

ECONOMIC REVIEW

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EXCLUSIVE

SAMIR AMIN *SOUTH AFRICA*

SERGIO BITAR
POVERTY

PATRICK MENDIS ON JANASAVIYA

For decades, the struggle by the black South Africans (as well as an enlightened minority of whites) to end the system of Apartheid, captured the imagination of the world. That struggle is almost over now. It's likely that democratic (one man, one vote) elections will be held this year and there can be only one outcome: a ANC dominated government headed (hopefully) by Nelson Mandela. With the institution of Black majority rule, Apartheid as a system of governance will be eliminated once and for all.

But the struggle to decide the future path of South Africa will be far from over. And it's the crucial issue that Samir Amin deals with in his contribution. The end of Apartheid will not guarantee an end to economic problems; it will not guarantee an era of prosperity for the downtrodden black majority. The end of Apartheid is a **necessary** condition to ensure the Black majority a decent standard of living; but that is not a **sufficient** condition. It will depend on the path that a post Apartheid South African will choose.

Samir Amin debunks a widely prevalent myth in his article that South Africa is a developed country. It's true that a section of the white minority enjoys a standard of living that is on par with the Western world. But South Africa is still predominantly a 'primary product exporter'. It's industries are not competitive internationally; compared to South Korea or Brazil its industrial exports are negligible. Amin points out how, despite these economic failures, the Western world continued to provide financial and economic support to South Africa; how these failures were hardly censured by the World Bank. As he states the reason for this unusual support and understanding can be **only one - white racism**.

What kind of economic strategy will a post Apartheid South Africa choose to follow? Samir Amin's suggestions include a unitary state (to ensure that the new Black government will be a strong one with the necessary constitutional powers to chart a correct course for the developing

backward areas, an agrarian reform, an income policy favouring the productive workers among others. The discussions and debates in South Africa and outside about the future economic strategy of that country will doubtless make a significant contribution to the still ongoing search for development alternatives available to the countries of the Third World.

In his contribution Sergio Bitar deals with the need to overcome poverty as a necessary condition to safeguard democracy. He affirms the need for joint action by the public and the private sectors to achieve the aim of overcoming poverty. He emphasises that greater market freedom also means that the enterprises have more responsibility. This is necessary because poverty and inequality are an obstacle to achieving economic efficiency as well. Ensuring a higher standard of living for the majority is necessary for achieving and sustaining a high growth. Governments as well as the private sector should give priority to the battle against poverty and inequality not only because of political and moral ethical reasons but also because it is necessary for economic success.

The contribution by Patrick Mendis deals with the effort made by Sri Lanka to overcome poverty and inequality through the Janasaviya Programme. He highlights the major aspects of the JSP and points out that if successful it will give a tremendous boost to the country's development efforts. As he correctly points out "poverty is indeed an inconvenience for both the poor and the rich..... it must be reduced for mutual advancement."

The other special features in the February issue are a trend projection analysis on Population Growth in Sri Lanka by Antony Norbert and an analysis of the impact of the export sector on income distribution and inflation by George Perera. The other features are Senerath Tennekoon's contribution on the use of mass media theory and Stephen Fernando's study of the Janasaviya programme.

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SOUTH AFRICA IN THE GLOBAL SYSTEM

THE STAKES OF THE STRUGGLE FOR DEMOCRATISATION

Samir Amin

South Africa is described by the journal "Economic World" as a "world class" country, and a "model" of development. It is a country which has achieved a high level of economic growth, and is a member of the world's most industrialized and developed countries.

Since three years the struggle of the South African people has entered a new and decisive phase. Never again in the future South Africa will be as it has been for its long history of racism, oppression / and exploitation, which did not restrict to the last and ugliest 40 years of apartheid. Yet the ongoing phase of the struggle will probably not be the last one, but perhaps only the start of a long way yet to go through in order to achieve a really democratic non racist progressive society. These targets – democracy in the true and full meaning of the word – are the stakes for the present and future battles.

South Africa was always a country hard to classify: was it a white settler colony? A third world african country? A developed industrialised country? An independent state? In fact the difficulty to answer any of those questions was due to the fact that South Africa is a kind of microcosm of the world capitalist system, assembling on its territory features proper to each and all of the "four" worlds according to which countries could be classified. It has a ("white") population which, by its ways and standard of living belong to the "first" (ie advanced western capitalist) world. A humanist would have noticed that the strong "Statist" behavior of the (white) minority could compare with that of the former so called socialist second world. The ("coloured" and "black") populations of the townships clearly belong to the modern industrialising third world, while the "tribal" peasants secluded in their so called Bantustans do not differ much for the peasant communities of the now called "fourth world" Africa.

This curious and exceptional mixup was started in the 17th century with the Dutch white settler project which looked at the

Africans just as the English looked at the Amerindians or as the Israelis look at the Palestinians, as intruders who have no right to live in the newly conquered country. The British industrial imperialism, interested in the exploitation of the fabulous mineral resources of the country, understood that a Black manpower mobilised to that purpose, would be the cheapest and most effective solution. It was the British – not the Boers – who therefore invented the apartheid system in the late 19th century. It was then who established in the black country "reserves" (some of them within the boundaries of the Union, two others as British protectorates – Bechuanaland – now Lesotho – and Swaziland) calculated in order to be overpopulated, unable to feed their own populations (no investment was made there to intensify agriculture) and therefore condemned to provide a migrant labour for the mines, made cheaper by the fact they were "produced" free of charge for capital in their miserable "homelands".

In the aftermath of World War II the Boers took over the responsibility for the overall running of that system through their capturing of the State, and gave it a name (apartheid) as well as an ideological legitimisation for their covering the already practices of racism by "laws". The period which followed – the after war II half century now come to its end – was characterized by the process of industrialisation of the peripheries of the global system. Being by nature unequal in its deployment, this industrialisation split the old "third world" into a new "industrialising third world" and a now called "fourth world" maintained in the previous stage of non industrialised agricultural and

mineral exports. The ruling class of South Africa developed in that frame the project of moving up its position in the global system through an industrialisation strongly protected and supported by the State. The apartheid system was, to that effect, perfectly rational. Cheap production labour does not necessarily create a problem: the demand can be found by expanding the income distributed to the non or less productive minority and by expanding exports in order to pay the import bill useful for promoting the overall efficiency of the industry. The liberal rhetoric which presented apartheid as conflictual with capitalism – as if capitalism was really necessarily synonymous with freedom and equality! – totally missed the real issue of the stakes.

The criterion for success or failure of the post war II industrialisation of the periphery is – in accordance with the globalisation of capitalism – its capacity to be "competitive" on global markets. From that point of view the results achieved classify the countries into four groups: (i) those who have moved into industrialisation and indeed succeeded in being competitive, or at least could become so with relatively minor additional adjustments and efforts (countries of East Asia, with communist or capitalist political regimes belong clearly to this group, as well as major Latin American countries, to various degrees); (ii) those who have industrialised but are clearly not competitive, or would need to become such drastic restructuring of their productive systems, income distribution, taxation etc... (South Africa belong to that group, along with industrialised Arab countries such as Egypt or Algeria); (iii) those who have remained preindustrial but have succeeded at least for some time in continuing promoting "traditional" agricultural, mineral, or oil exports, and may look – for that reason – "rich" and "prosperous" (Ivory Coast and Kenya for some time, oil Gulf countries or Gabon belong to the group); and finally (iv) those who

have failed to succeed in promoting traditional (i.e. pre-war II) exports (the majority of the American states belong to the group).

I submit that only the first group constitutes really the core or the modern future periphery of the global system. These stories of success are constantly presented as moving towards full development, i.e. "catching up" with western capitalist advanced states. I submit that the polarisation within the global system will continue to operate. In the past polarisation was based on a de facto clear distinction between industrialised and non-industrialised countries (the latter constituted therefore the whole periphery). I submit that polarisation in the future will no more be based on that distinction; the new centers will be those countries which will control the global industrialised system through the monopolies of technology, centrally concentrated financial power, decision over the use of the resources at the planet level, command over communications, media and through them over political opinions, as well as the monopoly of mass destruction weapons.

While I submit therefore that the countries of the first group constitute the "third world" of tomorrow, those of all the three other groups constitute a new "fourth world". In that respect South Africa presents the curious picture of a country on the territory of which features of groups (ii) (iii) and (iv) are found side by side. Its industry has totally failed to achieve "competitiveness". The industrial (non mineral) exports of South Africa are negligible, compared to those for instance of Korea or Mexico or Brazil etc. and are absorbed by over controlled prisoner markets of some countries in the Southern African region. Yet the South African regime benefited - in spite of its ugliness - from an unparalleled support, financial and economic, political and military, from the United States, Britain and all of Western Europe. There is no explanation, but racist prejudice, which can throw some light on the fact that this failure is not usually recognized by institutions such as the World Bank, while similar failures of countries which moved into industrialisation in an atmosphere of hostility of the western powers (such as Egypt or Algeria) are commented ad nauseam by the dominant media. South Africa continues to be, for the global system, almost exclusively a primary product exporter. Simultaneously the Bantustans have remained among the poorest areas of the fourth world, unable to maintain a minimal survival level.

Now formal apartheid is almost over, and the perspective of a "one person, one vote" election almost guaranteed. Would that be the democratic solution for South African society? It would only be the beginning of a long way to really change this ugly society. Much will depend therefore on the "compromise" achieved in the coming months perhaps, through CODESA. The De Klerk government was indeed compelled to open these negotiations by the very failure of the South African "historical" project. A failure which I submit is due basically to the growing successful resistance of the majority working class in the work places, their uprising in the townships, the ability of their political organisations (ANC, the Communist Party, COSATU, PAC, Unity Movement etc. . .) have developed to act efficiently and destroy the attempt to "legitimise" the Bantustans including among the people of these areas themselves. The failure being aggravated by the nonsensical waste associated with apartheid practices, i.e. the over paying of non-productive "whites". But also things accelerated due to the fact that South Africa has lost some of its important cards: (i) its strategic position controlling maritime communications between the Atlantic and the Indian Oceans, important during the Cold War, now over; (ii) its political role as a military force or intervention in order to destabilise the attempts of African countries of the region (Angola, Mozambique, Zambabwe) to go their own way, now also over since the national projects of those countries have been defeated; (iii) its economic position as a provider of some important minerals, now available from Russia.

Maximal pressure is being exercised on the majority negotiators by internal and Western powers in order to have them accepting a minimal project of "demonstratisation". Contrary to reality it is being said that the Black majority will "inherit" a magnificent country, and therefore that the minimal changes should be made. What is requested from the working class is now to "accelerate" steps towards "competitiveness". What a shame! What capital, with the active support of the Western powers, has failed to achieve, the working class should now do as quickly as possible. That would be of course paid by minimal economic concessions to the townships and industry workers, practically no change - of course - in the Bantustans, in order also to maintain the economic privileges of a lot of parasitic "whites"! In the meantime, of course, de Klerk would make profits out of the division of the majority associated with this project, and capital-

ise on the dissatisfaction of the Bantustans. Manipulating such organisations as Lukatha finds in this frame its rationality.

The political format for such a "compromise" would be a kind of "federal" state (whatever name is given to it) transferring much of the decision and finance responsibilities to "states" (or "provinces"). In that case, even if no "state" could be cut on the map in order to ensure a white majority, there would be "rich" and "poor" states. This division would make easier minimal concessions to a Black political new bourgeoisie associated with the continuation of the system.

In contrast I see that a real democracy instrumental to a progressive social change, even if this change will still be painful and long (twenty-fifty years?), should have a correct start as of now. The conditions for its progress are: (i) the adoption of a unitary state constitution (whatever might be local decentralisation) allowing the redistribution of income and investment at the Union level; (ii) an immense effort of development in the backward rural areas, along with it must probably, a support to a long time perspective of internal redistribution of the populations. Such steps are absolutely necessary to create a unitary popular front bringing together workers and peasants and defeating attempts to divide them; (iii) an agrarian reform in the white settlers rural areas, to the benefit of the rural African proletariat and possibly, gradually, expansion of new small African settler farmers. Here also what is usually repeated in the western media - the "success" of white settlers' agriculture - is far from being real. As it has also been shown in the case of Zambabwe this type of agriculture has been "successful" thanks to the cheapest quasi slave manpower it exploits and the enormous ecological disaster associated with the waste of lands; (iv) certainly a redistribution of wage incomes to the benefit of productive majority workers (and better social conditions for them, specially in the area of education which is in a deplorable situation), compensated by reducing the parasitic support to a lot of inefficient minority yet "employed". The overall level of development of the economy cannot afford here ensuring a "first world" type of consumption to a large minority in a country which is in fact a "third world / fourth world" country; (v) of course a gradual restructuring of the modern productive industry. But here we have to be clear on the question to what effect that restructuring should be made. Should priority be given to be as quickly as possible a

OBLIGATION AGAINST POVERTY

Sergio Bitar

Position of the Chairman of the Party for Democracy, SERGIO BITAR, against Overcoming of Poverty in Latin America and the Caribbean, La Serena, 20th October 1992.

While the world over, the preoccupation and the will to confront the theme of poverty is growing, in Chile we may affirm that there has been a consensus of all the political sectors on the need and real possibility of working to overcome it within a short period.

In the recent past we have lived through various stages and today we are entering a new one. Until 1990 so much energy had been expended in the political field, on putting an end to the dictatorship and restoring democracy and in the economic field, on overcoming the recession that derived from foreign debt and from policy of economic liberalisation without protection.

