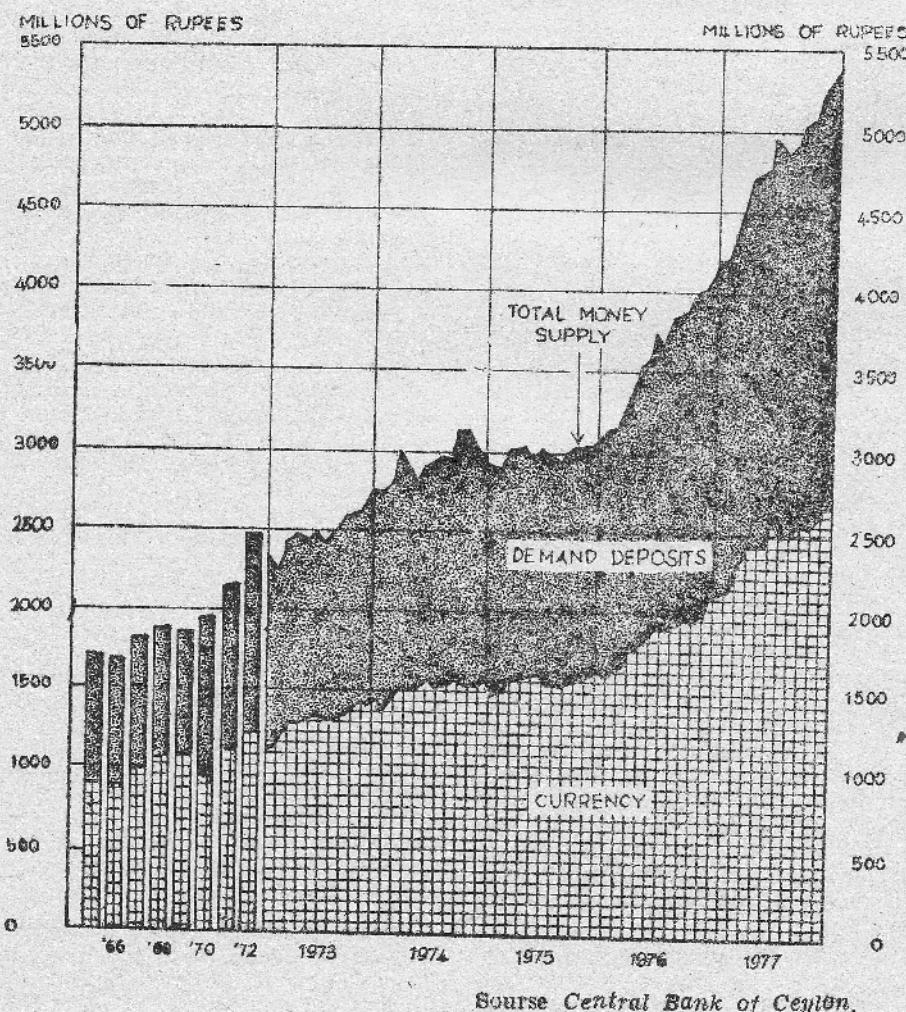
"For a great evil, a slight remedy does not produce a small result, it simply does not produce any result at all".

Money Supply Increases Continue into 1978

Sri Lanka's money supply increased by 29 per cent last year; the second successive year of sharp monetary expansion. This increase continued into 1978 and by the end of January had risen nearly 6 per cent more, from Rs. 1,366 million at the beginning of January to Rs. 5,679 million by the end of this month. By the end of March, 1978 it had exceeded Rs. 6000 million and was almost double that of the money supply at the end of 1975.

The money supply, defined as all currency and demand deposits owned by persons other than Commercial banks and the Government, increased from a total of Rs. 3,088 million at the end of 1975 to Rs. 4,166 million or by 35 per cent during 1976, and to Rs. 5,366 million or by 29 per cent in 1977. The money supply of the country, as seen in the table and graph, has gone up almost two and a half times over the five years from 1972, with a major part of this increase taking place in the last two years. (See table at right).

MONEY SUPPLY
1965-72 END YEAR FIGURES, 1973 ONWARDS END MONTH



Source Central Bank of Ceylon.

The major contributing factor for the expansion of the money supply in 1977 was the significant growth in external assets of the Central Bank and commercial banks. In all, the book value of net external assets of the banking system rose by Rs. 3,597 million during last year. A considerable part of this, amounting to Rs. 1,199 million, were increases resul-

TABLE I

	Money Supply % change over End of Year previous Rs. m.	year
1972	2,481	15.4
1973	2,778	12.0
1974	2,946	6.0
1975	3,088	4.8
1976	4,166	35.0
1977	5,366	29.0
1978 (March)	6000.8	

ting from the revaluation of existing assets following exchange rate changes. The net external banking assets registered an increase of Rs. 1943 million reflecting the very strong balance of payments position that emerged during the year. This was the second year in succession that the growth in external banking assets had made a significant contribution to the increase in money supply. This increase also resulted from high export earnings and aid inflows. The situation in 1976 and 1977 contrasts strongly with that of the 1974 and 1975 position when the external assets of the banking system recorded a decline and exerted a contractionary influence on the money supply.

The other major contributory factor to the expansion of money supply in 1977 was the increase in bank credit. Additional commercial bank credit to Co-operatives amounted to Rs. 614 million; to Government Corporations Rs. 568 million; and Rs. 618 million to the Private Sector.

The overall pattern of monetary expansion in 1977 was characterised by a very sharp increase in the first quarter, with a moderate increase in the second and third quarters and a further acceleration in the fourth quarter. An analysis of the composition of this monetary expansion shows that the increase in the money supply was made up of an increase in demand deposits by Rs. 489 million and an increase of Rs. 711 million in currency held by the public.

Money Supply in the '70s — an official view

The seven-year period ended December 1978 witnessed an unprecedented increase in the money supply, its level rising by over 120 per cent from Rs. 1,883 million to Rs. 4,188 million. The increase in the previous seven years, by way of contrast, amounted to only Rs. 640 million or 40 per cent. The impact of the sharp increase in the money supply can be discerned, though to a very limited extent, in the increase of 84.8 per cent in the cost

A significant feature of the money supply situation last year was that for the first time since 1970 Government Corporations, Co-operatives and the private sector contributed to a contraction in the money supply, mainly as a result of a substantial build up of time and savings deposits by the Government Corporations and other private sector constituents. The rise in time and savings deposits of those private sector constituents was most marked in the last quarter of 1977, when these deposits increased by Rs. 422 million. This has largely been attributed to the impact of the interest rate reforms introduced in September last year. It has been surmised that were it not for these deposits the overall

cost of living index which compares with an increase of 22.8 per cent in the previous seven years. The real increase in the cost of living is of course much greater and assumed astronomical proportions particularly in the last two years of the last government.

More than 50 per cent of the increase in the money supply took place in the last two years of the period under review. It would, therefore, be interesting to examine the developments in the last two years separately. In the first five years, the money supply rose by Rs. 1,003 million, the major expansionary factor being an increase of Rs. 750 million in net bank credit to the private sector (which includes Government corporations and the co-operatives). External assets (net) of the banking system also rose by Rs. 461 million. These two expansionary forces were, however, offset significantly by

monetary expansion in the country would have been very much greater last year. Despite such favourable trends the money supply continued to register a sharp increase with consequent implications on the problem of maintaining price stability.

The principal factors that contributed to the money supply during January/December 1977 are summarised below.

Change in Money Supply-End December 1976 to End December 1977		
Expansionary Factors		Rs. m.
(a) Increase in the external banking assets (net)		1,942.7
(b) Increase in the commercial banks' credit to the private sector	1,188.3	
(c) Increase in banks' credit to the Government Corporations	614.4	
(d) Other factors	4.2	-3,587.8
Contractionary Factors		
(e) Increase in time and savings deposits of the private sector	801.6	
(f) Increase in time and savings deposits of the Government Corporations	280.8	
(g) Decrease in credit to Government from the banking system	54.8	
(h) Increase in other liabilities and accounts (net) of Central Bank	398.3	
(i) Increase in other liabilities and accounts (net) of commercial banks	475.5	
(j) Increase in Government cash balances	298.3	2,547.3
Change in Money Supply		+1,200.3

Source: Central Bank of Ceylon.

a decline of Rs. 204 million in Government's net borrowing from the banking system. Budgetary operations in the first five years as a whole, thus, had the effect of mitigating the monetary expansion that arose from the operations of the private sector and the external sector.

In the two years 1975 and 1976, Government expenditure exceeded original estimates by substantial margins and the SLFP Government sought the easy way out of financing the increased expenditure by, if not it in common parlance "printing money". In these two years together they borrowed, on a net basis, Rs. 813 million from the banking system, a substantial part of it, incidentally, in a derisory manner by issuing Government bonds directly to the two State banks, a practice not normally followed but was resorted to in this instance because the Treasury Bill limit sanctioned by the National State Assembly had been exhausted. The expansionary forces emanating from the operations of the private sector and the external sector amounted to only Rs. 201 million and Rs. 266 million respectively. The resultant increase in the money supply in the two years was Rs. 1,320 million as against the increase of Rs. 1,003 million in the previous five years.

The unprecedented monetary expansion in the past seven years has eaten very much into the value of the Rupee, imposing in the process intolerable burdens on the common man. "Rupiyake oya ada vela thiyyata illadawada Rupiyak kelemath uche". (The value of the Rupee has declined so much that the Rupee is now in tatters.) The money supply has continued to increase rapidly upto the time the present Government took office and our own efforts to ease the burdens of the people will be rendered that much more difficult in the coming months because increases in the money supply react on prices with a time lag.

BUDGET SPEECH 1978

RONNIE DE MEL

— MINISTER OF
FINANCE & PLANNING

Compromise on Debt Issue at UNCTAD

A breakthrough seems in sight in the crucial issue of debt repayments following the special session of UNCTAD's Trade and Development Board in early March. This special session which was presided over by Sri Lanka's Minister of Trade concluded, in his opinion, many trials to its credit; and he described the final outcome as "a significant breakthrough in the North-South Dialogue and a major milestone in joint efforts to establish a more equitable and subsidiary International Economic Order". Sri Lanka's Minister in his opening presidential statement listed many trials, among them: the first time the Trade and Development Board was meeting in ministerial session following the decision taken at the Nairobi Conference of UNCTAD in 1976; the first time the Board was addressing itself to a single problem, namely the growing external indebtedness of developing countries; the first time since the last meeting of the Conference on International Economic Co-operation (North-South Dialogue) that this issue was being discussed by the international community. He emphasized that this was the very area in which the international community had made least progress and this appeared to be perhaps the only available opportunity of negotiating an acceptable and equitable solution.

The enormity of the debt problem has been highlighted in various ranks and forums from time to time. From the Sri Lanka Minister's point of view the problem for the developing world was emphatically summed up thus: On the basis of studies presented to us, the outstanding and disbursed debt of the majority of the developing countries was estimated at \$178 billion at the end of 1976 and was projected to increase to \$253 billion by the end of 1978. This must be compared with projected FOB exports of \$137 billion in the same year. In practical terms, it means that debt servicing of developing

countries will absorb about 25 per cent of their earnings from the export of goods by 1978.

As a consequence their development prospects and programmes have been seriously impaired and most of the poorer developing countries have fallen far short of the target growth rates set by the international development strategy established at the beginning of this decade.

The popular concept today of a debt problem for developing countries is linked to the likelihood of default. In the view of the UNCTAD Secretariat a broader definition should be applied. It argues that a serious debt problem exists whenever the servicing of debt payments result in a significant impairment on a country's ability to sustain a level of imports adequate to meet its development requirements. By this standard, all the low-income developing countries, in particular the Least Developed and Most Seriously Affected (a total of 45 states) are facing serious difficulties. For one-off exporting developing countries as a whole, it is estimated that by 1978 debt servicing will absorb 25 per cent of earnings from exports but in some countries the percentage is estimated to be much higher.

A Critical Problem

It is evident from these statistical indications that not only has the debt problem reached a critical stage for developing countries but is in fact worsening further which in practical terms means that the present remedial measures have not only been inadequate to resolve this growing problem but also unable to prevent it deteriorating in many countries to such in fact certain economic growth.

Prior to the UNCTAD meeting the Western press carried several reports that their governments were seriously considering writing off much of the official debts of the poorest developing countries as well as their aid programmes (a distinction is made between official debts and commercial debts). This question was debated strongly in many Western capitals and some countries wondered whether UNCTAD

was the place to announce their intention.

Western governments were under increasing pressure for a more conciliatory approach to the problem because of the action last year by Sweden, Canada, Holland, and Switzerland in writing off loans from the poorest countries, and also because of the present impasse in the North-South Dialogue.

The issue which was at the centre of negotiations was the proposal of the Group of 77 (developing countries) to cancel or convert into grants the official debt of the least developed and geographically disadvantaged developing countries. In this proposal the rest of the most seriously affected (MSA) countries would receive the same treatment or, at least, have their outstanding debt recognized on International Development Association (IDA) terms (0.75 per cent interest, 10 years' grace, 50 years' maturity). This would mean adjusting past lending conditions to present lending rates, which are generally on more concessional terms.

In this respect the Group of 77 pointed to the example of Sweden, which has written off \$200 million in debt owed to it by the poorest developing countries, and that of Canada, the Netherlands and Switzerland, which have planned or have already approved similar measures.

Although the Group B (developed market economy countries) showed some understanding for the problems of the poorer developing countries, their Group's position was that the indebtedness problem of the developing countries was neither generalized nor unmanageable and that the international system had so far reacted positively to attenuate serious problems of indebtedness. Furthermore, in this Group's view, the problem with which many developing countries were confronted was one of adequate resource transfer and not a generalized problem of indebtedness.

Future Debt Reorganisation

The second issue dealt with was the proposal by the Group of 77 to establish a set of international procedures and norms for speedy, consistent and equitable debt reorganisation in the future. In the past, such debt reorganisations have usually been seen as

ad hoc emergency operations in the light of crisis situations in debtor countries.

The ministerial representatives of UK and West Germany, for instance, appeared sympathetic towards the concept of adjusting terms of outstanding loans to the poor countries but were prepared to consider individual cases. Even this marked a change of attitude, though delayed action was unlikely.

The plea that the inter-dependence of the international economy has now come to stay and that economic growth of the developing countries would provide potential for increased trade which can be in the economic interest of both the developed and developing countries do not seem to have the desired impact. The developed market economy countries still don't seem to look at it that way. For some of them the indebtedness and under development of the Third World countries are still necessary for providing the markets for their capital and manufactured goods.

The final resolution adopted stated that developed donor countries will seek to adopt measures for an adjustment of terms of past bilateral development assistance. Upon undertaking such steps in favour of the poorer developing countries "each developed donor country will determine the distribution and the net flows involved within the context of its own aid policy". UNCTAD V to be held in Manila in 1979, will review the measures taken following this decision.

In the closing meeting on March 11 the mood was one of low key satisfaction and cautious optimism. Though in the final statement, the President of the ministerial meeting, Sri Lanka's Minister, described the results as a major milestone and a significant breakthrough in the North-South Dialogue, speakers from Iraq and Tanzania said it fell short of early action by the rich to ease the growing burden of the external debts of Third World states.

The decision that donor countries would soften the conditions of existing official development loans was not specific in the final communique, but observers said the wording left open the possibility of delaying repayments, lowering interest rates or cancelling debts completely.

FISHERIES

Import Delays Hamper Production Targets

Shortage of fishing gear and spare parts for local mechanised craft continue to affect the country's fish production. A total fish production target of 42,750 tons was set for the first quarter of 1978, but actual achievement fell short by over 6,000 tons, recording an estimated production of only 36,000 tons during the period January-March this year.

The Fisheries Ministry's performance for the first three months of this year, as reported to the Plan Implementation authorities, shows that production in the first quarter has fallen short of targets in several areas. For instance, the Fisheries Department has a programme for the issue of outboard motors for mechanisation of traditional crafts in use, as well as for 17 to 18 foot fibre glass boats. The delay in the import of these engines has resulted in only 274 motors being issued during the first quarter as against a target of 430. Again, it was hoped that six inboard motors for use in 3½ ton mechanised boats would be issued but none were given during this period; the reason for this shortfall also being a delay in the import of engines. Among other 3½ tonners were those being issued under the Sri Lanka Fisheries Project and financed by the ADB. Here too only 18 boats were issued in the first quarter against a target of 30.

The Fisheries authorities are placing much reliance on the mechanisation programme and the ADB financed Sri Lanka Project for the overall increase in catches. This project which envisages the introduction of 200 FRP (fibre reinforced plastic) 28 foot boats and 30 GRP (glass reinforced plastic) 38 foot boats is expected to assist in raising up local production by about 10,000-15,000 tons per year. The annual catch on a 38 foot boat is estimated at about 185.00 lbs. Up to the end of 1977 only 96 of the 200 FRP 28 foot boats and 6 of the 30 GRP 38 foot craft being issued under this project had been given out. As an inducement to giving out all craft under this ADB project the Government has decided to subsidise part of the

cost of those boats to private fishermen and Co-operative Societies.

The ultimate ownership of the 200 FRP 28 foot boats are expected to go to the crews who work on these boats and not to the society. Of the 30 GRP 38 foot boats, each of which is costing about Rs. 800,000, twenty-two of these have now been sold to a number of private companies. These boats have the capacity to fish up to about 50 miles off the coast and bring in at one time nearly 1,000 pounds of fish, excluding ice. The 28 foot boat can average 800 lbs per trip and can do around 20 trips a month.

While an earlier fisheries plan has been based on building up of a profitable deep-sea fishery with a view to exploiting the geographical advantage and marine resource endowments of the island, but two decades of experience has shown that not much materialised. The experience has also shown what was needed to put matters right. It is clear, in switching over to an intensified programme of mechanisation that local fishermen must be given a thorough grounding and familiarity with the imported technology. Earlier training facilities were far from adequate and lagged behind the mechanisation process.

Requisite facilities for maintaining mechanised crafts were also not provided resulting in a disruption of fishery operations, lowered production, hardships to fishermen and consequent inability on their part to meet loan commitments. The issue whether our deep-sea fisheries can be profitable has been debated many times before. One argument has been that deep-sea fishing on an industrial basis presupposes a ship building technology and ship maintenance facilities which are virtually absent in Sri Lanka, and until such time as they are provided deep-sea fishing will not be profitable. There is no doubt that the country must devote its energies to acquire the new technology developed in recent decades; but the greatest need of the moment is to set out our priorities in both the short and long term interests of the industry and clear all bottlenecks impeding the flow of vitally needed inputs for the industry.

COMMODITIES

TEA

Production Up by 100 million kgs.

World tea production in 1977, as anticipated, recorded an increase of over 100 million kilograms as compared with production in 1976. The Economic Review forecast in both its July and September issues in 1977 that tea production for the year would increase by about 100 million kilograms. The largest increase in production was recorded by India, where production rose by 48 million kilograms in 1977 to record a total of 560.4 m.kg. The most significant increase, however, was recorded in Kenya where production went up from 62 million kilograms in 1976 to 86.3 million kilograms in 1977, an increase of almost 40 percent. Sri Lanka's production was up by only 12 million kilograms an increase by just over 5 percent. In the light of the price boom in the international tea market Kenya appeared to have gained much from the situation in 1977.

CROP FIGURES OF MAJOR PRODUCING COUNTRIES (in million kgs.)

Country	1976	1977
Sri Lanka	106.6	106.8
N.E. India	400.8	429.0
S. India	11.0	138.2
Kenya	62.0	86.3
Malawi	28.7	31.7
Uganda	15.4	15.2
Tanzania	14.1	16.7
Indonesia	50.0	63.0
Bangladesh	30.3	27.5
Mozambique	10.8	11.0
	932.4	1032.8

* Estimated ** Upto July

On the local scene Sri Lanka's tea enjoyed a demand in 1977 that had not been witnessed before in the Colombo tea trade. The year on the whole was one of the best for tea in all international centres and the trade was of the view that "tea, at long last, had now been placed as the most wanted commodity among consumer beverages". The erratic supply position and continuing high prices for coffee bag over the past two years had a very favourable impact on demand and prices of tea.

The total quantities sold at the Colombo auctions last year did not increase appreciably over that of the previous year. Larger quantities of low grown were sold through the auctions in 1977 while the quantities of medium grown showed a slight increase. In price too the highest increase was recorded in the low grown, as much as 74 percent. The gross average increase in prices for all grades of

tea was as high as 74 per cent. The gross turnover according to data compiled by the trade increased by as much as Rs. 1,321.3 million in 1977; the heaviest turnover increase being recorded for low grown and high grown. Details in tables.

Averages of Auction Prices (Rs.)		
	1976	1977
Gross Prices		
High	9.63	15.51
Medium	8.73	14.80
Low	8.27	14.89
Total	9.21	14.85

Gross Turnover — Jan.-December (approx.)

	1976	1977
Min. No.	Rs. 696.0	Rs. 1,040.0
High	832.0	940.0
Medium	365.2	508.0
Total	1,673.7	2,995.0

per cent increase, and Scrap Crepes a 64 percent increase.