Our conviction was then incisive: we had to win democracy to reclaim our freedom and among all, to become master of our destiny, implanting the respect for human rights and solidarity among people. It is on that basis, that we can face the challenges of inequality and poverty.

From 1990, the Government of Reconciliation fixed a priority objective: reconstruction of democracy, setting up its juridical-institutional bases, re-establishing the climate of confidence in democra-

cy, lost previously. For this purpose, the handling of its economic policy was also carried out, centering itself on two basic goals:

- (a) Showing capability of efficient management, with maintenance of the macro-economic equilibriums and growth.
- (b) Paying the social debt.

During the four years of democratic government of Chile we have obtained better results than imagined when we executed the Economic Programme in 1989. Growth, employment and high investment, reduction of inflation, increase of social expenses and public investment and growth of the real income of the poorest are unquestionable results.

Today we are facing a new stage that will have to be expressed in a change of the priorities for next government. Such a change is necessary to respond to the confidence the citizens have placed in democracy and the process of reconciliation. The priority will have to be the guarantee of a dynamic economy with strong emphasis on social investment, equality of opportunities and substantive

reduction of poverty that still affects more than four million Chileans.

This change of priorities is not only a national phenomenon. The end of East-West conflict polarising the post-war world has opened the eyes to the grave inequalities existing within each country. These realities will develop and become conflicting themes if there is no political will and a social and technical capacity to work.

Not only in Latin America, with its 180 million poor, is the situation acute. In 1990 in United States 14% of the population was below the poverty line while in 1980 it was only 11.5%. The rate of poverty among children reached 21% in 1992.

The difference between the richest and the poorest segment of the US increased from 10-12 times between 1980 and 1990.

Chile has advantages and a new way has been opened

In relation to other Latin American countries, Chile possesses an advantage: we have won over a democratic space and a balanced and open economy.

While rejecting both neo-liberalism (which exacerbates inequality) and irresponsible populism, we must find a new way.

We achieved much success between 1990 and 1993. But it is not enough that social expenditure is on the rise. We have to ensure it's efficiency and that it has a position impact on the quality of life of the people, families and social groups to whom it is directed. On the other hand, we know that it will not be possible to increase social expenditure continuously. Today we will have to incorporate new focuses. It is necessary to articulate a new thinking that can obtain the support of the majority.

We have the opportunity to reconcile the vitality of the market and competition with the improvement of the quality of life, solidarity and ecological sustainability.

A new way has emerged, thanks to the technological change, the globalisation of economy and the revaluation of potentiality and creative capability of specific people. The new variable is the critical, innovative and creative knowledge and education as a factor of increase of productivity, with the introduction of new technologies.

This factor permits breaking the vicious circle — low productivity — low remunerations — poor competitiveness — slow growth. We may today aim at a virtuous circle as a result of a deliberate effort where one finds the energy and individual initiative of the people and the efforts of the whole of the national community to raise productivity and thus sustain the increase of incomes and the growth rate. This is a valid option for a young country with an open economy.

This new dynamic may be powerful to counter and defeat the "conservative" thinking which maintain growth and equity are incompatible with each other thus advocating the "trickle down" approach.

And one should also reject the authoritarian technocratic option which negates the ethical and humanist content of equity, reducing it to a mere economic cost of attaining, consolidating and perpetuating political power.

Today we know that the improvement of the living conditions of the majority is not only a political and ethical objective, but a requirement for sustaining a stable and firm growth. The social investment, the equality of opportunities, the solidarity and the elimination of poverty open a way to a human potential that is blocked. It is not only a necessary condition for the democratic stability, now it is also a necessary condition for growing rapidly and improving the life of the people.

Basic Criteria for a New Policy against Poverty

We know that there are no theories, truths, foolproof methods to achieve immediate results.

In their absence, we must be guided by basic criteria. Some evident ones do not need elaboration: stable growth, macro-economic equilibriums, increase of investment, especially in infrastructure and protection of the environmental equilibriums.

In addition to these, we consider the following criteria as important in inspiring the policies of the future that must be integrated into the Programme of Reconciliation.

- (a) The economic and social policies must **increase the autonomy of each person instead of his dependence**. This signifies permitting the development of each citizen, and particularly, children and

youth, of their capacity, enhancing their role in the economy qualitatively and quantitatively. In other words human capital as a motor of growth. The subsidiary/assistential policy does not help display the potential of each person, does not induce a change of behaviour towards a greater autonomy. On the contrary, it castigates the very effort, not giving it an incentive and repeating practices and relations of dependence and state clientele. It is a question of "internalising" in each citizen the social investment and displaying his enterprising capacity.

If poverty is the impossibility to self-sustain and satisfy the social needs by working then we have to create in the people the capacity for overcoming that difficulty.

- (b) The policies must aim at a **stable and qualified participation in the market**. It is a question of reducing or eliminating the number of citizens unfitted for participating in the regular economy because they do not have ability, information, stimulus, health or minimum personal stability.
- (c) The State and the private sector must **create a network of basic social protection** to protect the most vulnerable in the following cases:

- destitute sectors which do not achieve a minimum for surviving and least for being fitted, finding themselves in a situation of structural misery.
- most vulnerable sectors of the third age, children, housewives where a great proportion of poverty is concentrated.
- workers and their families in a crisis situation due to temporary retirement or due to depression and/or shut-down of productive activities.

We therefore need a policy of "active employment", information and safety from unemployment as well as a policy reconversion in the areas and activities which are declining or being shut down.

Areas of Priority Action

How to equip each one with a "proper motor", of a proper capacity to be integrated into a dynamic economy?

The priority areas must be:

- (i) **To raise the educative effort and the capacity**, public and private. To concentrate on the hard nucleus of the unemployed, youth with meagre and

precarious insertion into the Labour market. Also to concentrate at pre-school level where there are the greatest deficiencies.

To raise especially the **quality of education** to obtain a better productivity. The economic growth of Chile will depend in the years to come on the increase of productivity plus in increase of work force. To grow between 6% and 7% per year the average productivity per worker will have to increase 4% per year which has never occurred in Chile. In the 80's the productivity per inhabitant did increase just a very little. In the years to come, the picture will be totally different.

- (ii) **To reform the health system** of today that tends to polarise and weaken the quality of the attention to the poorest. We must also ensure that the service provided by the public sector is of high quality. The best way to achieve this goal is the creation of a **mixed sector** by integrating the public and private sectors. The other methods as **decentralisation of the public services ending with subsidies to the private sector**.

- (iii) A more intense support to the **small and micro-enterprise, urban and rural**, with financing, technical assistance, co-ordination for marketing and exporting. In those enterprises more than 50% of the work is absorbed and it is there, where lesser productivity exists.

The FOSIS is a successful experience which today, regrettably, has meagre resources. In 1989, on launching the Programme of Reconciliation, we thought of going much farther. The resources and the FOSIS scope have to be widened, with a decentralised logic in each commune of the country, and as a "seed" factor for impelling self-sustaining activity.

- (iv) **To Concentrate on the effort of investment in social equipping**. The quality of life deteriorates in the cities and in the villages and affects the poorer and the poorest. It is necessary to revert the irrational use of lands, set up more green areas, improve the infrastructure and the urban transport, instead of the private one, make controlling plans, installations for sport and culture. Also to

be equipped with electrification, paving communal services, clean waters, recycling garbage. There has to be equipment too giving more safety to the ordinary people.

This policy increases communal life and destroys inequality. Likewise, it contributes to the protection of the environment. The effort of investment in housing must be re-oriented today to the social equipping for a better city.

(v) To carry through a **reform of state apparatus for raising the efficiency of the social expenditure and investment** and for increasing the efficiency of public management and reducing bureaucracy.

The speed of attack on poverty will depend not only on the volume of resources but on the efficiency of their use and efficacy of their products; on a redistribution in favour of the poorest and, in general, on policies of positive discrimination as a form of operationalising the public effort to dismantle the various "chains" of exclusion, segregation and discrimination.

The efficiency will have to be raised by the very beneficiaries. It is necessary to build relation among those granting the services and those receiving them. The notion of protection of the rights of the consumer is also valid for the services the State gives.

A new style must inspire the public-private relations. It is necessary to decentralise power and management. **It is also possible to go beyond the privatisation of services, towards enhancing the controlling, orienting and overseeing activity of the public sector.**

More privatisation and decentralisation of the services, more strategic direction and public regulation. And also more participation of the people to evaluate and control the private and public bodies that provide services in order to enhance their quality and efficiency. The case of housing is obvious. The privatisation of construction must be accompanied with a controlling plan and with a quality control by the State and the users neither of which does not exist today as they must be.

Institutional Changes to confront Poverty

Economic measures are not sufficient. It is necessary to integrate the economic,

social and institutional policies into a global focus.

In three institutional themes we must **create new requests of participation**. In the past, we thought that the organised social subjects (trade unions and others) would be the vehicles for negotiating and correcting the inequalities. Today the societies are more diversified by way of groups and interests. The problems and realities would vary throughout the country, among the different areas and gender groups. As such, we have to create diversified spaces of participation. The community must be organised more around themes and its physical position of work or housing. The community is a primary instance to grow from.

In brief, faced with a non-homogeneous, reality, of great diversity, the attack on poverty cannot be made with a centralised State and with homogeneous policies, but with a decentralised system and of high flexibility and variety with the participation of the human groups which it seeks to favour.

In the second place, the improvement of the labour relations must be a **factor of stimulus to creativity, innovation and increase of productivity**. This means to give a collective sense to the enterprise, dignify the worker and give him more spaces of participation.

The trade union policy must be oriented beyond the wages issue towards education, qualification, occupational health, safety of work, quality of products and quality of life.

The strengthening of the trade unions is not contrary to the growth as conservatives maintain. It is the conflict for the conflict, the exclusion, the authoritarianism of the enterprise and also the orthodox re-vindicationism. Yet, there is great space for a new work policy together with more productivity and more equality.

In the third place a **reform of the judicial system** is the key to overcome poverty and marginalisation. An inefficient, slow, excluding attention, indignity, feeling of insecurity before misdeed weaken the will of integration and joint action. A **quick service, the local courts**, for instance, a **community and collaborative action to affirm security and dignity** would improve substantially the future possibilities.

Democracy, Solidarity, Poverty

Democracy which we are constructing is undermined by the current levels

of inequality. Attacking the poverty is necessary to affirm democracy.

Today we have a great possibility if we think, not about liberalism and market, but about solidarity and public-private joint-action. This implies having resources and **supporting at least the present tributary reform. To argue about it is irresponsible**. We can discuss about the use and efficiency of the resources, not about the need to have those resources.

Equally, **the enterprises must increase their effort. Greater marked freedom also assumes more social responsibility**. Therefore a change of attitude on the part of the enterprises is necessary.

Based on an ample political and social consensus, we can overcome this grave debility of the economic and political system of the country.

We have to achieve democracy and economic efficiency. Let us attain it today by overcoming poverty and inequality.

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competitive exporter? I think this should not be the first priority. It should be to restructure the productive system in order first to meet the changes associated with the redistribution of income: more popular consumption items, more capacities to meet the needs of establishing better productive systems in the rural areas, better capacities to meet the popular needs in housing etc . . . , and less waste minority consumption (private cars and other items which are produced in South Africa in nonsensical way). I do not exclude also gradually of course introducing changes needed to ameliorate the capacity of the country to export. But I am fairly sure that the first priorities - in my opinion - as designed above will make that target of competitiveness far away from being reasonable for a number of years at least. In the meantime, the political economy of a real democratisation does imply what I call "delinking", whether the concept is popular or not.

These are in my opinion the stakes for a real democratisation. The alternative offered is: (i) more "opening", and (ii) a federal political solution. I remind that these were exactly the two main ingredients of the political economy of Yugoslavia and where strongly hailed by the World Bank again!. We can see their results.

POVERTY ALLEVIATION: THE OPERATION AND IMPLICATIONS OF THE JANASAVIYA PROGRAM IN SRI LANKA

Patrick Mendis

Dr. Patrick Mendis, a visiting scholar in the Department of Agricultural and Applied Economics and a lecturer in the Institute of International Studies at the University of Minnesota, teaches in the Department of Agricultural and Applied Economics, University of Minnesota, and is a member of the Sri Lanka Development Research Institute.

Abstract: The inequality of income distribution in Sri Lanka has increased after the 1977 trade liberalization and the 1988-1989 land reform and agricultural policies. The poverty of a large section of the population has increased as a result of the economic expansion. This paper analyzes the need for a social safety net in the budgetary process (consumption and investment) and the increasing role of the government in the economic development. The paper also discusses the need for a social safety net in the budgetary process (consumption and investment) and the increasing role of the government in the economic development.

INTRODUCTION

After the introduction of liberalized trade and open economic policies in 1977, the inequality of income distribution has widened in Sri Lanka (*Economic Review*, 1988). During these years, in spite of higher economic growth, the number of people below the poverty line has also increased (Mendis, 1992: pp. 2-3). Furthermore, Mendis (p. 21) writes that market economic policies have so far failed to prove in practice the socially unacceptable Kuznets curve proposition which describes that the rich must be made richer before the poor can hope to become better off. The post-1977 policies marked a drastic departure from the previous equity-oriented policies pursued by pro-socialist governments.

The re-elected 1989 governments early on recognized the failure of their free market economy and introduced a massive poverty alleviation program, known as "Janasaviya," (which means People's Strengthen in

Sinhalese) in order to integrate the poorer income groups into the mainstream of the production process (Mendis, 1991). The Janasaviya program is an indigenous innovation by its people rather than an imported development package from the West; therefore, unprecedented commitment comes from the highest level of government to empower the poorest of poor. It is one of the highest national priorities as reflected in the 1990-91 budget allocation (Rs. 4.9 billion). This program seeks to achieve a dual objective: growth with equality.

THE CONCEPT AND OPERATION

Compared to the earlier Food Subsidy Program (1942-1978) and the Food Stamps Program (1979-89), which were implemented merely to sustain the poor, the Janasaviya Program is aimed at providing more than subsidized food. The Janasaviya concept, which evolves around both consumption and investment components, provides a grant of Rs. 2,500 (about US\$ 63) per month per family for two-year period to 1.4 million families (about one-half of the population) who are below the official poverty line. Those who could not meet the criteria of

minimum daily calorie intake of 2,200, established by the Medical Research Institute of Sri Lanka, are considered below the poverty line.

The purpose of providing Rs. 2,500 per month for a family below the poverty line is to empower their economic base and to help them break away from the vicious circle. The consumption allowance, nearly 50 percent of the Janasaviya grant, will be given in a form of food stamps (*Janasaviyapaths*) to purchase the essential food items, largely locally produced, from the respective Multi-purpose Cooperative Societies (Table 1). The rest is deposited in a savings account in the National Saving Bank branches or local post offices. This investment, which amounts to over Rs. 25,000 at the end of two years, can be used as collateral (individually and/or collectively) to obtain a loan for a micro-enterprise.

The entire program, which includes 272 Assistant Government Agents (AGA) divisions in all 25 districts, is implemented through the existing institutional and administrative system. Sri Lanka Administrative Service is considered to be sophisticated among developing countries. The present institutional and administrative structure is one of the legacies of the British colonialism. The poorest groups in selected AGA divisions are given the first priority and will continue in 11 rounds to cover all three sectors of the economy: urban, rural, and estate. A network of Post Office Savings Banks and

Table 1

Components of the Janasaviya Program (in Rupees)			
Period	Consumption (<i>Janasaviyapaths</i>)	Savings (to be invested)	Total
Monthly	1,458	1,042	2,500
Yearly	17,496	12,504	30,000
Two Years' total	34,992	25,008	60,000

Cooperative Rural Banks (along with other major banks such as government-owned People's Bank, Bank of Ceylon, and National Savings Bank) has been set up to transfer money at the lowest level of government (Gramasevaka) units.

The overall program emphasizes the investment in human base and attempts to link the small producers with big investors. Policy makers assumed that village-based self-reliant organizations and small production units would provide a network of linkages with larger urban industries. Such linkages would increase production, reduce overheads, maintain low inflation, and generate sustainable employment for the rural poor. It seems that the village-based self-reliant economic thinking is similar to that philosophies of Buddhism, Gandhian, and the Sarvodaya Movement. The idea of big investors in large urban industrial sector comes from the concept of industrialization which would hopefully bring about modernization to the rural sector. The Janasaviya investment money is instrumental in creating a culture of small-scale enterprises and linking them with those large industries. A country with over 70 percent of people whose livelihood closely linked with the agricultural sector needs such a development strategy to promote the "informal economy." The informal economy, which had been largely neglected in the past, constitutes a highly dynamic economic sector even though it is hardly reflected in the national accounts. There prevails a numerous productive activities which actually contribute to national development but are unaccounted for in the Gross Domestic Product. The Janasaviya Program focuses on developing the potential benefits of this informal sector through its investment component. The consumption component serves as a safety net until the recipients are able to invest their savings in a productive enterprise to generate self-sustained income. The distribution of domestically produced food items is carried out by a network of Multi-purpose Cooperative Societies in villages.

Two similar successful stories come from Bangladesh and the Republic of Korea. The Grameen Bank of Bangladesh organized on a small-group basis to give small sums of credit to absolutely landless and illiterate villagers (Hossain, 1988). Within 10 years, the Bank has grown rapidly to over one million members. Of this, 70 percent are women and their repayment record is 98 percent. In the Republic of Korea, through its Saemul Undong (New Village Movement), the government gave 300 bags of surplus

cement to each of over 33,000 village communities to start development projects. Today, it has developed into build university-type training institutes.

The Janasaviya program is integrated with other programs, such as entrepreneurial training, extension services to cover agricultural and agro-industry, credit, housing, nutrition, primary health, and child development. Among them, the welfare program resumed to provide a free mid-day meal for all school-going children in the country. The Provincial Councils, implementing this program, utilize locally produced food items as far as possible. This will provide incentive to the local producers to grow more and to improve their income base. The popularizing slogans such as "Income to parents and Nutrition to Their Own Children," are being used to revitalize this pre-independent welfare program.

MACRO-ECONOMIC IMPLICATIONS

For the people of Sri Lanka, this self-sustaining approach to alleviate poverty could well be successful, like in Bangladesh and the Republic of Korea, if the initial program succeeds in the implementation. If it succeeds, the possible impacts of Janasaviya in the macroeconomy can be summarized in terms of food prices, employment, and income generation in urban, rural, and estate sectors (Figure 1).

Food prices are likely to increase because of greater demand created by the consumption allowance. A higher rate of inflation may continue until the domestic food production reaches to a level that could satisfy the new demand; however, the liberalized import policy may have a direct effect on local food prices. If world prices are higher than the domestic prices, which is more likely, there exists an incentive to increase local production. The anticipated direction of change in employment and income generation may vary from one sector to another, but if the domestic production emerged due to greater demand it would generally increase both income and employment. Through the investment component, the savings which can be used as collateral to finance a host of productive enterprises in every sector would increase the potential for employment in opportunities and the sustainability of income for families.

PUBLIC FINANCING

The viability of this ambitious program is based on the ability of public financing. The necessary funds have to be generated either within or outside (or both) the country. The level of national savings, which increased from 12 percent of Gross Domestic Product during 1985-89 to 14.8 percent in 1990, is only sufficient to finance 76 percent of the total investment in the economy; therefore, necessary funds for the Janasaviya have to be

FIGURE 1
Anticipated Directions of Change in Food Prices,
Employment, and Income Generation by the Janasaviya Program

Components of The Janasaviya Progrm (First Two Years)	Food Prices	Urban poor		Rural Farmers			Estate Workers			
		Employ- ment	Income		Employ- ment	Income		Employ- ment	Income	
			N	R		N	R		N	R
Use of consumption allowance	+	0	+	+	0	+	+	0	+	+
1 Imported goods	+	0			-			0		
1 Locally produced goods	-	(+)			+	+	+	0		
Savings (invest in microenterprises or/ and productive activities)	0/(-)	+	+	+	+	+	+	0/(-)	+	+

Notes: 0 = No effect

N = Nominal

+

R = Real

- = Decrease

() = Parentheses indicate a (n) small/indirect effect

obtained either by reducing capital investment expenditures or by attracting foreign aid. Table 2, example, illustrates that the allocated national budget for the first round is not adequate (Rs. 1.2 billion deficit) so that external financing should be considered. But, the available funds would certainly cover the required consumption component of Rs. 3.3 billion; whereas, the investment component is concerned the budgetary allocation would not be sufficient. One may argue, however, that the required funds for investment would not immediately be necessary because the savings are internally circulated within banks until funds are actually discharged for investment activities at the end of two year period. The actual expenditure for the program would then only be consumption component at least for two years.

- (3) Providing funds in public works so that rural poor can find employment in building and maintaining common amenities, such as roads, bridges, schools, hospitals, parks, and libraries.

The Trust also facilitates organizations from various regions to work as partner organizations. A partner-organization can be formed with or within governmental, non-governmental, banks or rural groups. The Trust Fund, which is primarily designed to invest in projects and public work programs, only provides three-year budget of Rs. 4 billion but the investment component at the current level would require over Rs. 7 billion for three years. For the entire programme to cover 1.4 million families, a total of Rs. 49 billion at least for the consumption is needed

country since there exists a low level of savings and investment. In addition, the annual growth rate, the interest rate on savings, the rate of inflation, and the political environment would considerably affect the savings and investment component.

The Janasaviya program would increase the per capita income of a family to Rs. 30,000 (\$750) and this would help increase the average per capita income of \$420 (1988 data) to a higher level. The government also needs to increase the minimum public employee salary to a Rs. 2,500 base (there were public employees strikes when the Janasaviya Bill was introduced in the Parliament) in order to maintain the public servants morale and effectiveness. This measure would increase the salary in the public sector. The financing of the Janasaviya Program has itself created a higher income level with a greater purchasing power which could increase 11 percent inflation rate at the least in the short-run. This is more likely as long as the domestic food production remains low and the liberalized import exists. The country may face more difficulties in the balance of payment as well as in the budget deficit. It is, however, assumed that the domestic production would increase due to the investment component and at the same time the consumption money would create a greater demand for food items.

Table 2

The First Year Expenditure and Budget Allocation for the Selected 188,000 Families in 25 Districts			
Expenditure:			
Components			(in billion)
Consumption	(Rs. 17,496 × 188,000)	=	3.289
Savings	(Rs. 12,504 × 188,000)	=	2.351
Total		=	5.640
Budgetary allocation:			
1989/90 total PAP allocation		=	4.9
(-) Administration		=	.5
Actual funds for the program		=	4.4
Deficit		=	1.240

Source: Dias, (1989: p. 1)

Note: The amount of Rs. 7.2 billion was approved but only Rs. 4.9 billion will be spent initially for the program.

The funds for investment component have to come from external sources. The Janasaviya Trust, which was established by a world Bank grant of US \$100 million (Rs. 4 billion) for three years, plays an integral financial role in three different areas:

- (1) Providing credit to poor without collateral. Those who productively use the credit are further eligible to more loan without collateral.
- (2) Providing training to individuals and organizations to plan and manage their projects and programs.

(Table 3). The investment allocation, which is estimated over Rs. 35 billion to complete all 11 rounds, cannot be generated within the

MARKET PROBLEMS AND ENTREPRENEURSHIP

The Janasaviya Program seems to emanate from the Keynesian thinking that the increase of aggregate demand would increase employment and real incomes; thereby, the economy would take up from its existing level of unemployment towards its full use of resources. The aggregate demand comprises of both consumption and investment so that autonomous increase in both is expected to raise employment opportunities and sources of income. It is anticipated that a multiplier effect would emerge as the economy begins to expand.

Table 3

Total Funds Needed for 1.4 million Families (billion Rupees)			
Period	Consumption	Investment	Total
Monthly	2.04	1.46	3.5
Yearly	24.50	17.50	42.0
Two Years' total	48.99	35.01	84.0

The Keynesian solution may be likely to work in developed free market economies but it would unlikely be operating in Sri Lanka. The structural rigidities tend to inhibit the response of productive resources to increase money demand (Indrarathna, 1989: p. 12-13). The government intervention as an agent of facilitating free market conditions at every level is needed. For example, the 1991 Janasaviya Exhibition has demonstrated that small-scale production can be generated but there exists problems of marketing. The potential markets for those products do not adequately prevail in Sri Lanka. More importantly, the domestic food production needs to be a high priority rather than pure income-generating ventures where no sufficient markets exist.

The higher level of income through the increase of Janasaviya allowance may create a new set of consumption needs which can be met by the increase of imports (more likely within open market conditions) or by the increase in domestic production. Since domestic production does not meet the needs of food consumption, at least at the initial stage, the prices of goods and services would rise. It is, however, possible that higher prices would not respond immediately to increase the production. This unresponsive situation had occurred prior to World War II when the government allowed the free market forces to stimulate domestic food production. As the Keynesian model predicts, the money multiplier would work only if the level of production increases. The response of real multiplier on potential production usually takes longer to be operational, especially in agricultural-related sectors. Until the production activities are organized and the domestic production comes on stream to match the increased demand, some price escalation could temporarily be anticipated. In the meantime, the government should monitor price level and re-enforce various channels of marketing and distribution activities as part of price stabilization. When and if the production level on the rise, these measures would no longer be necessary and the government can and should leave the market itself to govern. If this situation takes place, the level of consumer prices would increase at least moderately; if not, the increasing price level would fuel the rate of staggering inflation.

The logical basis for financing a employment opportunity comes from a Central Bank study which indicates that at least Rs. 30,000 (1984 prices) would be needed to create one productive job through a credit scheme. It is anticipated that every Janasaviya

recipient in a family of four or five will be employed by the end of first year. This would amount to at least 150,000 employment opportunities per year (300,000 in two years). The reduction of unemployment is assumed through the involvement of additional income generating activities which could bring a multiplier effect. The unemployment figure, which is more than 12 percent of the labour force (about 1.2 million people) is too high for an anticipated reduction within a few years, given the number of people joining the productive labour force each year (at a rate of two percent). The Keynesian solution may well be worked out in a long-run when labor-intensive small industries in agriculture, livestock, poultry farming, and other "informal" industries (i. e., handloom and handicraft) become possible avenues of sustainable employment.

At present, the country's entire development strategy is centered around the Janasaviya which emphasizes the reform of agricultural, industrial, and service sectors. Numerous facilities in fertilizer, seed, raw material, chemical, and other inputs are organized to target local needs. Extension services for agriculture, cottage industry, and industrial sectors and, training and educational programs on entrepreneurship are put in place. The question may still remain as to whether the educational and training of Janasaviya can not discontinue the program after a two-year period to reduce the poverty. One may strongly argue that the poverty could remain intact (or even increase) even if families have reached a stable income, because of the decreasing purchasing power in the economy. The Janasaviya program does need to focus on re-targeting the peripheralized people on a continual basis because the poverty reduction is itself a process.