There was, however, a decrease in quantities of almost all grades of rubber offered at the Colombo auctions in February this year. For instance the 1,243 metric tons of Latex Crepes offered in February 1978 was a decrease of 280 metric tons on the previous months total and a decrease of 1,418 metric tons compared with the total in February 1977. So too with Scrap Crepes, where 479 metric tons were offered in February 1978. This was a decrease of 75 metric tons over the previous month and a decrease of 11 metric tons compared with that of February 1977. The 175 metric tons of Sole Crepe offered during February 1978 was a decrease of 40 metric tons compared to January and a decrease of 13 metric tons compared to February 1977.

The closing prices at the end of February for the various grades of rubber are compared with prices for the same period of 1977 in the table below.

CLOSING PRICES PER KILOGRAMME AT END OF MONTH

Grade	February '77	February '78	Percent Increase in prices
RSS No. 1	4.475	5.88	27
Latex Crepes	5.20	6.05	16
Scrap Crepes	3.38	3.50	3.6
Sole Crepe	7.00	7.00	0
Proth & Cuttings	3.00	4.10	37
Curly & Snail Scrap No. 1	—	3.00	—
Average price increase for all grades			33

Record Trade Surplus in 1977

Sri Lanka's merchandise trade in 1977 showed a favourable balance for the second successive year. The surplus in the balance of trade in 1976, according to Customs records, was the first in twelve years. Throughout the period of 1966 to 1975 the country had experienced a persistent deficit in its merchandise trade account and in 1975 this deficit reached a record figure of Rs. 1,318 million. On the other hand the surplus of Rs. 631 million in the trade balance in 1977 is also an all time high. Export earnings increased from Rs. 4,815 million in 1976 to Rs. 6,638 million in 1977; (in most of the tables the re-export values are not recorded) while payments for imports increased from Rs. 4,645 million in 1976 to Rs. 6,007 million in 1977. Tea exports were mainly responsible for the record earnings in 1977; while, petroleum and food purchases were largely responsible for the highest ever import bill the country has experienced in any single year.

The country's foreign trade position over the last 4 years is seen in the table below.

TABLE I
FOREIGN TRADE 1964 — 1977
(Rs. Million)

Year	Exports* (f.o.b.)	Imports (c.i.f.)	Balance of Trade
1964	1876	1975	- 99
1965	1948	1474	+ 474
1966	1700	2028	- 328
1967	1960	1738	- 48
1968	2035	2173	- 138
1969	1916	2543	- 627
1970	2035	2313	- 280
1971	1947	1986	- 39
1972	2009	2064	- 55
1973	2617	2715	- 98
1974	3472	4554	- 1082
1975	3933	5318	- 1318
1976	4815	4645	+ 170
1977	6638	6007	+ 631

* Including re-exports.

Source Sri Lanka Customs Returns

It is apparent that the country's terms of trade have kept deteriorating since 1965; and the gap in the trade balance showed a consistent growth from 1971, from Rs. 39 million, till it reached a peak of Rs. 1,138 million in 1975. In, 1976

however, there was a favourable change in the situation with a trade surplus of Rs. 170 million and the terms of trade showed a 35 per cent improvement, owing to an increase in export prices by 20 per cent and a fall in import prices by 12 per cent. See table 2 below.

TABLE 2.

FOREIGN TRADE INDICES 1968 — 1977

Year	Index Number (1967=100)				
	Volume		Prices		Terms of Trade
	All Exports	All Imports	All Exports	All Imports	
1968	103	101	117	126	93
1969	98	108	117	134	88
1970	102	102	118	140	84
1971	99	90	117	150	78
1972	97	88	118	157	75
1973	98	79	127	209	65
1974	85	56	217	370	58
1975	102	69	199	433	46
1976	97	75	239	383	62
1977	89	97	382	471	81

Source Central Bank of Ceylon

In 1977 the surplus rose to Rs. 631 million and the terms of trade improved further by 31 per cent, owing to a sharper increase, by 60 per cent, in the overall price of exports, which more than offset a 23 per cent rise in import prices. An unprecedented increase of the

was used for import of raw cotton and cotton yarn.

Food imports have always taken up a major share of Sri Lanka's import bill. Unlike in 1976 when, due to a fall in prices in the international market of rice and cereals, flour and sugar, these im-

TABLE 3. MAJOR ITEMS OF IMPORT IN 1975, 1976 AND 1977

	Value 1975	Rs. million		Percentage of Imports		
		1976	1977	1975	1976	1977
Petroleum	894	1,196	1,490	17.0	25.7	24.8
Rice & Cereals	1,198	743	1,061	22.8	16.0	17.7
Flour	1,006	636	930	19.2	14.8	15.5
Sugar	250	68	199	4.7	1.5	3.3
Textiles & Yarn	195	189	459	3.7	4.0	7.6
Fertilizers	208	76	18	4.0	1.6	0.3
Pharmaceuticals	69	59	87	1.3	1.3	1.4
Boilers — Machinery & Appliances	229	292	313	4.3	6.3	5.2
Iron & Steel	169	183	188	3.2	3.9	3.1
Motor vehicles & parts	94	150	233	1.8	3.2	3.9
Sub total	4,312	3,642	4,978	82.1	78.4	82.9
Others	939	1,003	1,029	17.9	21.6	17.1
Total Imports	5,251	4,645	6,007	100.0	100.0	100.0

Source Sri Lanka Customs Returns

tea export price index by about 80 per cent contributed substantially to the improvement in the terms of trade.

IMPORTS

Import values also reached unprecedented levels. A record sum of Rs. 885 million is estimated to have been used by importers under the new liberalised imports scheme in the last six weeks of 1977. The biggest amount of foreign exchange utilised was for the import of industrial machinery, ancillary parts and spares, amounting to over Rs. 210 million, while Rs. 159 million

ports registered a sharp drop; in 1975 the total value of the food imports showed an increase of Rs. 853 million. The result was that consumer goods imports recorded a steep increase in value and accounted for 42 per cent of total imports. (See table 4 on imports by categories). The country's dependence on food imports also comes out clearly in table 3 which indicates that rice, cereals, flour and sugar alone accounted for 86.5 per cent of the entire import bill in 1977. The trade indices also show that there was a 43 per cent rise in volume of imports of consumer goods on account of a near doubling of food and drink imports. Prices showed a rise of 16 per cent.

TABLE 4. EXPENDITURE ON IMPORTS BY CATEGORIES

Category	Imports by Categories				
	Value Rs. million	Percentage of Imports	1975	1976	1977
Consumer goods	3,631	1,030	2,024	37	56
Intermediate goods	1,888	2,268	2,948	36	40
Investment goods	658	661	746	12	14
Unspecified	69	54	79	1	1
TOTAL	5,258	5,857	5,009	100	100

Source: Central Bank of Ceylon

The share of intermediate goods fell from 43 to 41 per cent, despite an increase of petroleum imports. According to the trade indices, the import volume declined by 6 per cent and prices increased by 10 per cent. The share of investment goods dropped from 14 to 12 per cent in 1977. The volume index showed an increase in imports of 18 per cent, while the price index indicated a marginal rise of about 1 per cent.

Apart from food imports, petroleum is the most important item of import into Sri Lanka, accounting for over the last two years for one quarter of the country's import bill. Another item of significance in the 1977 import bill was textiles and textile articles, particularly cotton yarn, which registered a 200 per cent increase last year. Cotton yarn imports alone moved up from Rs. 26 million in 1975 to Rs. 145 million in 1976 and Rs. 326 million in 1977. Imports of motor vehicles and parts also increased by Rs. 83 million in 1977. There was a significant drop in fertilizer imports which registered only Rs. 13 million in 1977.

However, the impact of the new trade and payments policy announced with the budget in November 1977 and consequent liberalisation of imports on floating of

the rupee came too late in the year to leave an impression on the country's 1977 import bill.

EXPORTS

Sri Lanka's total export earnings in 1977 reached Rs. 6,638, the highest on record for any single year. Total export earnings thus increased by 38 per cent or Rs. 1,925 million over that of 1976; the phenomenal rise in earnings from tea being the main cause. Though the quantity of tea exported declined by 14 million kilogrammes, the average export price rose heavily from Rs. 10.50 per kilo in 1976 to Rs. 13.80 per kilo in 1977. This price improvement was the combined result of further international

once again because of the heavy drop in the volume of exports. Thus earnings from coconut oil fell by as much as Rs. 149 million; from Rs. 201 million in 1976 to Rs. 52 million in 1977. Earnings from pulses and other minor agricultural exports also increased by Rs. 106 million or 18 per cent over that of 1976. Among the other non-traditional export items where significant increases in earnings were recorded are: textiles and ready-made garments, an additional Rs. 113 million; gems and jewellery Rs. 38 million; fish and crustaceans Rs. 20 million.

SUMMATION OF SUPPLY

A notable feature in the pattern of our imports over the last two years has been the increasing concentration in sources of supplies. Over the last two years, five countries have accounted for nearly half the value of imports into Sri Lanka. With Sri Lanka's rapidly increasing petroleum import bill two Middle Eastern countries, Saudi Arabia and Iran, have supplied over 22 per cent of the total value of the country's imports. In each of the last two years U.S.A. and Japan have maintained their position as third and fourth respectively, as major sources of our imports, particularly of flour and machinery and vehicle spares. The United Kingdom has also retained its position among the first five largest sources of supply. How-

TABLE 5. MAJOR ITEMS OF EXPORT IN 1975, 1976 AND 1977

	Value Rs. million	Percentage of Exports				
		1975	1976	1977	1975	1976
Tea	1,650	2,104	3,002	39.2	32.7	53.0
Rubber	854	850	931	13.7	18.5	14.0
Coconut	397	393	823	10.1	8.0	5.0
Gems & Jewellery	182	284	322	4.6	5.5	4.0
Textiles & Textile articles	171	173	265	3.8	3.6	4.3
Machinery Parts	69	147	149	1.5	2.9	2.2
Fish & Crustaceans	22	75	95	0.4	1.3	1.4
Total	3,357	4,314	6,638	48.6	53.9	61.7
Other exports	585	577	1,075	14.4	16.2	15.3
Total Domestic Exports	3,942	4,891	6,638	100.0	100.0	100.0
Re-exports	11	14	23			
Total Exports	3,933	4,895	6,638			

Source: Sri Lanka Customs Authority

earnings went up by Rs. 41 million or 5 per cent in 1977. Coconut products exports, however, continued their decline and earnings fell by Rs. 47 million or 12 per cent,

over. U.K. has been displaced from the fourth position by India, which provided a large range of consumer and capital goods under various lines of credit.