CONCLUSION

The future success of the Program would derive from the development of the following areas:

- (1) The ability of public financing without distracting other investment programs which provide necessary infrastructure to facilitate the market-friendly business environment and by avoiding inflationary pressure on the economy as a result of internal (i.e., printing money) and external means of financing;
- (2) Further strengthening of the institutional system and promoting the efficacy of administrative mechanism, especially at the lower levels where politically motivated negative forces could obstruct the program;

- (3) Increasing the avenues of developing entrepreneurial and managerial skills in order to increase the industrial and agricultural production, particularly at the micro-level; and
- (4) Developing a marketing process and effective distribution network by strengthening the Multi-purpose Co-operative Societies and other channels.

Despite some initial difficulties as expected, the Janasaviya recipients would lead to an entrepreneurial class by developing technical, organizational, and managerial skills. In the past, Sri Lanka has experienced high social and educational achievements but the people from the lower income groups were not developed with entrepreneurial spirit for two reasons: lack of financial resources for micro-enterprises and unfriendly business environment. The Janasaviya investment component and prevailing market-oriented policies may well be conducive to unleash entrepreneurs from the lethargic past. It is, however, premature to predict the potential outcome of Janasaviya which is less than three years old.

SECONDARY SAFETY NET

The Janasaviya Program emerged as a two-facet solution to the budgetary problem and to the increasing poverty. It is expected that the budgetary expenditure on food stamps can systematically be phased out as the Janasaviya program comes to its completion. The fundamental question still remains: What would happen to the beneficiaries who may not sufficiently be integrated into the productive economic force at the end of two-year period?

There is no independent evaluation to justify this but the government data, based on the May 1991 Program review of the first round, asserts that about 57 percent of Janasaviya families in the country had already achieved a stable income level above Rs. 1,500 while 27 percent achieved an income level between Rs. 1,000 - 1,500. The remainder of 17 percent, whose income stayed below Rs. 1,000, is still considered as the vulnerable group (*Growth and Social Progress in Sri Lanka*, 1991: p. 84). for those who are still marginalized in the process do need further safety net to succeed. The government Program has thus far shown several positive changes among the poor. Should the program be successful, it may change the socio-economic landscape by completely removing the Food Subsidy/Stamps Programs, which had for almost five decade been a burden to the economic growth and by changing the perception that people in economic poverty can be as productive and

POPULATION GROWTH IN SRI LANKA: A TREND PROJECTION ANALYSIS

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This paper is about population growth in Sri Lanka. Population growth has been projected using five trend projection models, three exponential (direct, regression and modified) and two linear (direct and regression) models. The time period considered is that between 1871, the very first Census, and 2011. For the purposes of providing additional perspectives, a review of population projections on methods and studies have been attempted, including the use of the five models in this study. The trend models have been applied to population figures for the country as a whole, for the two broad agroclimatic divisions (wet and dry zones) and for the nine provinces separately. The application of the models has been accomplished using a specially developed computer software in BASIC language.

Population Projections: A Review

Population projection has been one of the most important contributions made in demography and related disciplines. Several international agencies have also been involved in such studies, the notable being the United Nations in the form of ESCAP country monograph series. Since 1947, the UN has contributed enormously as a pioneering and leading contributor to demographic estimates and projections. However, the member countries now tend to prepare their own estimates and, less often, projections. Methodological work under the UN auspices has led to some of the most important advances in demographic estimation methods and these constituted major contributions to demographic literature. In the early 1950s, the Population Division of the UN had prepared estimates of total population for the current dates for many countries which had no national sources for such estimates. These

studies used 1950 as the base year and gave projections, by sex and by five-year age groups, for each country separately. An article published in 1951, in the first volume of the population bulletin of the United Nations, gave world population projections for the years 1950-1980. For the purpose of this study, the world was divided into three relatively homogeneous groups of countries as regards their demographic situation and prospects.

A similar study was presented in 1954 with projections for 1950-1980 to the World Population Conference. The approach of this study differed significantly from that of the earlier study. A more complex and innovative methodology was used in the 1957 projections for the period beyond 1980 to the year 2000. It was based on seven models of population growth, each representing a stage of transition in 1950. The projections also used the component method. By the mid-1960s, demand was already growing for more specialised types of demographic projections, particularly on urban/rural populations, labour force, school enrolment, and households and families. It was therefore necessary to collect available information on the methodologies, with a view to systematise the presentation for use by workers in specialised fields, particularly demographers dealing with deficient data. But by the time the 1968 revision was being made, computer facilities were made available and hence backward projections, starting from the base year 1965 and going back to 1950 were also prepared for each country.

In the 1970s, computer programs of software, which were until then the exclusive preserve of professional programmers, became available to demographers. The devel-

opment of software for population projections meant easier computation and thus a greater number of variants came to be used for regional projections. Some of the software have now been designed and developed by the demographers themselves and hence they are very apt for application in population projections. Interestingly, geographers have also designed and developed such programs. The computer programmes written in BASIC for the five projection models have been extensively used on the study on the health care system of Thanjavur district in Tamil Nadu (Kumaran T. V. 1986) and the results have been as far as the study goes salutary. The same package has been used in the population analysis with respect of family welfare planning in the country and the State of Tamil Nadu and at least two studies have benefited with the use of these models in population projection. But these studies have dealt extensively only with the economics of family welfare planning (Rajaram, 1987 and Madhuran, 1987).

The projections have been attempted in these studies with variants of linear models and three variants of exponential models. The linear models are linear direct and linear regression. It has been found that the two models are only moderately successful as they assume population to grow in a linear fashion while it has been known that it grows exponentially. The exponential models have been found to provide reasonable projections for the years for which population figures are reliably available. However, in these applications, the direct, regression and modified exponential models have been found to give reasonable estimate but not always in all contexts. Whereas direct model had proved to be effective in some cases, the other two have proved very reliable in most cases. Hence, the validity of these models applied to a country like Sri Lanka is beyond question.

Population Projections of Sri Lanka

Planners and policy makers are interested in knowing the future size and rate of growth of population for making realistic policies for economic and social development. Demographers who make population projections have often been criticised, since more often than not, their estimates have not turned out to be correct. Since the factors which determine the levels of fertility, mortality and migration have not been accurately assessed, the projections have not been correct. But this is to be expected in any attempt at projections for there are certain forces which operate with unknown strengths, intensity and consequent the projections never turn out to be correct. This has happened in the case of projections for Sri Lanka, including the exercise for the years of known population. However, an approximation is seen only in certain methods.

A number of projections have been made for Sri Lanka's population from time to time. Two sets of projections for the period 1951-1976 were prepared by Sarkar (1957). The first of these is a mathematical exercise and the second the component projection. The United Nations (1958) prepared three projections for the period 1955-80 with medium, low and very low growth changes. The Department of Census and Statistics (1957) has made two projections, with high and low growth changes, for the period 1955-70. Selvaratnam (1959) prepared three projections for the period 1956-81 at the request of the Planning Secretariat of Sri Lanka and these were probably the first detailed projection to be used in development planning in the country. Though the projections have overestimated the total population, these have nevertheless been used in a substantial manner in policy making for the country. In 1970, Selvaratnam, Wright and Jones (1970) together prepared a set of three projections for the period 1968-98, merely as an academic exercise.

It was in 1974 that the Department of census and Statistics prepared a set of three projections covering 1971-2000 with high, medium and low growth changes and using the component method on the basis of three different fertility assumptions combined with a single assumption of future mortality trend. Srivatsava and Abeykoon (1974) have made four population projections in which international migration has been taken into consideration. The four different projections dealt with the demographic situation in Sri Lanka. On the other hand Frejka (1973) has computed five different population estimates

for the period 1970-2150. The population projections in Sri Lanka have been mainly attempted in relation to planning and policy formulation. At least two purposes have been indicated in the documents available for perusal. The future estimates of population have been taken into consideration in setting various development targets and the size of the probable future population and its implications have led to formulation of policies for moderating the rate of population growth. The housing needs, health, social services and manpower have been and are being estimated on the basis of population increase seen through these projections. Thus population projection forms one of the basic items of data. The planning authorities in the country have fully realised the potential of the projections in terms of policy and planning for age specific population (health, education), urbanisation and investment in industries and other activities, most notably services.

Population Growth in Sri Lanka

The first census was enumerated in Sri Lanka in the year 1871 and according to this census there were 2.4 million people. The census in the following years came to be enumerated every ten years until 1931. However, after this enumeration was done in 1946, 1953 and 1963 but only to revert back to the old practice from the next census. So the successive censuses were conducted in 1971 and 1981. The reason for the break in the 1940s was the Second World War. The first census after independence was in 1953 and the second, ten years later in 1963. The trend of population growth since 1871 indicates that the population of Sri Lanka has been growing rapidly after 1946. Population rose from 2.4 million in 1871 to about 6.7 million in 1946 and in 1981 this more than doubled to become 14.85 million. The addition to the population during the period 1871-1946 was 4.2 million whereas during 1946-81 was of the order of 8.12 million. In the period between 1946 and 1963, the increase was 3.93 million. In the 80 years since 1901, the population increment has been to the tune of 11.28 million. The growth of population since 1871 has been very uneven and this trend can also be seen in the percentage of increase in population as well as in the average annual rates of growth. The rate of increase during 1881-91 was 8.98 per cent and during 1911-21 9.53 per cent and these were relatively small when compared to the rate of increase in the following periods, 25.44 per cent during 1931-46 and 30.67 during 1953-63.

Since the interval between the successive censuses has been different, the annual average rate of growth points to the nature of growth. On the basis of this indicator, we can see at least four basic growth periods: In the first phase of 1871-1901, the natural increase in population was high and the international migration was also relatively high: 1.3 per cent a year and 0.52 per cent respectively. The contribution in the growth of population by internal migration has been estimated to be of the order of 58 per cent. The second phase (1901-46) on the other hand showed still greater growth but the death rate has already shown particularly significant decline. The annual growth rate during the period amounted to 1.4 per cent, a slight increase over the first phase. However, it is in this period that natural increase became more dominant in determining the growth of population of Sri Lanka. As the birth rates began to soar, the death rate began to fall rapidly. The natural increase during this phase accounted for nearly 85 per cent of increase.

In the third phase (1946-71) the growth population in Sri Lanka was more rapid than ever before and the natural increase was 2.4 per cent. Interestingly, internal migration during this phase touched a low, even negative after 1953 and as such the natural increase became very dominant. In the fourth phase (1971-81) the growth rate fell further, to below 2 per cent, essentially as a result of fertility reduction. International migration however showed an upswing, mainly as a result of accelerated repatriation of Indian estate labour and the departure of a large number of Sri Lankans to West Asia and Africa for employment.

Growth of Population by Agroclimatic Zone

Although there are some microclimatic differences in the district regions, we have taken the traditional division of Sri Lanka into agroclimatic zones: the wet and the dry. The Wet zone consists of Colombo, Kalutara, Kandy, Nuwara-Eliya, Galle, Matara, Ratnapura, Kegalle and Gampaha districts while the Dry zone consists of Matale, Hambantota, Jaffna, Mannar, Vavuniya, Batticaloa, Trincomalee, Kurunegala, Puttalam, Anuradhapura, Amparai, Polonnaruwa, Badulla, Monaragala and Mullaitivu districts of Sri Lanka. In all, the dry zone has 15 districts and the wet zone 9 districts. On the contrary, the geographical area of the wet zone is 23 per cent of the total geographical area of the country and the rest is being that of the dry zone (Figure 1).

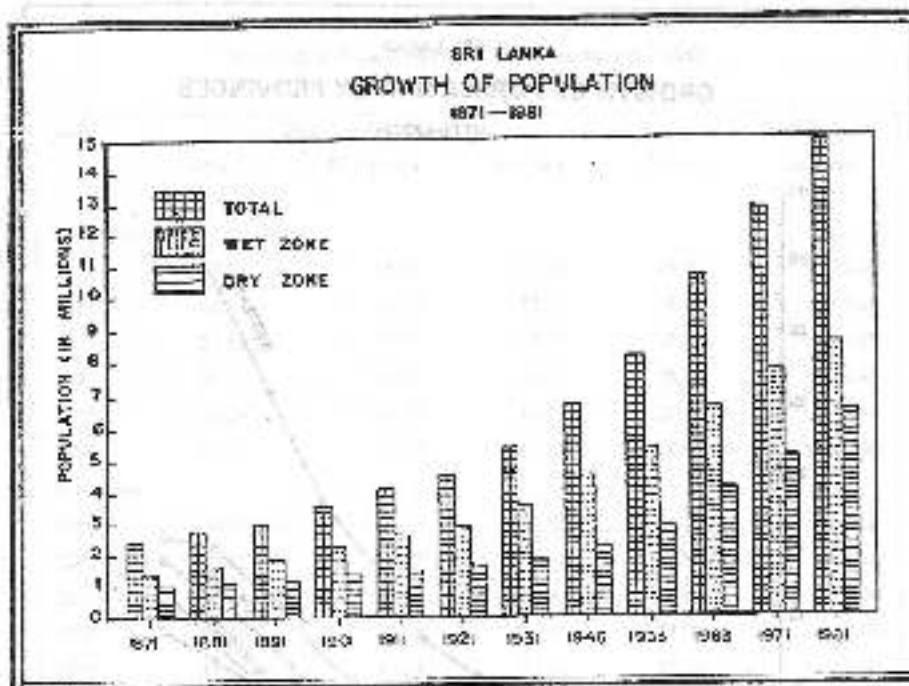


Figure 1

Today the wet zone accounts for 57.25 percent of the Sri Lankan population while the dry zone for 42.75 per cent. In the year 1871, the population of the wet zone was 58 per cent while the dry zone was 42 per cent of the total. It would therefore appear that the balance between the two zones has been intact. For instance, in 1946, the wet zone had 66.3 per cent and the dry zone 33.7 per cent. It is after 1946 that the dry zone began attracting people. As a result, the share of the population of the wet zone began declining, with 64.57 per cent in 1953, 60.5 per cent in 1971 and 57.25 in 1981. The comparable figures for the dry zone is: 35.43 per cent in 1953, 39.5 per cent in 1971 and 42.75 per cent in 1981 (Figure 2). The shape of the curves after 1946 indicate graphically the dowsing of population percentage of the wet zone against the upswing of the same of the dry zone. The indications are that these opposite trends may intensify further and thus there would be further decline in the percentage of the population of the wet zone.

In actual numbers, the 1981 census indicates that the wet zone had a population of 8.5 million while the dry zone a total of 6.3 million. The increment over the period 1946-71 to the population has been of the order of 3.2 million for the wet zone and 2.8 million for the dry zone. The population being larger in the wet zone than the dry may be explained by the fact that this has traditionally been the administrative, educational, social and cul-

tural focal point of the island. Also this area has been connected with the other parts of the country by transport lines. And most importantly, nearly 80 per cent of the industrial activities are found concentrated in this zone. The concentration of a sizeable population in this zone can be attributed mainly to these factors. But since independence, owing to

efforts at improving agriculture in the dry zone and the overall improvement in production and also due to government sponsored colonisation of the dry zone, population in the dry zone began to increase.

During 1946-53, the wet zone districts with the exception of Colombo have shown decline in population and this decline has been exceptionally large in the case of the Matara and Kandy districts. On the other hand, the dry zone districts of Mannar, Batticaloa, Amradhapura and Vavuniya gained greatly. The gain in Polonnaruwa and Amradhapura have shown greater rise from in-migration: 28 persons per 1000 population. The migration rate for the district of Vavuniya for the period 1953-63 was 29.7 per 1000. In these years, the wet zone districts have shown only decline (Abeysekera, 1986). In the years 1971-81, the onward movement of population from Colombo resulted in the enormous growth of suburban areas. The data indicate that during 1963-71 the population of the fringe areas increased by 96 per cent but that on the other hand, the increase in the population of Colombo amounted to 35 per cent only. The main reasons may be the growth of industries and the development of the free trade zone.

It was during 1946-63 that the agriculture of the dry zone improved both in area under cultivation and in levels of production. A sample of this growth is the 68 per cent

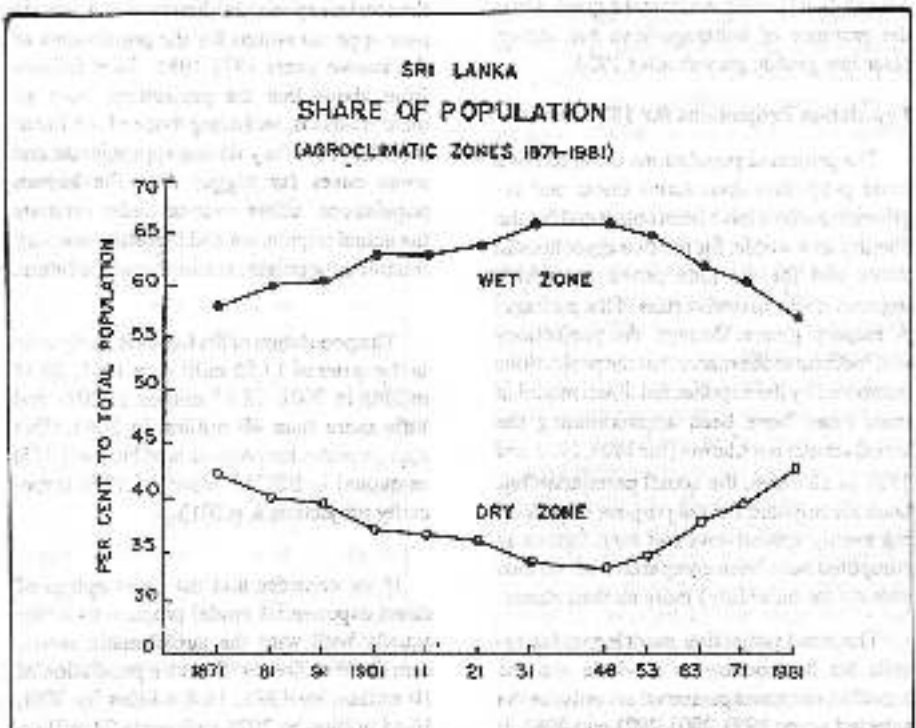


Figure 2

growth in the area under cultivation in Anuradhapura district and the 118 per cent growth of the same in Monaragala district (Gunawardena, 1985). The major reason for the spectacular increase in population in the years since 1946 in the dry zone may also be attributed to the eradication of malaria, as a result of which deaths declined while fertility and immigration increased.

Population Growth in Sri Lanka by Provinces

During 1871-1981 the Western Province has registered a high growth of population. Even initially, in 1871 it had a high population of 575,721 persons (Figure 3). The population has grown to be 920,683 at the beginning of this century and by 1981 this has more than quadrupled to become 3.92 million. The lowest initial population was in the North Central Province (63,743 in 1871) and this rose to 79,110 persons in 1901 and this increased more than ten-fold in the eight decades. The provinces all have gained population in the last eighty years in the following pattern: a little more than three-fold in the Central and Northern, nearly three-fold in the Southern, nearly five-fold in the North Western. In terms of absolute numbers no province has shown any decline, although there were interchanges between the Provinces on a larger scale, which in some instances were large and in others small. The Central and Uva provinces have shown slightly subdued increments in the last decade (1971-81) as is seen from the graph while the province of Sabaragamuwa has shown clear low profile growth after 1953.

Population Projections for 1871-2041

The projected populations using the five trend projection time series linear and regression models have been computed for the country as a whole, for the two agroclimatic zones and for the nine provinces, which together make up twelve runs of the package. A cursory glance through the projections will indicate to the reader that the projections computed by the exponential direct model in most cases have been approximating the actual census population (for 1941, 1951 and 1961 in all cases, the actual population has been recomputed for the purpose of providing evenly spaced data and such figures as computed have been compared with various sources for reliability) more so than others.

The trend projection models yielded results for the country as a whole and the agroclimatic zones presented are only for the selected years: 1991, 2001, 2021 and 2041. It may be seen that the projections from the

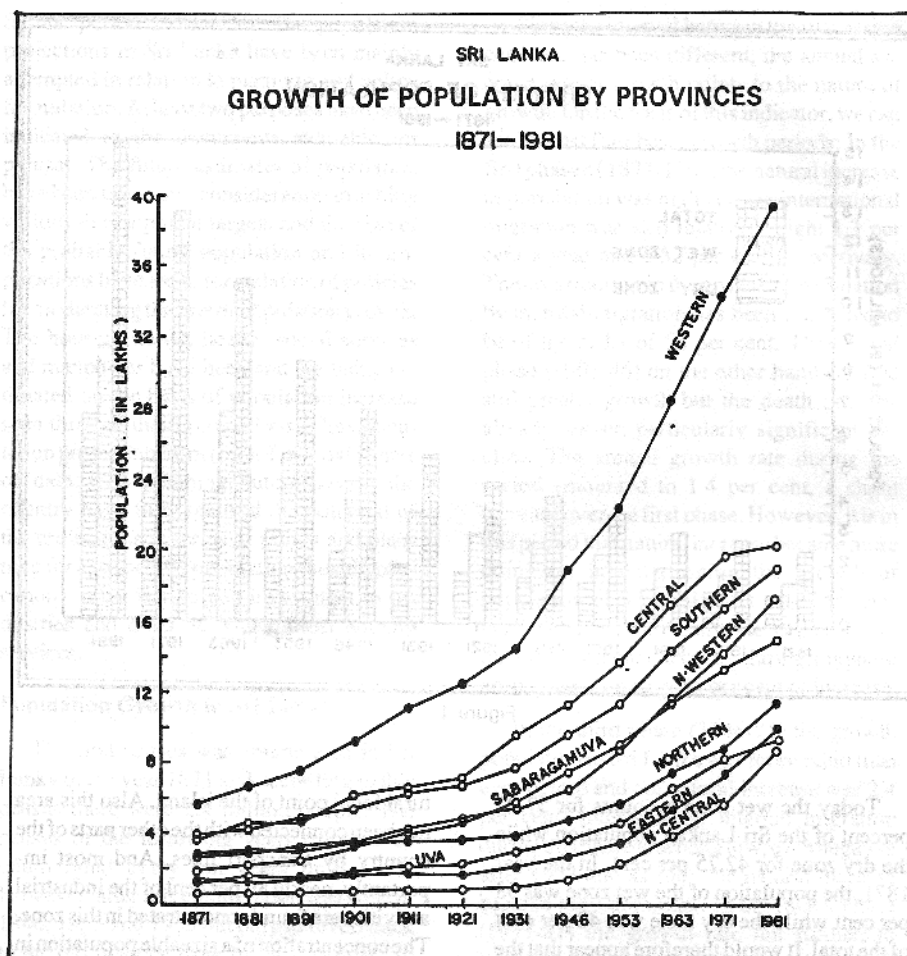


Figure 3

time series exponential direct method provide near approximations for the populations of the known years 1871-1981. So it follows from above that the projections from all other methods, including those of the linear models, since they do not approximate and some cases far bigger than the known populations, either over- or under estimate the actual population and therefore not very reliable as population estimates of the future.

The population of Sri Lanka is likely to be in the order of 17.55 million in 1991, 20.74 million in 2001, 28.97 million in 2021 and little more than 40 million in 2041. This approximates the projection of Frejka (1973) as quoted in ESCAP report of 1976, (especially projection 3, p.201).

If we consider that the same option of direct exponential model projections apply equally well with the agroclimatic zones, then the Wet Zone will have a population of 10 million by 1991, 11.8 million by 2001, 16.44 million by 2021 and nearly 23 million by 2041. This would amount to nearly 53 to

54 per cent of the total population at that time in the country. On the other hand, the Dry Zone will have 7.5 million by 1991, nearly 9 million by 2001, 12.6 million by 2021 and 17.8 million by 2041 (Figure 4). Note that the other methods, as may be seen either overestimate or underestimate the population for the future years. In some cases, they even look untrue and therefore unreliable as estimates. An important particular piece of information that we perceive from the application is that Sri Lanka's population will have rate of change per period of 18.2 per cent (direct exponential) or nearly 18 per cent (regression exponential). However, in the case of dry zone, the rate per period is 18.77 per cent by direct exponential and 17.55 per cent by regression exponential. The other significant information that gain from the projections is that in exponential regression projection the population trend expresses a positive increase over time and this is stronger ($r=0.9973$) than that yielded by the linear regression, ($r=0.9569$). This particular inference can also be drawn from the projections for both the wet and dry zones.

Table 1
Population Projections by Trend Models: 1991-2041
(in million)

Year	Exponential Models			Linear Models	
	Direct	Regression	Modified	Direct	Regression
Sri Lanka					
1991	17.55	15.85	15.73	15.98	13.28
2001	20.74	18.70	16.57	17.11	14.34
2011	24.51	22.07	17.38	18.25	15.39
2021	28.97	26.05	18.16	19.38	16.45
2031	34.24	30.74	18.91	20.51	17.51
2041	40.46	36.27	19.63	21.64	18.56
Wet Zone					
1991	10.03	9.99	9.02	9.15	8.12
2001	11.82	11.82	9.52	9.79	8.76
2011	13.94	13.97	10.00	10.44	9.40
2021	16.44	16.58	10.47	11.08	10.04
2031	19.39	19.54	10.94	11.73	10.68
2041	22.86	23.11	11.63	12.37	11.31
Dry Zone					
1991	7.54	5.82	6.71	6.84	5.16
2001	8.96	6.84	7.06	7.32	5.58
2011	10.64	8.05	7.99	7.81	5.99
2021	12.63	9.46	7.70	8.29	6.41
2031	15.01	11.12	8.01	8.78	6.85
2041	17.82	13.07	8.20	9.27	7.25

Source: Computer results of Trend Projection Models.

Table 2
Population Projections for the Provinces of Sri Lanka
by Time Series Direct Exponential Model

Provinces	1991	2001	2011	2021	2031	2041	Rate
Western	4.66	5.56	6.62	7.88	9.39	11.19	19.11
Central	2.35	2.76	3.24	3.79	4.45	5.22	17.27
Southern	2.17	2.50	2.89	3.33	3.84	4.42	15.28
Northern	1.26	1.44	1.63	1.85	2.11	2.40	13.63
Eastern	1.30	1.47	1.79	2.20	2.69	3.30	22.51
North Western	2.02	2.39	2.83	3.35	3.96	4.69	18.35
North Central	1.10	1.43	1.85	2.41	3.12	4.05	29.70
Uva	1.11	1.34	1.61	1.94	2.34	2.82	20.47
Sahragamulla	1.78	2.14	2.57	3.09	3.71	4.46	20.21

Source: Computer results from trend Projection Models. The population figures are in million and the rate is the rate of change per period.