TABLE 6 IMPORTS 1975, 1976 AND 1977
Sri Lanka's 25 main suppliers of foreign products in 1977

Country	1975		1976		1977	
	Rs. m.	%	Rs. m.	%	Rs. m.	%
Saudi Arabia	637	12.1	596	12.0	747	12.4
Iran	213	4.1	490	10.7	508	8.7
U.S.A.	337	6.4	379	8.3	538	9.0
Japan	437	8.3	376	8.0	386	6.6
India	150	2.9	181	3.8	377	6.3
United Kingdom	323	4.3	278	5.8	307	5.4
Australia	429	8.2	273	5.8	287	4.8
Thailand	358	6.8	172	3.7	267	4.7
China, People's Rep.	602	12.0	56	1.2	284	4.7
Pakistan	220	4.2	294	6.8	273	4.5
France	429	8.2	294	6.3	291	5.0
Germany, Fed. Rep.	262	5.0	183	4.0	229	3.7
Burma	121	2.3	231	4.8	187	3.3
Italy	33	0.7	53	1.1	139	2.3
U.S.S.R.	112	2.1	72	1.5	181	3.1
Singapore	194	3.9	29	0.7	196	3.1
Netherlands	48	0.8	70	1.6	107	1.7
Belgium	17	0.3	98	2.2	93	1.5
Canada	63	1.2	108	2.3	71	1.1
Barbados Islands	—	—	—	—	83	1.0
Finland	43	0.8	13	0.2	97	0.8
South Korea	15	0.3	37	0.8	55	0.8
Portugal	4	0.1	4	0.08	81	0.9
Hong Kong	6	0.2	29	0.6	44	0.7
Sweden	38	0.9	59	1.2	58	0.6
Sub total	4,089	100.0	4,362	100.0	5,800	100.0
Others	292	0.0	235	0.0	225	0.0
Total (all countries)	5,281	100.0	4,645	100.0	6,025	100.0

Source: Sri Lanka Customs Returns

China which was one of the leading suppliers of imports in the 1970s, reaching top position in 1976, was the ninth largest supplier of imports in 1977. Both Australia and Thailand were ahead of China. Of the nearly 90 suppliers of Sri Lanka's imports in 1977 the leading 25 accounted for almost 95 per cent of the total value of imports; with the other 65 countries supplying barely 5 per cent. Pakistan which has come to stay as a leading trade partner in recent years retained its position among the first ten suppliers of Sri Lanka's imports. But more important was its position as an importer of Sri Lankan produce.

FOREIGN MARKETS

In 1977 Pakistan emerged as the major buyer of Sri Lankan produce, accounting for Rs. 334 million or 8 per cent of the country's export earnings. The U.K. and U.S.A. moved up into second and third positions as markets for our exports and accounted for 8 per cent and 7.5 per cent respectively of total exports. A significant trend in Sri Lanka's trade pattern over the last two years is that the U.S.A., U.K. and Japan have become the country's most important

trading partners; and their overall trade turnover with Sri Lanka during 1976 and 1977 were U.S.A. Rs. 1,751 million, U.K. Rs. 1,595 million and Japan Rs. 1,304 million.

Countries like the U.A.R., Yugoslavia, Romania, C.D.R., Czechoslovakia and U.S.S.R. with which Sri Lanka had bilateral payments agreements stepped up their purchases and traded more freely when these agreements were replaced by trade agreements where payments could be made in convertible currencies. The U.A.R. for instance, for the first time moved into seventh position as a market for Sri Lanka produce and recorded purchases to the value of Rs. 364 million. Again Romania stepped up its purchases from Rs. 2 million in 1976 to Rs. 34 million in 1977 and Poland's purchases increased from Rs. 42 to Rs. 89 million.

Of the nearly 120 countries to which Sri Lanka's exports went in 1977 the leading 25 buyers accounted for over 81 per cent; with the 6 major buyers accounting for as much as 30 per cent of the value of all exports.

TABLE 7 EXPORTS 1975, 1976 AND 1977
The 25 main buyers of Sri Lankan products in 1977

Country	1975		1976		1977	
	Rs. m.	%	Rs. m.	%	Rs. m.	%
Pakistan	345	8.0	368	7.5	534	8.0
United Kingdom	311	7.0	485	9.7	529	8.0
U.S.A.	210	5.5	345	8.2	500	7.5
China, People's Rep.	480	11.7	487	10.0	434	6.8
Iran	100	2.4	143	3.0	258	4.1
Japan	178	4.3	213	4.4	321	4.8
U.A.R.	121	3.0	101	2.1	201	3.3
Germany, F.W. Rep.	118	3.0	161	3.4	201	3.3
South Africa	121	3.1	141	3.0	201	3.0
Australia	110	2.6	123	2.7	199	3.0
Netherlands	69	1.6	118	2.4	143	2.3
Saudi Arabia	54	1.4	122	2.6	175	2.8
Syria	65	1.5	79	1.6	168	2.8
Hong Kong	59	1.5	121	2.5	163	2.8
Canada	50	1.2	117	2.4	127	2.0
U.S.S.R.	103	2.5	153	3.1	125	1.8
Tunis	117	3.0	190	3.9	182	2.8
Italy	60	1.7	131	2.7	110	1.6
Malta	59	1.5	101	2.1	83	1.3
Singapore	50	1.3	143	3.0	98	1.5
France	44	1.1	56	1.2	91	1.4
Luxembourg	118	2.8	44	0.9	92	1.4
Poland	59	0.9	63	0.8	89	1.3
New Zealand	34	0.8	45	0.8	58	1.0
Aden	4	0.1	5	0.1	63	0.0
Sub total	3,181	67.3	3,811	61.5	5,367	81.4
Others	732	16.7	890	18.5	1,220	18.6
Total (all countries)*	3,913	100.0	4,801	100.0	6,587	100.0

* No exports of Rs. 227 m. in 1977, Rs. 13.7 m. in 1978 and Rs. 16.3 m. in 1979 are excluded.

FEATURES

A Colonial Administrative System in Transition: Some Reflections on the proposed appointment of District Ministers

B. S. Wijeweera

The District Minister's scheme is due to come into operation from about August this year and is expected to have a major impact on the country's entire development process. The implications of this proposal were first discussed in depth by B. S. Wijeweera who served as Government Agent in several districts. Here he takes a further look at the possible implications of this scheme.

Since Independence Sri Lanka's experience has very markedly been one of transformation of a colonial administration in the face of demands and needs of an independent and under-developed country. This transformation has been described as that 'from a law-and-order bureaucracy to an engine of social and economic change'.¹ The main thrusts of change have been a process of de-bureaucratization of the administration and structural changes in the administrative network introduced with a view to achieving greater rationality in the decision-making and administrative processes.

The de-bureaucratization process can really trace its origin to the appointment of a Board of Ministers under the Donoughmore Constitution of 1931, but it continued at a greatly accelerated pace since 1948, the year of Independence. The abolition of the elitist Ceylon Civil Service in 1963 and its replacement by a more broad-based Administrative Service was a direct result of this process of de-bureaucratization. However, the more significant development has been a steady 'politicization' of the administration. What is meant by this is the degree to which administrative decisions and actions of bureaucracy are conditioned or influenced by those outside the administration whether they be Members of Parliament, opinion-leaders, lobbyists or other interest

and pressure groups. Although 'politicization' has been highlighted often in a negative sense as something leading to 'political interference' of the administration, it can count as one of its positive values a greater responsiveness on the part of the administration to the wishes and aspirations of its clientele.

The structural changes since Independence have been mainly aimed at achieving a greater co-ordination of the diverse, and often conflicting governmental agencies and their activities. The situation, that was, is best described in the words of the Wilmot A. Perera Commission Report:

The lack of adequate planning and co-ordination is, without a doubt, the greatest obstacle to our progress and development and it is significant that although over twelve years have elapsed since Ceylon became Independent, very little has been done in the way of planning and co-ordination²

This was the situation at the Centre — in Colombo. In the 22 districts the situation was no better, or even worse. The rapid growth of specialized departments after the Donoughmore reforms led to the creation of district units which performed their specialized functions under the direct control of the Heads of Department in Colombo. Hence, what emerged at Independence was 'a highly compartmentalized and poorly integrated administrative system'.³

Since Independence an attempt

has been made to remedy this situation. The formation of District Agricultural Committees in 1948 to co-ordinate agricultural activities at the district level, the formation of District Co-ordinating Committees in 1953 for the administrative co-ordination of all Government programmes at the district level, the formal appointment in 1964 of Government Agents as district deputies to all Heads of Departments engaged in the agricultural sector and the subsequent utilization of these appointments to invest the Government Agents with the leadership of the Food Production Drive during the years 1966—1970 were the main features of this attempt. However, all these remedies had certain fundamental drawbacks which reduced to a great extent their effectiveness. Firstly, they had the indirect effect of restoring the Government Agent to the position of pre-eminence enjoyed by him during the colonial era, and as such was something out of tune with the current mood. Secondly, whole-hearted co-operation for these changes was not forthcoming from the technical and specialist officers in the districts and their bosses in Colombo, who regarded the changes as an usurpation of their legitimate powers and responsibilities. Thirdly, and this is a point which is not often realized, due to the 'politicization' process mentioned above it was becoming increasingly difficult for a public servant to assume the leadership role of the district administration without in turn becoming a semi-politician. Hence by 1970 there were murmurs that the District Administration should be formally invested with a political leadership.⁴

It is against this background that there emerged in October, 1973 the institution of a District Poli-

1. Robert N. Kearney, Ceylon: *Asian Bureaucratic Systems Emergent from The British Imperial Tradition*, (ed) Braibanti, Duke University Press, 1966, p. 549.

2. *Report of the Salaries and Cadre Commission*, Part I, Ceylon Sessional Paper III, 1961, p. 21.

3. Kearney, op. cit., p. 489

4. Document No. 13/2/337, *Representations from Individuals*, Constituent Assembly Proceedings. Memorandum dated 20th September 1970 submitted to the Steering and Subjects Committee by the Government Agent, Badulla. See also *Administration Report of the Government Agent, Badulla*, District for 69/70, Government Printer, 1971.

tical Authority whereby an elected representative of the people (in some districts a Cabinet Minister, in some others a senior government back-bencher but more often a Deputy Minister) was for the first time placed at the helm of the administration in each of the 22 districts in order to co-ordinate the diverse governmental programmes, especially the 'Food Production War'. As one writer put it, what was previously regarded as 'indirect interference in administrative matters has now been transformed into direct (political) control over administration at district level'.⁵

It is the intention of the present Government to formalise this situation and with this end in view certain amendments to the Constitution were introduced which provided for

- (a) the appointment of a District Minister for each administrative district, and
- (b) the definition of the powers and responsibilities of such Ministers in relation to the administrative hierarchy.