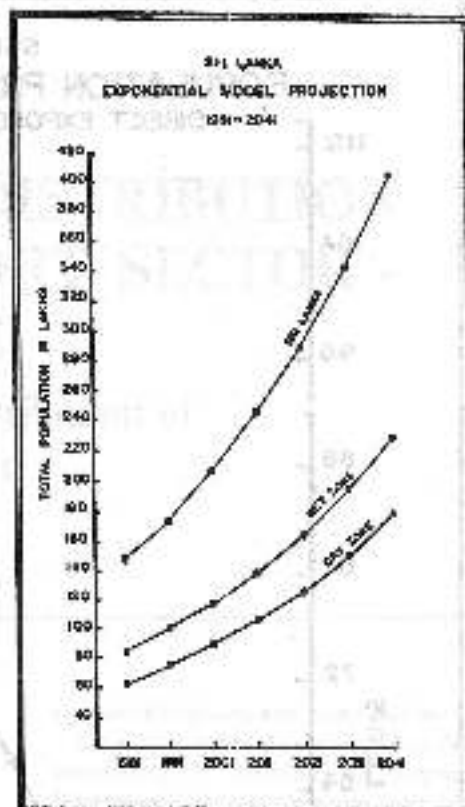


Figure 4

The projections for the nine provinces also indicate that projections from the direct exponential are more approximate than those from other methods, although in some cases, for instance in the case of Western Province the projected figures from the regression exponential also more or less approximate the populations of the known years. The projections indicate that the population of the provinces for the years 1991-2041 would be as follows:

A very significant inference is that the provinces will have uneven distribution of population and that the Northern province will have the lowest ever population change rate registered per period (13.63 per cent). This is also an indication that the population in the Northern Province has a slower rate of growth than elsewhere in the past years and that it will continue to be more so in the future. On the contrary, the Eastern province shows a high rate of change per period of 22.51 percent. This may be due to colonisation sponsored by the government in this province more than elsewhere. The rates of change per period as revealed by the table differ for different provinces, the highest being for the North Central (29.71 percent). The enormous increase in population expected in the Western Province is essentially because of the

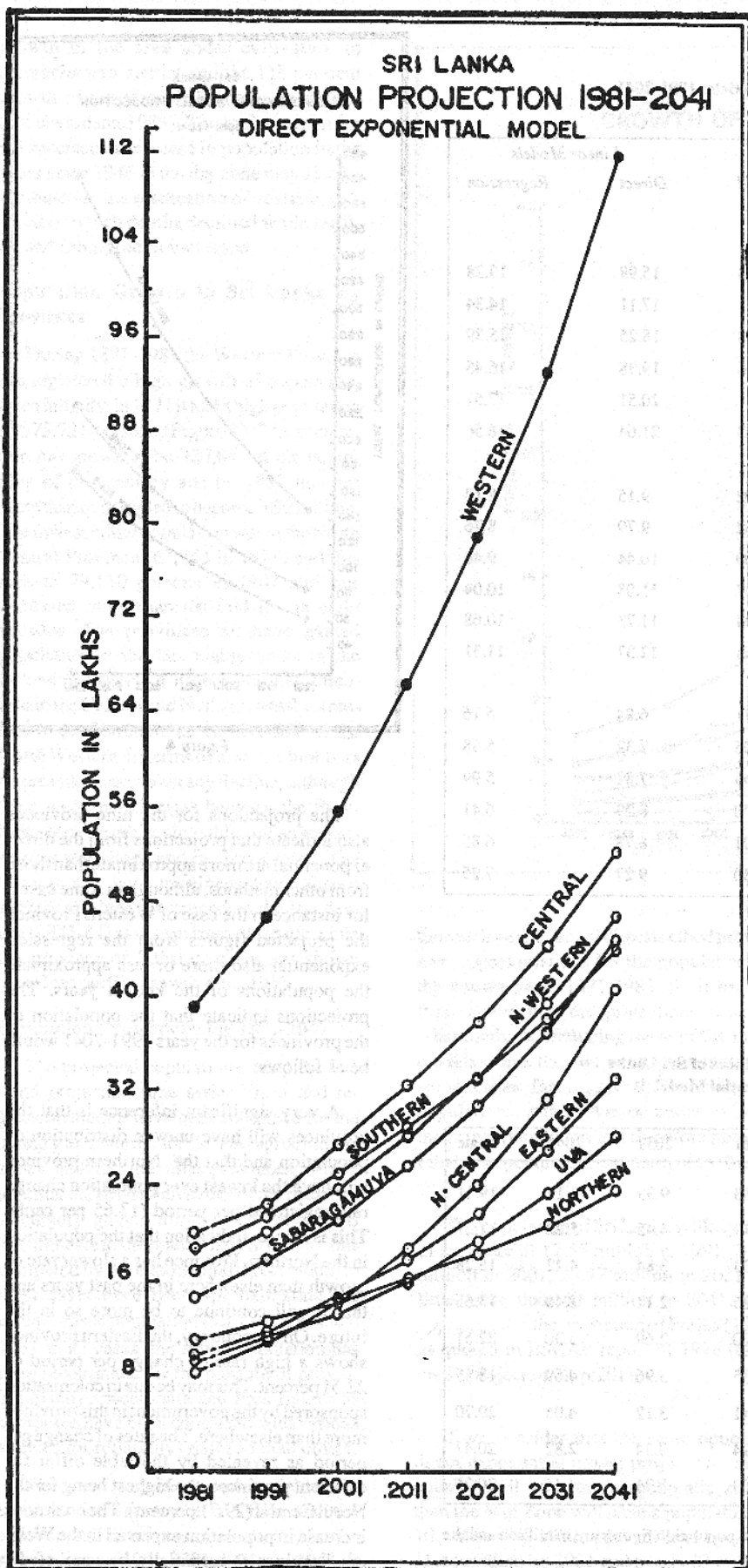


Figure 5

location of Colombo within it; the population will gravitate more towards it in the future as it did in the past. However, the rate of change will remain comparatively low (19.11 per cent) (Figure 5).

The projected population for the island, the wet and dry zone from the time series direct model and the population as is evident is likely to grow very steeply for the entire country, whereas it will more subdued in the dry zone than in the wet zone. The projections from the same model for the provinces are presented graphically and the graph indicates that the Western province will have far greater growth in population in the future than any other and that the Northern province will register the lowest growth possible among the provinces. The Eastern province will however register medium growth when compared to other provinces.

The Reprise

The paper has presented the population projections attempted with the help of a BASIC computer program package of Time Series Trend Projections Models. The results have been very salutary in that they have been able to give us some idea of the sizes of population likely to be till 2041—not only with respect to the country as a whole, but also in terms of agroclimatic zones and the provinces. It has been seen that the time series direct exponential model has provided approximations better than other models for the populations of known years and therefore the results yielded from it may be more reliable than those computed from other models, for they have either overestimated or underestimated the populations even for the known years (1871-1981). As this exercise provides for an understanding of the likely levels of population in the various administrative units, zones and the country, as a whole it is very significant. The projections can be utilized for planning population programmes, either for controlling growth or dispersing population for a balanced distribution. However, the projections are only as good as the data upon which they are based and have not however assessed the factors for population growth, except by taking the trends of the population deducible by the trend models themselves.

References

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REDUCTION OF UNEQUAL DISTRIBUTION OF INCOME AND THE EXPORT SECTOR - PERFORMANCE

The Need to Achieve the Equal Distribution of Income for the Population

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It is the distribution of income that determines the level of living or living standards of the people (Rasaputram 1972). In recent times at the global level, there is a growing awareness that distributive justice should be considered as a development priority. At international level, concern over the growing internal income inequalities in developing countries was expressed in the seventies by the circulation of the slogan, "growth with distribution" by international organisations. (The plethora of literature that emerged consequently was in fact the turning point in abstract growth-dominated development thinking).

However, reduction of unequal distribution of income is not traditionally considered a macro policy variable in developed countries, perhaps owing to the absence of glaring inequalities of income distribution among the population. For developing countries, the reduction of glaring income and wealth distribution will no doubt provide a conducive environment to accelerate growth, *inter alia*, by increasing income-generating avenues for the bottom strata of income earners and ensuring their participation in development activities.

However, even in the absence of glaring inequalities, compared with other South Asian countries in Sri Lanka policy-makers were from the very outset, concerned about achieving equitable distribution of income. Even in the early

fifties, government programmes included this objective.¹ Subsequently, the ten-year plan which was the first serious attempt at planning, also identified equitable distribution of national income as one of its four objectives, (Fernando, Lloyd 1986). The five-year plan too, *inter alia*, aimed at bridging the disparities of income living standards by raising the income and living standards of low income households. In recent times the issue of "distributive justice" assumes special significance owing to apparent increases of inequalities of income of the population and the aggravation of unemployment problem in the country. In fact, during the period 1977 to 1987, "the targetting of government expenditure did not have a favourable impact on the poorest segments of the population, real incomes tended to decline while no appreciable reductions were evident in the unemployment rates" (Karanatilake H.N.S. 1991). In this context, the government has accepted the poverty alleviation as the priority human resource investment in the overall development programme. The estimated poverty index of the country (for 1981/1982) shows that 3.1% of total income must be transferred from the non-poor to the poor to eliminate poverty in Sri Lanka (Gunasatne OPTI). There is no doubt on the society's unanimous commitment to eradicate the poverty of nearly one-quarter of the population (Gunasatne, L. 1987).

Income Distribution and Export Sector

Given the importance of reducing the unequal distribution of income, there are fundamental reasons at macro level, for the necessity of satisfactory export performance to achieve this objective.

Firstly, for an effective redistribution of income in the economy along with the availability of income sources, sufficient quantities of essential commodities must be available on a recurrent basis for the bottom level income earners to translate their newly acquired purchasing power into effective demand. Therefore, a redistribution of income will not lead to an increase in consumption unless more goods including imports, are available. Analysing the wide differentials of average per capita expenditure on essential food items by various income deciles, the Five Year Plan has concluded that "low income per capita, is not responsible for lower consumption levels of the poor. Rather it is a problem of inadequacy of local food production as well."² (Five Year Plan page 3). However, in addition to increasing production, past experience has shown that the country needs a substantial amount of imported consumer goods to satisfy the basic needs of the poor. Even to increase local production, a certain minimum amount of imported materials and machinery are needed. Moreover, the complex facets of poverty also call for making available required quantities of building materials, essential

items needed for sewerage systems and pipeline water facilities for the poorer sections of the community, and these entail foreign exchange. Therefore, the import capacity needed for this could come mainly from higher export performance.

Secondly, the increased exports are needed to de facto elimination of unequal distribution of income of the country owing to the magnitude and the nature of the income transfers, be they in the form of employment or transfer income needed to shift to bottom level income earners.

As per present distribution income pattern, 23.7 per cent of the population belong to income deciles below poverty level, which is defined as per capita food expenditure of Rs. 69 in 1978/1979 prices (Gunaratna 1987 IBID). Basically, a large income source at macro economy level is required to create employment sources for poor households in order to push them gradually to higher income levels. Among the income sources, employment income is the effective and lasting solution for the poor to eradicate their poverty on several counts. (Hewavitharana IBID). First, "a large pool of employment income will allow poor family members to pool their income and meet the various basic needs such as food and rice through a family sharing mechanism." However, welfare transfers in the form of the rice subsidy account only for about one-fifth of the total expenditure on food for the households in the lowest per capita expenditure deciles (Hewavitharana IBID). Therefore, only employment income could increase their effective demand rather than improving their supply base to a limited extent. Second, with increased employment income the households are in a good position to meet the unfilled gaps such as housing construction and educating their dependants etc. Third, strengthening their economic base in the above manner will help them to make better use of facilities which are likely to reorient their attitudes and behaviour patterns as well as participatory abilities.

The need for the export increase in the redistribution is also connected with the need to spend a considerable amount of local and foreign resources to provide the transfer payments along with employment opportunities. These transfer payments include food subsidies, education, health

expenditure, etc. which add to the real income of the lower income earners, and therefore, has an equalizing effect (Rasaputram 1972). "In Sri Lanka where rigidities exist in every sector of the economy the built-in natural law leading to greater equality through growth cannot function." (Rasaputram IBID page 63). The experience after 1977, which indicates that there was a tendency to increase inequalities and a serious deterioration of the living standards of the poor also clearly shows the need for greater government intervention to guarantee the purchasing power of the poor to push them from the subsistence level. In this context, transfer payments such as the food subsidy, which is both a nutrition supplement and an income supplement scheme, can be very effective in the redistribution of income to the poor. In fact, during the period 1953 to 1973, there was a greater equality of income, and the major weapon of redistribution was the rice subsidy. However, when employment income cum transfers are shifted to the poor there will be an immediate rise of marginal propensity to consume among the low income deciles, thereby generating inflationary tendencies through increase of aggregate demand which result in reducing the purchasing power of the poor. Therefore, what is required at macro level is not only a large income source to compensate the poor on a recurrent basis but also an income source that is capable of providing required purchasing power for the poor, for a sustainable period through imports or local production. In this context, it is only the export income that can satisfy these two conditions and solve the unequal distribution of income in the country.

Fourthly, the income accrued to the export sector itself, has the potential to provide a number of income avenues to lower level income earners through its spread effects and direct effects. At zonal level since the bulk of the plantation crops are found in the wet zone, which is also the region of acute rural unemployment and under-employment in the country, increased productivity resulting in higher export performance may directly provide income sources for the bottom level income earners in this zone. Higher export performance also invariably helps to reduce the inequalities by strengthening the income of a large number of small

holders of traditional and minor export crop sub-sectors. In Sri Lanka, among tea, rubber and coconut holders, 20%, 31% and 50% respectively are small-holders.³ (Dissanayake A.B. 1984, Tilakaratne 1984). Owing to low levels of profits derived, a considerable number of these owners fall within the lower income earnings levels. For example, the net profit derived from a acre of tea smallholdings, yields only 3,000 kgs of green leaf, which is equivalent to Rs. 540/- per year (Dissanayake A.B. 1984). Similarly, average monthly profits of per acre for rubber smallholders in 1984 was only Rs. 150/- (Dissanayake IBID). Therefore, increased production/productivity in export crops may directly help in increasing the income of the poor smallholders, and thereby reduce the inequal distribution in the country.