This constitutional provision for the office of District Minister has two important advantages over the informal and nebulous institution that was created in October 1964 in the form of District Political Authorities. Firstly, it would provide for the formal and authoritative co-ordination at a district level of multi-disciplinary programmes, such as Food Production, which cut across departmental and ministry boundaries (and Jealousies). Secondly, it would fix precisely the position of the District Minister in the administrative hierarchy and its relationship to functional ministries. The lack of a clear statement on this second

aspect was the subject of serious comment at a Workshop conducted by the Academy of Administrative Studies in 1975.⁶

Today the institution of District Minister has to be viewed in the context of a more important constitutional development that has taken place simultaneously, namely the shift to a Presidential form of government. The phenomenon of "Presidentialization" of the Office of Prime Minister is not something new to students following a Cabinet form of Government. It has been the subject of comment in Britain for a long time,⁷ and in recent times in Canada, notably under Trudeau.⁸ In these countries it has been regarded, by some, as a means of investing the administration with the quality of charismatic leadership.

The situation in Sri Lanka is slightly different to the examples cited above, there being no exact parallels in history. With the introduction of the concept of District Ministers (although with a distorted name of Political Authority), the development of a Presidential form of government was inevitable simply because the District Minister concept cannot work effectively (for reasons that will be explained later on) in the context of a pure cabinet form of government where the Prime Minister is merely a *primum inter pares* and no more. In theory the Office of Prime Minister is a rather low key one, its initiative in policy making being marginal and in this field its main function is to serve as a link between the Head of Government and the real policy making bodies, the Cabinet and the Ministries. The fact that in practice things are much different is widely recognized and the example of Britain

and Canada have been cited above to illustrate the point.

With the introduction of the institution of District Minister one has first to assign a proper Ministry to it. Admittedly, the institution of District Minister cannot be attached to any Ministry without in turn transforming such Ministry into some sort of a Super-Ministry because of the multi-disciplinary functions attached to the post of District Minister. Hence the appropriate place for it is the President's Office which in fact is a super-ministry. Under the earlier dispensation, when there was no Office of President as Head of Government, the Political Authorities were assigned to the Office of the Prime Minister, who then was the Head of Government. This had vast implications for the Cabinet form of government to which the country subscribed at that time. With the appointment of Political Authorities the Prime Minister's Office assumed a new dimension and, for the first time, established a direct link with the 22 districts and their administrations. But, more importantly, it opened itself to direct regional (or localized) influences on ministers that were fundamentally the responsibility of ministers. The Cabinet form of government was being assailed and the message was clearly conveyed by Government Agents by Circular instructions quoted below:⁹

Every Government Agent, A.G.A., D.R.O. and other officers concerned should act in accordance with the decisions and instructions of the Political Authorities in their District and should extend to them the maximum possible co-operation. Wherever there is a problem arising from the fact that such other rule or regulation, I except such situation to be reported to the Prime Minister's Co-ordinating Secretariat for clarification and resolution of the problem. Where necessary, the Co-ordinating Secretariat will consult the Ministry concerned.¹⁰

It is in this context that the present writer predicted, when a shift from a Cabinet form of government towards a more "Presidential" form of government,¹¹ the fact that today the office of President as a Head of Govern-

5. *Wijaya Warnaarajah, Sri Lanka in 1973: A test for both the rulers and the ruled*, Asian Survey, Vol. 14, No. 2, p. 186.
6. *The District Political Authority System*, Academy of Administrative Studies, May 1970.
7. Richard Crosscan in his introduction to the 1964 edition of Bayliss's *The English Constitution*, Humphrey Berkeley, *The Power of the Prime Minister*, London, 1968.
8. Denis Smith, *The Transformation of Parliamentary Government in Canada*, in *Age of Power*, Prentice-Hall 1971.
9. Circular No. AD/DC/17 dated 10th December, 1973 issued by the Ministry of Public Administration, Local Government and Home Affairs (writer's italics for emphasis).
10. Some reflections on current administration reforms in district administration, *Journal of Development Administration*, Government Printer, May 1974.

ment exists constitutionally augurs well for the institution of District Minister because of the inherent conflict this institution has with a pure Cabinet form of government, and the best potential for this novel institution to develop into a meaningful instrument of government lies in a climate of Presidential leadership.

There are two important features in the institution of District Minister which if harnessed correctly could provide a key to a development strategy for Sri Lanka. They are decentralization and democratization.

Decentralization is a key element in this institution because through its functions not only have the funds for an appreciable and vital range of programmes been decentralized, to be controlled, expanded and accounted for at a district level, but also, the very political decision-making process has been decentralized in order to preside over this disbursement, authoritatively.

In regard to the claim that the institution of District Minister symbolizes democratization, it would have to be looked at in relation to the representative nature of that small group that is invariably involved in any decision-making function. From this point of view it is clear that the group associated with the District Minister for decision-making purposes at the district level is far more representative of the people and their aspirations than any counterpart group in Colombo with the exception, of course, of the National State Assembly. This is a strong claim to make and an attempt will be made to justify it. If one looks at the major decision-making bodies that are in Colombo and their individual members fairly closely, one cannot fail to notice, by and large, the social homogeneity that binds them together, whether they come from the political sector, bureaucratic sector, academic sector or the private sector. They form a closed corporation — a sort of confraternity in which the members share common attitudes and values. There is certainly no denying that among them especially among the political elite, there are some who either by birth, upbringing or inclination have their roots firmly grounded to the soil. But even in these instances, whatever their

(Continued on page 15)

CATASTROPHE OR NEW SOCIETY?

A Latin American World Model

Amilkar O. Herrera & others

The model presented here is not an attempt to discover what will happen if present trends continue but tries to indicate a way of reaching a final goal, the goal of a world liberated from underdevelopment and misery. It does not pretend to be "objective" in the sense of being value-free as generally understood. It portrays a conception of the world shared by its authors and to which they are deeply committed. On the other hand, it is objective in that it starts from a distilled but realistic view of the problems facing the world and seeks solutions based on the capacity for change and creativity that human societies have demonstrated so often in the past.

A goal of this magnitude cannot be totally encapsulated in a formalized structure. Thus the word "model" will be used in two ways: first, to refer to the concept of an "ideal" society, and secondly, to refer to a mathematical model.

The ideal society is a reaction against the school of thought, particularly prevalent in developed countries, that holds that the fundamental problems currently facing humanity are those of physical limits. According to this view, exponential increases in consumption and population will eventually exhaust the planet's natural resources, perhaps even in the near future. If the problems of depletion are avoided for the foreseeable future, growing pollution levels would then result in ecological collapse. The result is always the same: a major collapse with massive death rates and a decline in the standard of living to pre-industrial levels.

The solutions proposed in some of the most influential circles in the developed countries can be summarized in a few words:

- * the main problem is rapid population growth, especially in the Third World;
- * if catastrophe is to be avoided, it is essential that this be contained;
- * pollution control, the rational use of resources, etc., are only secondary measures.

The basic characteristic of this position is that it accepts, in a totally uncritical manner, the central values of society as it now is.

The stance of the present authors is radically different: it is argued that the major problems facing society are not physical but sociopolitical. These problems are based on the uneven distribution of power, both between nations and

A book which raised a high degree of controversy around the world was the Club of Rome's report "The Limits to Growth". This book, published in 1972, triggered a heated debate on the future of mankind and the earth's resources; created a new awareness of the interaction of trends and policies in major areas of economic activity; and came to be regarded as the first major serious attempt at understanding the quantitative workings of the complex world system. In a review of this work (published in the Economic Review of May 1976) Dr. Alexander King stated that the developing countries saw the report "as a neocolonialist rearguard action — the rich countries of the world having, by exploitation of the poor, achieved an unprecedented level of affluence.... (and now) propose to slow down or stop growth which means abandoning hope for improvement by the poor nations while, at the same time, having the effrontery to tell the poor to have fewer children".

The message of the book was clearly pessimistic: The earth's interlocking resources — the global system of nature in which we all live — probably cannot support present rates of

within nations. The result is oppression and alienation, largely founded on exploitation. The deterioration of the physical environment is not an inevitable consequence of human progress, but the result of social organizations based largely on destructive values.

Our conceptual model of the "ideal" society is based on the pre-

mise that it is only through radical changes in the world's social and international organization that man can finally be freed from underdevelopment and oppression.

It is not sufficient simply to describe an ideal society; it is necessary also to demonstrate its material viability. Thus we must start by showing beyond all reasonable doubt that, for the foreseeable future, the environment and its natural resources will not impose barriers of absolute physical limits on the attainment of such a society. Secondly, it must be demonstrated that different countries and regions of the world (particularly

economic and population growth must beyond the year 2000, if that long, even with advanced technology.

Then in 1971 several Latin American scientists sat down in Rio de Janeiro, with members of the Club of Rome and discussed their "World Model II" — "Turning to Growth". The Latin Americans did not hide their initial feelings from Professor Dennis Meadows nor his international team who were responsible for the Club of Rome study. The Latin Americans examined the possible consequences that would flow according to the Meadows report and decided to make their own model of the world situation using different assumptions from those of Meadows. They decided to look at the future from the view of the Third World. Finally, a 20 strong group headed by Dr. Amilcar Herrera worked for two years, supported by an IDRC grant, and produced a World Model in 1975. Turning upside down the thinking that informed the earlier work, it saw the Club of Rome study as being based on the preaching that the world's main problem was rapid population growth in the Third World, and this had to be contained if catastrophe was to be avoided. But, as Amilcar Herrera put it: "We're living in a catastro-

phic situation of the current situation in nonrenewable resources, energy, and pollution. A mathematical model was built to handle the second objective: establishing that all countries or regions of the world could move from their present situations to the postulated goals in a reasonable time. Thus the conceptual model is a proposal for a new society, and the mathematical model is the instrument through which its material viability is explored.

The mathematical model is based on the premise that, in the new society, the production system has the satisfaction of basic human

needs as its central objective. It is essentially an economic model or, more precisely, a model of the production system within which five sectors are differentiated: nutrition, education, housing, capital goods, and, finally, consumer goods and other services (this last sector comprising all that is not in the other four). The production function used, permits substitution between capital and labour and reflects improvements in productivity brought about by technological progress.

One major characteristic of the model that distinguishes it from most others built so far is that

the new, it's not a question of waiting 80 years to see off". The Club of Rome model for instance, dealt with statistics in global aggregates, but took no account of the fact that 28 per cent of the world's population (the people in the industrialised countries) was using up more than 85 per cent of the world's nonrenewable resources. This was a bigger cause for alarm than population growth.

The group disagreed with the idea that there was a close correlation between a country's per capita income and its population growth rate. They pointed to Uruguay, whose GNP worked out as \$100 per capita but whose population that of Western Europe. The rate was increasing more slowly than was the high level of social inequality that had long been available in Uruguay.