Finally, it is not to be forgotten that although the country experienced major export booms in 1950/1951, 1954/1955 and 1984, and a number of minor booms, only the 1950/1951 boom resulted in strengthening the inequalities. (See Corea 1975). Even in 1950/1951, the inequalities would have been marginal had it not been for the 1949 devaluation. The 1984 tea boom is noteworthy for equalizing effects. In fact the tea boom in 1984, which was instrumental in introducing employment guarantee and higher wages for employees in the estate sector, ensured a fair share of export income to lower income earners in the plantation sector. (See Fernando 1988). Generally, the export income generated during a boom directly helps to augment earnings of lower income deciles, and thereby reduce inequality due to multiplier sources of income available to them. In a boom, therefore, poorer classes increase their earnings from all these sources, and in a slump they can suffer decline from all these multiplier sources of income. (Kurusulasuriya 1985). The multiplier sources of income available for poorer classes are given in Table 1.

The analysis proves that export performance of a high order is necessary to achieve greater equality of income distribution in the country.

The available evidence does not suggest that export booms result in inequality of income. Even if there are tendencies towards inequalities during a boom, as

<i>Sources of Income (Selected Items)</i>	<i>Percentage of Total Income: Poorest Decile</i>	<i>Percentage for all Deciles</i>
Main occupation	41.80	59.31
First subsidiary occupation	5.01	8.52
Rent for immovable property	6.45	5.62
Transfers - (a) from government	11.00	2.92
(b) from friends	12.96	6.68
(c) abroad	0.31	3.03
Income in kind	16.94	6.28

mentioned earlier, the export taxes are very effective in reducing the inequalities.

Treatment:

1. In the early 1950s, while recognizing the need to bridge the inequality gap, the

2. Thus the Five Year Plan has aptly argued the case of increasing local production for effective redistribution in the following words: "If social justice is to have any meaningful impact in raising the standards of living of the poorest sections of the community, there must be economic development. In practical terms this means producing more milk, developing of the fishing industry, growing new types of food crops, rehabilitating the coconut industry, producing vast range of mass consumer goods and generally raising the level of production." (Five Year Plan p. 11).
3. Smallholders have been defined as the owners of land below 4 hectares.

George Perera

Significance of the Macro Policy Variable of Inflation in the Economy

Curbing inflation, has been traditionally considered as one of the most important macro policy objectives in the western economies after World War II. But the phenomena of stagflation has added a new dimension to this problem. They no longer validated the traditional stop-go policies (in which one macro economic objective was sacrificed in order to curb inflation temporarily in taking the problem. In a developing open economy like Sri Lanka the inflationary process assumes a special significance, partly because of its inability to mitigate the transmission of imported inflation originating in the western developed countries (Atapattu 1982) and partly because of its tremendous negative effect on all the macro variables in the economy. In Sri Lanka, before the seventies, inflation was not generally considered a major problem, at least by the policy-makers as in the two decades preceding 1972, price

increases have been moderate except in 1950/1951. (Central Bank 1975). However, in the seventies the first and second oil shocks brought into reckoning inflation as a considerable problem to non-oil developing countries like Sri Lanka, which experienced a sudden outburst of the rate of inflation. For example, the rate of inflation of these countries rose from 24% in 1977/1978 to 32.5% during the period 1979-1983 (Colombage 1986). Therefore, early in the seventies the Sri Lankan Government opted for price stability and payment equilibrium even at the expense of growth (Colombage 1986). In any event, achieving price stability along with monetary stability is the major short-run objective of the monetary authority in the country. (Karunasena 1988).

Inflation and the Export Sector

The country's inflationary process is the outcome of a number of indigenous and exogenous causal factors associated

with the openness and the internal financing problem in the country.

In this setting, export performance is directly related to inflation as certain properties of export performance could either trigger the inflationary tendencies or act as a deflationary or counter-inflationary force. It is the net effect of these properties along with other more important factors like import price increases, increased money supply, budget deficits, *inter alia*, that determine levels of inflation in the country. With regard to inflation-induced factors on the export sector, export prices and earnings trigger price increases via exogenous mechanisms, while the wage increases of the plantation sector and devaluation in the export incentive package, transmit their influence through endogenous mechanisms. The export prices transmit global inflation via prices in international markets (price effect) while export earnings fuel inflation by creating an excess

demand in the economy through improved current balances (demand effect), augmenting the money income through increase of money supply (liquidity effect) and providing necessary purchasing power for the community for the realisation of other global linkages such as international inflationary expectations and demonstration effects. (Atapattu 1982).

On the other hand, export earnings are deflationary to the extent they can bridge the demand gap through export financed imports, and contribute to internal revenue sources, which otherwise have to depend on the expansionary banking sources. In fact, the inflationary pressure generated by export earnings in the early stages of the Korean boom is not solely due to expansion of the economy's income per se, but also due to the authorities' inability to remove the import (exchange) control restrictions, thereby to mitigate the strong pressure on demand on the limited supplies of imported goods as well. (See Corea of 1975, p. 294). Nevertheless, at later stages of the boom the Government resorted to import liberalisation to prevent inflation (Sirisena, N. L., 1976, p. 15). However, even if exports can act as a counter-force to the increasing inflationary pressures by making available necessary imported goods and reducing the impact of expansionary sources, one can hardly doubt the greater inflationary impact generated by the export performance in the above-mentioned ways. In the following, an attempt is made to demarcate the influence of these export performance-related inflationary effects separately.

Export Price Effect on the General Prices in the Country

World market prices of the major traditional exports of tea, rubber and coconut may directly influence the local market prices of these commodities and thereby affect the general price level in the country. These price increases are reflected in the Colombo Consumer Price Index and Wholesale Price Index which have weightage for export commodities 5% and 22.5% respectively. Export price may influence these prices indices negatively or positively, depending on the world market prices of these commodities. By and large, continued upward pressure was generated by the higher export prices from the end of the 1960s

when the world primary commodity boom was in full swing. Only in very rare years was there a dampening effect on the cost of living indices owing to the lower market prices of exports. Of the 23 years during the period 1967-1989 export price decreases were registered only for 9 years. (Central Bank reports) However, owing to the low weightage given to exports, the impact of export prices on the cost of living measured by the Colombo Consumer Price Index is marginal. On the other hand, one of the major causes of the increase of prices at primary marketing level (which is measured by the Wholesale Price Index) during the period 1967-1978 was the increased export prices of the major commodities owing to higher relative weightage given to export commodities in this index. (The weights assigned to tea, and coconut in the sectoral sub-index for exports in WPI is 48, 29.9 respectively.) (See Central Bank Reviews.) Therefore, the above evidence suggests that by and large, there was a certain amount of inflationary influence from export prices during this period.

Export Earnings Effect on the General Price Level Through Demand and Liquidity Effect

It is generally argued that export earnings have a positive relationship with inflation, owing to the export receipts ability to create an excessive aggregate demand (when the supply of goods and services is less elastic with respect to price) — demand effect — and expansion of money supply via augmenting external assets of the banking sector — liquidity effect (Atapattu, 1981).

In Sri Lanka's case, the primary effect of the export receipts on inflation is generated via the stimulation of external assets in the banking sector and creation of an expansionary impact on the broad money supply. It appears that the demand effect of inflation is also connected with money supply effects through increased liquidity. Therefore, in this discussion, demand and liquidity effect of export earnings can be treated together. It has to be noted that most of the theoretical and empirical work on inflation has identified monetary expansion as a major causal factor inflation in the country. (Karunatilake, 1974, Rathnaweera, P., 1988, Karunasena 1988, Ranaweera, 1974 and Silva, K. E. A., 1974). [Among the factors

identified for monetary expansion, the increase of external assets was considered a major cause of inflation. (Atapattu, *op cit*). The recent monetary survey had also identified the changes in net external assets, along with the net credit to the Government as the two major causal factors of change in domestic monetary aggregates (Karunasena, A. G., 1988). The impact of the country's external assets brought about by higher export prices on money supply and inflation is sometimes argued on the lines of traditional monetarist theory. Thus, it is claimed that under the fixed on managed floating exchange rate system an increase in external assets resulting from higher export prices will cause exports and imports to move in opposite directions, thereby enlarging the initial gap. In this scenario owing to a new trade surplus generating from artificially undervalued domestic currency, the initial increase on monetary aggregates will push to a higher level, resulting in excess liquidity an inflationary Pressures. (Karunasena, A. G., 1988).

The most recent model developed to examine monetary policy responsiveness to exogenous shocks for the period 1978-1987, also re-established the high sensitivity of export prices to money supply and the significance of changes of net external assets in effecting money supply. (Karunasena, *ibid*).

However, in Sri Lanka there is one specific factor originating from the export sector itself that mitigates the expansionary influence of money supply. This is the ability of the Government and the plantation corporations to increase their revenue during periods when the export prices of the plantation corporations (particularly tea) are higher and reduce their credit needs from the banking sector. For example, during the recent tea export boom in 1984-1985, the Government was able to reduce the bank borrowings due to the high income received from tea levies and the two plantation corporations also decreased their credits from the banking sector by using a part of unexpected income to repay their outstanding debts. (Karunasena, A. G., 1988). Therefore, the net impact of the increase of export earnings on broad money supply should include changes in external banking assets, and both changes in net credit to the Government and changes in domestic credit corporations.¹ However, the

recent experience relating to the 1984 tea boom has clearly demonstrated the inability of the Government and plantation sector borrowings to overcome totally, the expansionary effects of the money supply. For example, in a recent estimate it was shown that the export earnings increase of about Rs. 512 million in 1978, would only decrease domestic credit by Rs. 207 million (through reduction of changes in net credit to Government and corporations), leaving Rs. 305 million excess money for inflationary pressures (Karanagana, *ibid*). In any case, expansionary effects generated by export earnings have necessarily a direct impact on the money supply of the economy, albeit with a time lag, as external assets brought about by export earnings is a part of the money supply in the country. Therefore, on the whole, the export earnings contribution to inflation through demand and liquidity effects, are evident.

Given the above evidence, regarding the export price and earning ability to contribute to inflation, following Atapattu (1982) one can further verify the statistical significance of export performance and general price level (domestic) by estimating the coefficient of determination between domestic price level and export earnings/prices. In addition, export volumes are also included as independent variables to the equations. The results obtained are given below:

TABLE 1

The Effect on the Export Sector on Domestic Price Level, 1978-1989			
Independent Variable	Dependent Variable	Constant	R ²
(i) Pt	Pt	9.9	0.03
(ii) Xt	Pt	7.5	0.38
(iii) Vt	Pt	9.5	0.04

Where R² — the coefficient of determination
 X — rate of change of export earnings
 P — rate of change of export price index
 V — rate of change of export volume index
 T — time period
 P — rate of change of GNP deflator

The above results indicate insignificant relationship between the variables of export prices and volumes with domestic price level. However, the R² for export earnings and domestic prices being 0.38 is relatively significant although not high compared with the Atapattu's coefficient

of 0.74 for the period 1960-1977. Therefore, export earnings ability to contribute to inflation in the recent period appears to be moderate. On the whole, the regression results suggest the marginal contribution of export price effect on inflation and the export earnings moderate influence on inflation.

female estate wage rates, along with the upward revision of wages in the plantations from 1984, in fact increased the purchasing power for a considerable segment of the population, and thereby strengthened the wage price spiral in the country. Therefore, wage increases in the plantation sector may further fuel infla-

TABLE 2

Wage Rate Indices in Organised Private Sector and Government Employees (1980-1989) 1978 December = 100								
Year	Organised Workers in Agriculture		Private Workers in Industry & Commerce		Semi-Skilled Workers in Services		Central Government Employees	
	Minimum Wage Rate Index	Real Wage Rate Index	Minimum Wage Rate Index	Real Wage Rate Index	Minimum Wage Rate Index	Real Wage Rate Index	Minimum Wage Rate Index	Real Wage Rate Index
1979	121.1	118.0	111.3	102.2	112.9	107.8	117.2	111.2
1980	121.6	112.9	126.3	105.4	120.5	98.9	123.1	97.2
1981	123.9	99.3	121.0	96.2	146.4	93.2	146.1	93.2
1982	181.2	104.2	161.0	92.5	168.7	97.7	189.8	109.6
1983	189.7	100.4	165.1	82.9	177.8	85.7	215.7	104.0
1984	250.3	106.0	185.3	78.1	190.7	82.4	246.4	109.6
1985	271.5	116.5	205.3	86.3	190.7	81.3	284.3	121.2
1986	289.1	112.8	224.1	88.1	190.7	82.3	291.4	119.5
1987	300.1	110.8	256.1	92.3	198.5	82.0	301.4	128.1
1988	379.4	121.8	271.7	87.4	220.5	82.3	390.0	125.4
1989	435.3	125.7	358.3	96.8	245.3	81.0	421.8	121.9
% Increase between 1979-1989	264	8.1	200	-8.1	112	24	225	8.6
% Increase between 1980-1989	24.1	16.1	12.1	21.8	28.8	-14	71.2	12

Export Sector Wage Increases and Inflation

The recent developments in the plantation sub-sector among other export

tion by increasing total demand on the one hand, and money supply on the other. In an inflationary situation high domestic prices would further cause wages to increase. It should not be forgotten that wage increases have already become an inflationary source in the country. (Atapattu, *op cit*, also Rodrigo 1991). In fact minimum and real wage rate indexes of the agricultural workers on Wages Board trades in which plantation workers' wages consist of a considerable proportion had a tendency towards upward revision compared with other wage rates in the eighties, especially after the 1984 wage revision. The following table shows the increased wage rate indices of the agricultural workers compared with other sectors:

Inflationary Consequences of "Devaluation" in the Package of Export Incentives

A devalued exchange rate which is sufficient to compensate the export endeavours through a high Rupee rate has been considered as one of the major strategies in the National Export Development Plans in the country (National

sub-sectors, clearly, show the export sector tendencies to contribute to the wage price spiral. It is estimated that there are at least 600,000 people employed in the plantations are under trade unions. (Fernando, N, *op cit*). The Employment Guarantee Act, equalisation of male and

Export Development Plans 1983-1987 and 1990-1994). Subsequently, it is argued that the country's exchange rate devaluations should be realistic in terms of the Trading Partner Weighted Exchange Rate or Competitor Weighted Exchange Rate, in order that this rate could contribute significantly towards export development (Yapa, L. F., 1988). While advocating devaluation for export development, the inflationary effects of devaluation were also accepted by the First National Export Development Plan. Thus, the Plan states "that a 25% devaluation would result in a 10-12 per cent domestic price increases" (National Export Development Plan 1983-1987, p. 12). Although the empirical basis of this statement (calculation) is not clear, the impact of devaluation on general price level increases through imported prices is widely recognised. One can clearly see the impact of devaluation on imported prices by comparing the differences between import price indices based on local currency and on foreign currency. The following table shows the import unit value indices in Rupee and SDR terms.