Out of this came a basic hypothesis that the group led by Herrera set out to test in their study: that the only truly adequate way of controlling population growth is by improving basic living conditions.

So they can free of the rigidity of projections, which Herrera thinks anyway soon become meaningless, since they tend to assume

that socio-political structures endure unaltered, whereas they are in a constant state of change. And they flew off to a normative concept-model, declaring that every human being, by the simple fact of his or her existence, had an absolute right to the satisfaction of basic needs in housing, health, food and education.

These conclusions are cheerful ones. There are no physical barriers in Latin America or Africa that would prevent attainment of these basic needs by the early 1980s and the year 2000 respectively. The more populous Asia presented a problem not in housing or education but in food production — if yields were calculated at 4 tons per hectare but no problem at 6 tons. (If these figures seem high, one must point out they are only about half those achieved in Japan and elsewhere).

The message behind the book is plain. While there are no physical barriers to the elimination of poverty and underdevelopment, there are severe political and social constraints. In present systems, Amilcar Herrera put it clearly in Toronto: "Only with very deep changes in social and political conditions is there any hope."

We reproduce here extracts from the Latin American study.

population size is generated endogenously by a submodel that relates demographic variables to socio-political variables. This submodel permits the examination of one of the basic hypotheses put forward in this study, namely, that the only truly adequate way of controlling population growth is by improving basic living conditions. Both the

the poorest could reach the goals we advocate within a reasonable period of time, starting from the current situation as regards the availability of capital, manpower, land, demographic trends, etc.

To attain the first objective — to demonstrate that absolute physical limits do not exist for the foreseeable future — an analysis

is made as a main objective. These needs are nutrition, housing, education, and health, and their satisfaction is a prerequisite if a person is to take a full and active part in his social and cultural environment. This is a necessary condition for an equitable and free society but it is not in itself sufficient.

The mathematical model was

research conducted in constructing the demographic sector and the results of the computer runs show this hypothesis to be essentially correct.

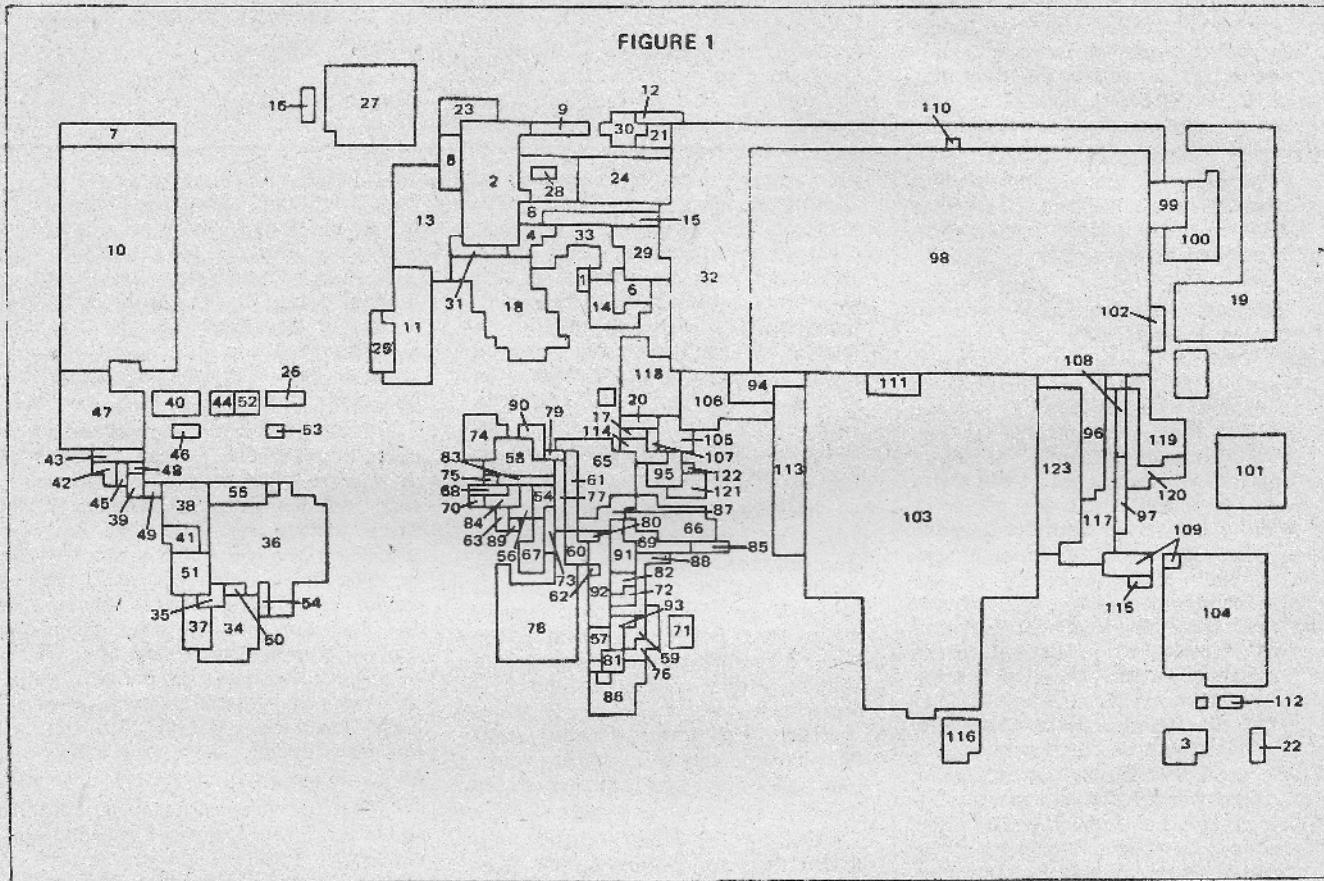
The main function of the economic system is to allocate capital and manpower between the five sectors so as to obtain an optimum distribution. The question then arises of how to define this opti-

mum and how to attain it. After exhaustive research, it was decided to opt for the introduction of a mathematical mechanism that assigns resources to each of the sectors so that life expectancy at birth is maximized at each point during the run.

The model stresses the importance of autarchy; what is proposed is to establish whether the vari-

ous regions (or nations) can attain the specified goals using, in the main, their own resources. Bearing in mind disparities in land area and in endowments of different countries, it is obvious that regional economic complementarity plays an essential role in autonomous development. This applies not only to the complementary elements within each country but

FIGURE 1



The world, in which the area of a country is drawn in proportion to its population. The numbers coincide with the following countries

1. Albania	27. United Kingdom	50. Paraguay	74. Morocco	99. Korea, North
2. German Federal Rep	28. German Democratic Rep.	51. Peru	75. Mauritania	100. Korea, South
3. Australia	29. Rumania	52. Trinidad and Tobago	76. Mozambique	101. Philippines
4. Austria	30. Sweden	53. Uruguay	77. Niger	102. Hong Kong
5. Belgium	31. Switzerland	54. Venezuela	78. Nigeria	103. India
6. Bulgaria	32. USSR	55. Argentina	79. Libya	104. Indonesia
7. Canada	33. Yugoslavia	Region 3	80. Central African Rep	105. Iraq
8. Czechoslovakia	Region 2	4. Guatemala	81. Rhodesia	106. Iran
9. Denmark	34. Argentina	56. Upper Volta	82. Rwanda	107. Jordan
10. U.S.A.	35. Bolivia	57. Angola	83. Senegal	108. Iraq
11. Spain	36. Brazil	58. Algeria	84. Sierra Leone	109. Laos
13. France	37. Chile	59. Burundi	85. Somalia	110. Malaysia
14. Greece	38. Colombia	60. Cameroons	86. South Africa	111. Mongolia
15. Hungary	39. Costa Rica	61. Chad	87. Sudan	112. Nepal
16. Ireland	40. Cuba	62. Congo	88. Tanzania	113. New Guinea
17. Israel	41. Ecuador	63. Ivory Coast	89. Togo	114. Pakistan
18. Italy	42. El Salvador	64. Dahomey	90. Tunis	115. Syria
19. Japan	43. Guatemala	65. Egypt	91. Uganda	116. Singapore
20. Lebanon	44. Haiti	66. Ethiopia	92. Zaire	117. Sri Lanka
21. Norway	45. Honduras	67. Ghana	93. Zambia	118. Thailand
22. New Zealand	46. Jamaica	68. Guinea	94. Afghanistan	119. Turkey
23. Low Countries	47. Mexico	69. Kenya	95. Saudi Arabia	120. Vietnam, North
24. Poland	48. Nicaragua	70. Liberia	96. Burma	121. Vietnam, South
25. Portugal	49. Mexico	71. Madagascar	97. Cambodia	122. Yemen
26. Puerto Rico	50. Panama	72. Malawi	98. People's Republic of China	123. Yemen, Democratic
		73. Mali		124. Bangladesh

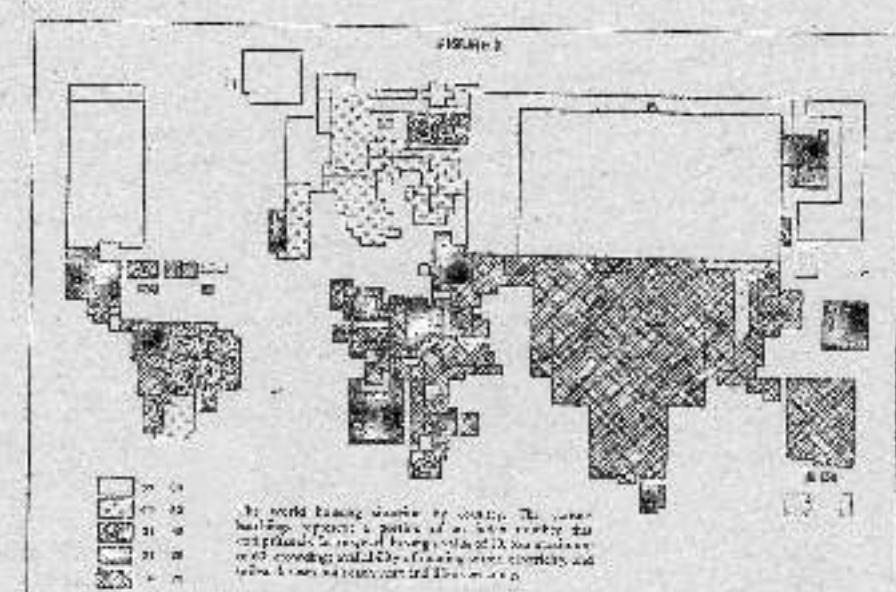
also, in the wider context, to the pooling of resources by countries with similar problems, a process that is aided by geographic proximity.

Another simplification, perhaps of greater importance, is that political and social diversities between countries within a group are not taken into account. Thus no distinction is drawn between capitalist and socialist countries, be they industrialized or developing.

This is justified by the objective of the model which is to attempt to demonstrate the material feasibility of the proposed new society. The results presented are based on the assumption that by 1980, policies that tend toward the desired society will begin to be implemented. Thus, the current differences in political systems cease to be significant from then onward.

This study does not explore the mechanism through which the world may reach the proposed objectives. This is largely because, as history shows, it is very difficult to predict the processes through which social change will take place; in any case, this was not the aim of the exercise.

The main objective is to demonstrate that it is possible to liberate society from underdevelopment, oppression, and misery. Whether this actually occurs or not will depend upon the will and actions of men. If the model contributes to mobilizing this will in the proposed direction, it will have



fulfilled the objective of the authors.

MISERY AND OVERCONSUMPTION

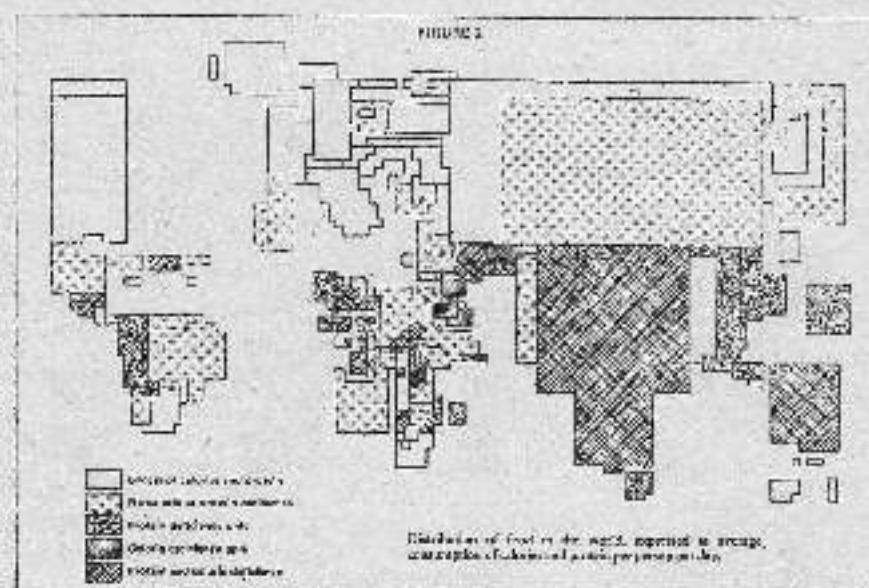
The most outstanding feature of the world today is the fact that nearly two-thirds of humanity live in a state of poverty and misery, while the remaining minority is beginning to feel the effects of overconsumption resulting from uncontrolled economic growth that destroys the natural and human environment. The inequality, which has been increasing, is most clearly manifested in the present division of the world into developed and underdeveloped countries; it is

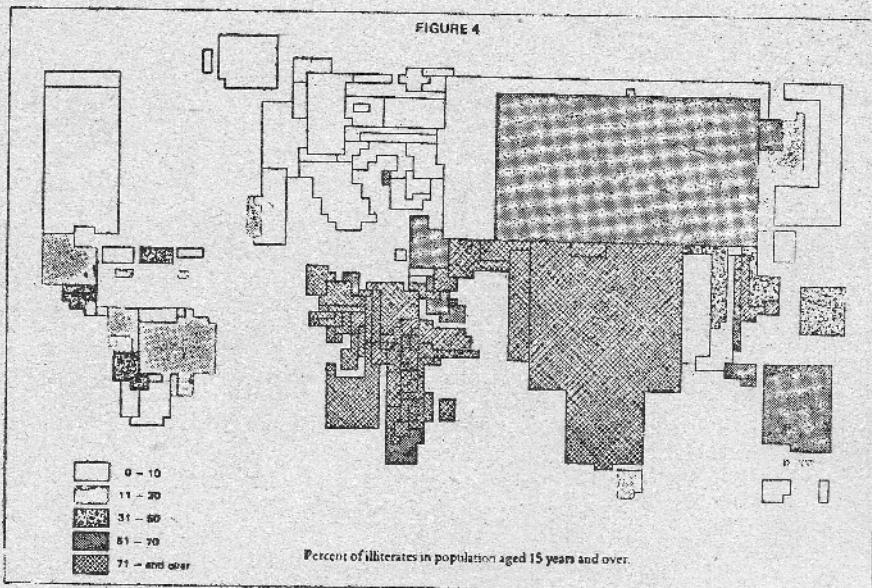
not, however, totally characterized by rigid political boundaries. Privileged minorities in the countries of the Third World have consumption rates that are equivalent to those of the upper classes in developed countries, while a considerable proportion of the population in the underdeveloped countries have not yet fully satisfied their most basic material and cultural needs.

In the maps in Fig. 2-6 the extent of the unequal distribution of wealth between nations is clearly shown in terms of its effects on the socio-economic factors that most directly influence standards of living. On all the maps, the area of the countries is proportional to their populations to indicate clearly the proportion of the world population affected by different deficiencies.

Figure 2 shows the distribution of food in the world, expressed in average consumption of calories and protein per person per day.

Figure 3 uses a combined index to indicate the housing situation. This index includes factors representing each of the following: crowding (percentage of the population having two or more persons per room); percentage of the population without running water within a radius of 100 metres of their homes; percentage of the population without electricity; percentage of the population without latrines; number of houses built per 100 inhabitants per year; and life expectancy at birth. This last factor is used to estimate the others where there is no published data.





on them. The maximum value for each factor is 10, so that the maximum value of the combined index is 60.

Figure 4 indicates the level of education expressed as the percentage of illiterate people over the age of 15.

Figure 5 shows life expectancy values at birth. This is the indicator most widely used to characterize the state of health of populations.

In all the maps, the darkest shading represents the areas with the greatest needs. As can be seen, there are regions where all the indicators take their minimum values; almost two-thirds of the world population are to be found in these regions. The presence of misery and underdevelopment is the main characteristic of these Third World countries.

A WORLD FOR ALL A CRITIQUE OF CONTEMPORARY SOCIETY

The atmosphere of defeatism and despair alluded to at the beginning and which is paradoxically most prevalent in the rich countries, is accompanied by other changes in attitudes. As in many previous historical periods, signs of decadence in the social structure are leading to the appearance of elements that shape the possibility for a new order. Apathy and frustration are being translated into the rejection of the present social and international order, which is

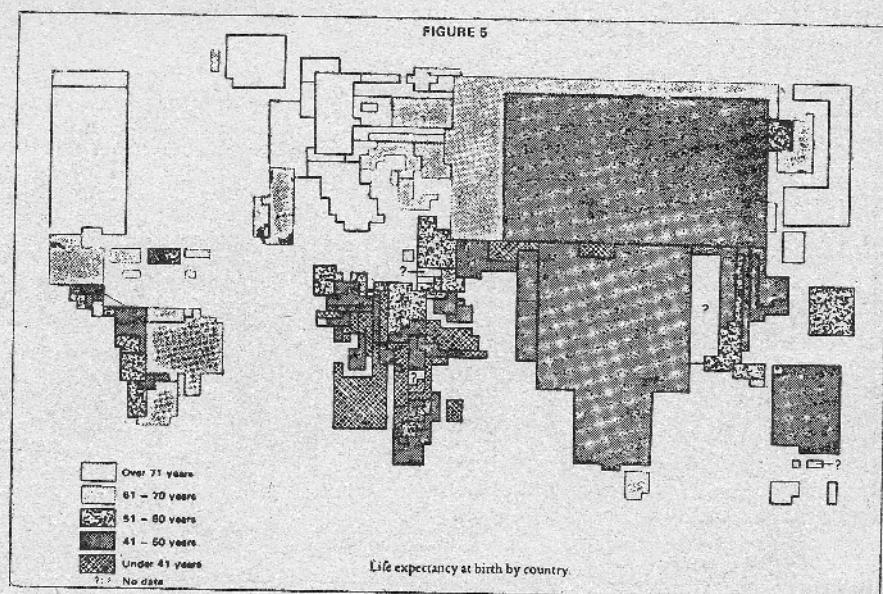
seen as unjust and oppressive, and into the will to conceive and build an alternative society, even if this alternative society is still described only in the most general terms.

Although, this trend which is still new, appears in both rich and poor countries, it has been debated most in the latter. The reasons for this are clear: being the main victims of the system, the underdeveloped countries are in a situation that forces them to explore all possible options. It is in these countries that the need for change in the social and international organization is most strongly felt because of the way in which the

present situation hampers the full development of humanity.

Although there is less of this critical questioning in the developed countries, it is found among sections of the young and among intellectuals. In rich societies, alienation has superseded direct oppression and misery as the major problem. There is a convergence between the position of the Third World and that of the industrialized countries; an analysis of the underlying cause of alienation shows it to be essentially the same as that of exploitation and misery. This is the existence of a system of social and international organization that is directed toward competitive accumulation of wealth, lacking any spirit of international harmony and goodwill, and which, by reducing people to mere tools of production, precludes any possibility of integrated human development.

The main result of this non-conformist and critical attitude is that, for the first time since the European powers began their colonial expansion, a movement has appeared that truly begins to unite broad sectors in both the developed and developing countries around common aspirations and objectives. This is without doubt the most important indication we can find that there is a feeling of international solidarity forming in the world that can be used to bring about a new social order.



What are the central elements of the new society that is being advocated?

In the first place, there is the awareness that the current obstacles to harmonious development are essentially sociopolitical, and that they determine the current distribution of power at both the global and national levels. Secondly, there is the growing understanding that the current crisis is universal because for the first time in history, technological and political forces tend to integrate the world into a single unit. In particular, the destiny of the Third World is intimately linked to that of the rest of humanity, and, if its situation continues to deteriorate, there will inevitably be catastrophic consequences for the privileged countries.

Taken in isolation, these elements provided only a partial view of reality. They acquire their full significance when placed in the context of some basic values that, although tested in history, have been revitalized by the current desire for change. Two of those values are central: the growing acceptance of the fundamental equality of man, and the concept of history as an open-ended process whose direction depends in the final analysis on the desires and actions of men. The first constitutes the only valid basis for building a truly harmonious world; the second is a prerequisite for attaining this world.

Starting with the basic elements derived from the above critique, the study presents an outline of a possible world and attempts to describe a new course for the development of mankind. The application of the "ideal" model to a growing number of regions or countries would provide the basic conditions needed for the creation of a harmonious world order.

The ultimate objective would be the emergence of some form of organization on a world scale that, although respecting the freedom and individuality of nation states, would promote gradual integration into a cosmopolitan world society, a world reflecting a united human interdependence. No doubt, this emergence will be a long and difficult process, but any hope of facing the future problems of the world in a rational manner must be based on its success.

The results of the run for Asia are very different from the results for other regions because basic needs are not satisfied to the desired levels.

The problem in Asia arises in the food sector. By 2010, all available land is being utilized. Thereafter, economic effort in the sector is devoted to increasing livestock and fisheries. This, however, is not enough to feed the growing population adequately, and consumption drops rapidly to below the minimum needed for survival.

The rapid increase in the cost of producing food, due to the development of new land for agriculture, takes resources from the rest of the economy, causing bankruptcies and also hindering the satisfaction of the other basic needs. In summary, the delay in reaching adequate levels of well-being leads to a sustained high population growth rate, and a vicious circle develops: increased population and the increased cost of production, food more and more difficult to satisfy basic needs.

Nevertheless, the problem of Asia is not a case of abounding wealth, because the delay in reaching adequate levels for the other regions still have great expanses of unutilized land when their populations have become stable. Asia could import food, but for reasons already explained in the food sector, this solution is only acceptable as a last resort.

An obvious solution to the problem could be to try to raise agricultural yields, which are still well below the maximum theoretical levels. To test this hypothesis, a run was made assuming that Asia manages to raise agricultural yields to 6 tonnes per hectare, instead of 4 tonnes taken in the

Economic growth rates necessary to satisfy basic needs in the year 2000, maintaining the current income distribution structure.

	Growth rates in the period 1980-90	Growth rates necessary to satisfy basic needs in the year 2000
North America	4.0	5.3
South America (more developed)	5.7	9.9
South America (less developed)	5.2	10.6
Western Europe (more developed)	4.8	5.7
Western Europe (less developed)	6.7	7.8
USA	7.0	1.1
Eastern Europe	3.7	3.3
Japan	0.6	5.6
Far East and India	5.3	10.5
Middle East (oil-producing states)	6.6	10.4
Africa (more developed)	4.1	11.5
Africa (less developed)	6.1	11.8
South Africa	6.0	12.3
Australia and New Zealand	4.9	5.8
People's Republic of China	4.1	No data

previous run. The results indicated that basic needs could be satisfied to the desired levels. Per capita food consumption reaches 3600 calories in 1990, and 8 years later the required consumption of protein is also achieved. Social regularization reaches 99% between 2000 and 2010, but the roof of one house per family is only reached in 2020.

The evolution of the most important economic variable is set out in Table 11. GNP per inhabitant - US \$ 30.70 in 1980 reaches US \$ 5 000.20 in 2000, when all basic needs are satisfied, and is US \$ 1516 in 2080 (Table 11).

Despite of this considerable improvement, food is still a problem for the region in the mid 2020s: the remaining land has all been used although adequate food supplies are maintained until the end of the run.

This is due to the existing reserves, the overexploitation of livestock and fisheries, and to the low population growth rate. In the last years of the run, however, the capacity to produce food is somewhat to its limits, and it is inevitable that some years after 2000 Asia will not be able to feed its inhabitants adequately.

To solve the food problem in the long term, the region could adopt other measures. It could try to increase agricultural yields even further and produce them from non-conventional sources. These measures could be complemented with an effective family planning policy to help close the gap between demographic growth and food production in the long term. There is sufficient time available before the crisis for an effective policy in both directions to be adopted.

To maintain the current income structure would considerably prolong the time required to satisfy the basic needs of the population.

In Africa, basic needs are satisfied in the model around the year 2003, with an average income per capita of U.S. \$ 558. If it is supposed that the current structure of income is maintained, it can be seen from the multiplying factor in the table below that this income should increase to U.S. \$ 200 if the same level of satisfaction is to be achieved. The value is only reached in the model in the year 2048, 36 years later than with the first hypothesis. In Latin America, basic needs can be satisfied in the year 1992 with an income per capita of U.S. \$ 300, but the value of U.S. \$ 4048, considered necessary by the second hypothesis, is only reached in 2048—approximately 56 years later. Both examples are sufficient to illustrate what would happen in other regions of the world.

To show the magnitude of the problem in another way, the economic growth rates that would be necessary for the population of all the countries in the world to achieve satisfaction of basic needs have been calculated assuming it were to take approximately the same time periods as the standard run of the model and maintaining the current structure of income (see table). As can be seen, the growth rates of the underdeveloped countries should be between 10 and 12 per cent.

In summary, it can be said that economic growth with the preservation of the current income distribution system would, at the very best, delay the goal of a liberated humanity, free from suffering and misery, by at least two generations. It also implies the need to devote between three and five times more material resources to the achievement of the desired objective, thus multiplying the pressure on the environment, and all this to maintain the careless consumption of privileged minorities.

CONCLUSION

The results of the model demonstrate that, if the policies proposed here are applied, all of humanity could attain an adequate standard of living within a period a little longer than one generation. The satisfaction of the most essential physical and cultural needs, which has been one of the central

objectives of man from his beginnings, could be fulfilled for most of the countries of the Third World toward the end of the century, or in the first years of the next.

The only problem of physical limitation that arises, and which is of a local nature, is the exhaustion of the supply of cultivable land in Asia in the middle of the next century. However, the large reserves of cultivable land in other regions could easily cover this deficit. Since the effects of this limitation would only begin to be felt in 80 years, Asia has enough time to look for its own solutions to the problem, such as increasing the yield of crops, which has been assumed to be well below the theoretically possible levels; producing food from nonconventional sources; the application of an effective family planning policy that would enable the population to achieve a balance within a shorter period than predicted by the model; etc.

The model also shows that it is possible to control population growth to the point of equilibrium by raising the general standard of living, particularly with relation to basic needs. This equilibrium could be achieved on a global scale well before the earth's capacity to produce food. The only foreseeable physical limitation within the time horizon of the model — is fully exploited, even if food production continues to be based on currently available technology.

The obstacles that currently stand in the way of the harmonious development of humanity are not physical or economic in the strict sense, but essentially socio-political. In effect, the growth rates with which the desired objectives are achieved, are those considered normal in the current economic situation. The goals are therefore achieved not by very high economic growth, but by a reduction in non-essential consumption; increased investment; the elimination of socioeconomic and political barriers, which currently hinder the rational use of land, both for food production and for urban planning; the egalitarian distribution of basic goods and services; and, in developing countries, the implementation of an active policy to eliminate deficits in international trade.

The growth rates necessary to achieve these objectives, and which can be easily attained without imposing intolerable social sacrifice,

contrast with those required to satisfy, in approximately the same period of time, the basic needs within the current income structure, or the same socioeconomic organization. These economic growth rates, which for developing countries vary between 10 and nearly 12 per cent, are in fact impossible to attain. To propose this type of "solution," therefore, is only to propose a preservation of the current status quo and to misunderstand the true causes of the crisis currently affecting the world.

One of the most interesting results of the model is the light it sheds on the effect that possible international aid, in particular the transfer of resources from the industrialized countries to the poor countries, would have. Even if a greater level of international aid than that advised by the United Nations is implemented, it may contribute to raise the level of well-being at the time of transfer, but in no way decisively. What has been seen with regard to income distribution clearly demonstrates that international aid, in the conditions currently prevailing in most developing countries, would only contribute to increasing spending by privileged sectors and would have little or no effect on the living conditions of the majority of the population. The effect of the transfer of capital is only significant for the general well-being if there are conditions of social equality similar to those proposed in the model.

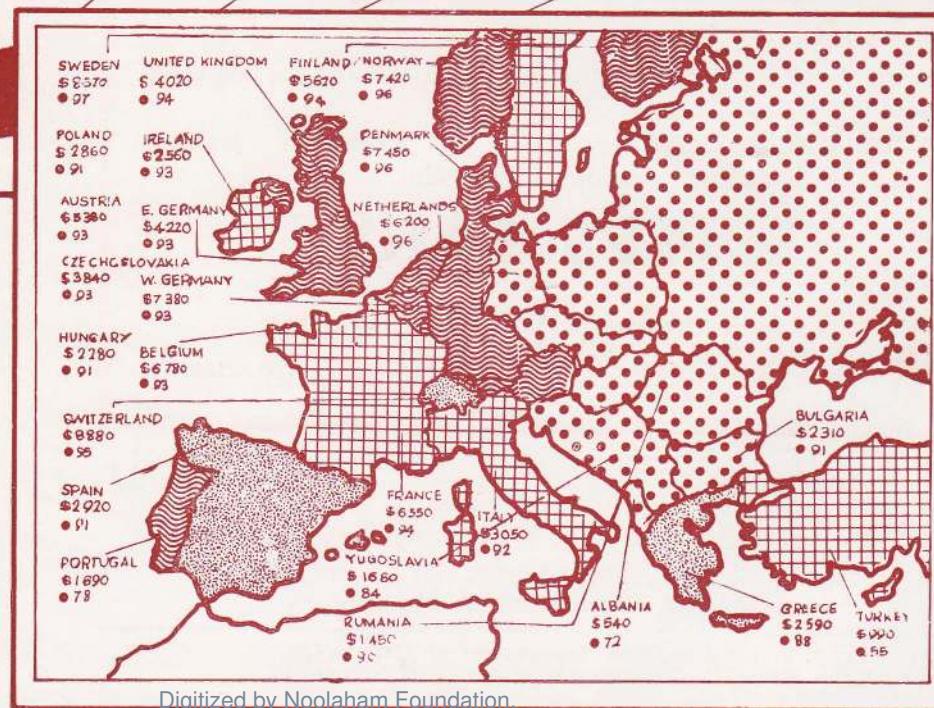
International solidarity can take forms other than the net transfer of resources from rich to poor countries. The model shows the recovery that developing countries can achieve in economic growth precisely at the decisive stage of attaining the satisfaction of basic needs, through the elimination of a negative balance of payments. The developed countries can help to bring forward the attainment of this objective by fixing fair prices for the products of underdeveloped countries to replace prices that, rather than reorienting a just distribution between the factors of production of the two production sectors into which the world is divided, are the consequence of an unequal distribution of economic, political, and military power. Moreover, with a reduction in their growth rates, as proposed in the model, the rich countries could contribute to relieving the

(Concluded on page 15).



15,480 per capita but whose PQLI rating was 74; and the United Arab Emirates whose per capita GNP was 13,990 and PQLI rating of only 33.

The ODC devised indicator of the PQLI is based on the assumption that the needs and desires of individuals initially and at the most basic level are for longer life expectancy, reduced illness and greater opportunity. This indicator more appropriately reflects the effects of development by measuring results and acknowledges that improvements in meeting peoples basic needs could be realised in a variety of ways by better nutrition improved medical care, better income distribution, increased levels of education, and increased employment.



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