In recent times, on the basis of declining inflation rates in 1985 and 1986 (which were 1.5% and 6% respectively), it was suggested that there is a possibility of manipulating devaluation for export promotion without affecting prices,

TABLE 3

Unit Value Indices of Imports in Terms of Rupees and SDR								
	Consumer Goods		Intermediate Goods		Capital Goods		Total Imports	
	Rs.	SDR	Rs.	SDR	Rs.	SDR	Rs.	SDR
1978	100	100	100	100	100	100	100	100
1979	139	135	163	158	162	157	153	144
1980	181	164	277	252	241	220	231	203
1981	164	103	344	297	236	204	249	208
1982	153	131	387	329	344	293	285	235
1983	207	161	388	301	358	279	310	234
1984	196	147	424	318	358	271	323	235
1985	186	132	524	371	308	218	368	252
1986	218	130	512	304	313	186	371	214
1987	246	126	619	317	336	172	412	205
1988	310	142	721	329	359	164	483	214
1989	373	158	809	343	356	151	546	224

Note: Indices were calculated based on Central Bank figures.

through a package of policies which includes downward adjustment of the import tariff and a check on credit expansion. Nevertheless, as mentioned earlier, inflation in the country is a function of a number of variables, inter alia, import prices, budget deficits, money supply, export earning, export prices, wages devaluations, etc. Therefore, a conclusion based on a limited number of variables for a certain period would not permit us to agree with the above view. On the other hand, even if all these variables were considered together, it is difficult to isolate the impact of devaluation on inflation. While independently affecting the inflationary process through imports, devaluation affects the above-mentioned other inflationary properties

as well. Therefore, it is doubtful whether the effect of devaluation on inflation can be suppressed by manipulation of the other inflationary properties.

Hence, while admitting the incentive effect of devaluation it is realistic to accept its inflationary tendency and the consequences of devaluation on the present export incentive package. As mentioned earlier, the only way available in the export sector to mitigate the inflationary tendencies generated by devaluation is via the importation of necessary goods to fill the demand gap in the economy. On the other hand, there has to be a continuous increase of exports to mitigate the inflationary consequences merely because devaluation has been accepted as a necessary policy incentive for export development.

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talented as those of higher income groups. Poverty is indeed an inconvenience for both the poor and the rich; hence, it must be reduced for mutual advancement.

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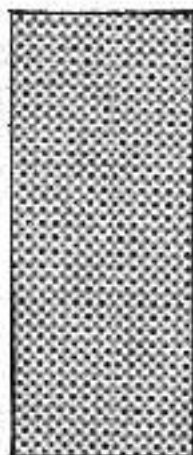
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ALLEVIATION OF POVERTY AND JANASAVIYA

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As a developing country, Sri Lanka has a population of 17.0 million towards the mid 1990 (World Bank Development Report). Forty eight percent of the population consist of households earning less than Rs. 1500/- per month while 28% of the households earn less than Rs. 700/- per month. Moreover 74% of the Sri Lankans are dependents. Food stamps were given to the households earning less than Rs. 750/- per month, but this scheme was found to be inadequate in order to upgrade the standard of living of the low income groups.

Janasaviya could be best defined as a blessing to the poorest of the poor who are caught up in the vicious circle of poverty and earning an income below the subsistence level. It is a special concept implemented for first time in a developing country. The major objective of this concept is alleviation of poverty of the poorest segment of the population. Such an organized programme for the poor has never been presented by any politician or a philosopher in the world history.

The Janasaviya concept is based on the value of human resource which is the highest

resource of the world, therefore, a major attempt has been made to enlist the human resource for the eradication of oppression and frustration of the people. It would be extremely difficult to conceive a more humanitarian concept which has emphasised the strongest need for development of the human resources.

The Janasaviya programme completes its 3rd year of operation on 2nd October 1992 and three Janasaviya rounds have been successfully implemented in several AGA's Divisions in Sri Lanka. The progress of Janasaviya activities are shown under Table 1.

Janasaviya programme has taken a step forward by providing assistance to Janasaviya recipients to obtain loans from the state banks in view of enhancing their income. Table 4 presents details about the advances obtained by the recipients of the AGA's Divisions where the programme has been conducted up to now.

According to the World Development Report for 1992, the G.N.P. per capita income in Sri Lanka is 470 US\$. The G.N.P. per capita income is 32,680 US\$ in Switzer-

land which is the highest income earning country. Accordingly Sri Lanka occupies the 32nd place among the low income earning countries. The monthly per capita income in Sri Lanka is calculated at Rs.1,840/-.

However, according to an article published in the Asia Week on 30th October the per capita income in Sri Lanka for 1992 is 510 US\$. It is 35,020 US\$ in Switzerland. Hence, Sri Lanka occupies the 28th place among other countries. (See table 2.)

Recipients are selected from among those who are earning less than Rs.750/- per month. It is estimated that they will earn Rs.2,500/- per month with the completion of the programme. As a result, the estimated per capita income increase is about 638 US\$ due to increased income earned by the low income group.

If a family is able to earn an annual income of 638 US\$ due to Janasaviya, Sri Lanka can reach the 48th place among the countries earning a lower middle income. Hence, one can consider Janasaviya as a magical concept committed towards developing the people of the country.

Janasaviya Activities

Janasaviya programme is scheduled to be implemented step by step throughout the country. Each step is identified as a round which will cover one or two AGA's Divisions in one administrative district. Each round of the Janasaviya programme will be implemented during a period of 2 years and the entire programme is scheduled to be implemented in 11 rounds. Each round takes 24 months for completion while the entire programme will be completed during a period of 22 years throughout the Island.

According to the Janasaviya Secretariat, all offices in connection with the Janasaviya will be closed with the completion of the programme at the end of 22 years. Further, there will be no poor people in the country.

Table 1
Janasaviya Recipient Families

Rounds	No. of Families
1	154,345
2	101,779
3	99,000

At present, three rounds of the Janasaviya programme have been successfully completed and it has entered into the fourth

BASIC INDICATORS

	Population (millions) mid-1990	Area (thousands of square kilometers)	GNP per capita ^a		Average annual growth rate (percent)		Average annual rate of inflation ^a (percent)		Life expectancy birth (years) 1990	Adult literacy (percent)	
			Dollars 1990	1985-90	1965-80	1980-90	Female 1990	Total 1990			
Low-income economies	3,058.3t	37,780t	350w	2.9w	8.0w	9.6w	62w	52w	40		
China and India	1,983.2t	12,849t	360w	3.7w	3.2w	6.8w	65w	50w	37		
Other low-income	1,075.1t	24,931t	320w	1.7w	17.3w	15.1w	55w	56w	45		
1. Mozambique	15.7	802	80	...	...	36.6	47	79	67		
2. Tanzania	24.5	945	110	-0.2	9.6	25.8	48	...	...
3. Ethiopia	51.2	1,222	120	-0.2	3.4	2.1	48	...	...
4. Somalia	7.8	638	120	-0.1	10.2	49.7	48	86	76		
5. Nepal	18.9	141	170	0.5	7.8	9.1	52	87	74		
6. Chad	5.7	1,284	190	-1.1	6.2	1.2	47	82	70		
7. Bhutan	1.4	47	190	...	...	8.4	49	75	62		
8. Lao PDR	4.1	237	200	...	...	...	49	...	...
9. Malawi	8.5	118	200	0.9	7.4	14.7	46	...	...
10. Bangladesh	106.7	144	210	0.7	15.9	9.6	52	78	65		
11. Burundi	5.4	28	210	3.4	5.0	4.2	47	60	50		
12. Zaire	37.3	2,345	220	-2.2	24.7	60.9	52	39	28		
13. Uganda	16.3	236	220	-2.4	21.4	107.0	47	65	52		
14. Madagascar	11.7	587	230	-1.9	7.7	17.1	51	27	20		
15. Sierra Leone	4.1	72	240	0.0	7.9	56.1	42	89	79		
16. Mali	8.5	1,240	270	1.7	9.0	3.0	48	76	68		
17. Nigeria	115.5	924	290	0.1	14.6	17.7	52	61	49		
18. Niger	7.7	1,267	310	-2.4	7.5	2.9	45	83	72		
19. Rwanda	7.1	26	310	1.0	12.5	3.8	48	63	50		
20. Burkina Faso	9.0	274	330	1.3	6.3	4.5	48	91	82		
21. India	849.5	3,288	350	1.9	7.5	7.9	59	66	52		
22. Benin	4.7	113	360	-0.1	7.4	1.9	50	84	77		
23. China	1,133.7	9,561	370	5.8	-0.3	5.8	70	38	27		
24. Haiti	6.5	28	370	0.2	7.3	7.2	54	53	47		
25. Kenya	24.2	580	370	1.9	7.2	9.2	59	42	31		
26. Pakistan	112.4	796	380	2.5	10.3	6.7	56	79	65		
27. Ghana	14.9	239	390	-1.4	22.9	42.5	55	49	40		
28. Central African Rep.	3.0	623	390	-0.5	8.2	5.4	49	75	62		
29. Togo	3.6	57	410	-0.1	7.1	4.8	54	69	57		
30. Zambia	8.1	753	420	-1.9	6.3	42.2	50	35	27		
31. Guinea	5.7	246	440	...	...	...	43	87	76		
32. Sri Lanka	17.0	66	470	2.9	9.4	11.1	71	17	12		
33. Mauritania	2.0	1,026	500	-0.6	7.6	9.0	47	79	66		
34. Lesotho	1.8	30	530	4.9	6.7	12.7	56	...	...
35. Indonesia	178.2	1,905	570	4.5	35.5	8.4	62	32	23		
36. Honduras	5.1	112	590	0.5	5.7	5.4	65	29	27		
37. Egypt, Arab Rep.	52.1	1,001	600	4.1	6.4	11.8	60	66	52		
38. Afghanistan	...	652	...	...	...	...	42	86	71		
39. Cambodia	8.5	181	...	...	...	...	50	78	65		
40. Liberia	2.6	111	...	...	6.3	...	54	71	61		
41. Myanmar	41.6	677	...	...	...	...	61	28	19		
42. Sudan	25.1	2,506	...	...	11.5	...	50	88	73		
43. Viet Nam	66.3	330	...	...	...	...	67	16	12		
Middle-income economies	1,087.5t	41,139t	2,220w	2.2w	21.1w	85.6w	66 v	27w	22		
Lower-middle-income	629.1t	22,432t	1,530w	1.5w	23.6w	64.8w	65w	32w	25		
44. Bolivia	7.2	1,099	630	-0.7	15.9	317.9	60	29	23		
45. Zimbabwe	9.8	391	640	0.7	5.8	10.8	61	40	33		
46. Senegal	7.4	197	710	-0.6	6.3	6.7	47	75	62		
47. Philippines	61.5	300	730	1.3	11.4	14.9	64	11	10		
48. Cote d'Ivoire	11.9	322	750	0.5	9.4	2.3	55	60	40		
49. Dominican Rep.	7.1	49	830	2.3	6.7	21.8	67	18	12		
50. Papua New Guinea	3.9	463	860	0.1	8.1	5.3	55	62	48		
51. Guatemala	9.2	109	900	0.7	7.1	14.6	63	53	45		
52. Morocco	25.1	447	950	2.3	7.0	7.2	62	62	51		
53. Cameroon	11.7	475	960	3.0	9.0	5.6	57	57	40		
54. Ecuador	10.3	284	980	2.8	10.9	36.6	66	16	14		
55. Syrian Arab Rep.	12.4	185	1,000	2.9	7.9	14.6	66	49	30		
56. Congo	2.3	342	1,010	3.1	6.8	0.5	53	56	43		
57. El Salvador	5.2	21	1,110	-0.4	7.0	17.2	64	30	22		
58. Paraguay	4.3	407	1,110	4.6	9.3	24.4	67	12	10		
59. Peru	21.7	1,285	1,160	-0.2	20.6	233.9	63	21	15		
60. Jordan	3.2	89	1,240	...	...	...	67	30	20		
61. Colombia	32.3	1,139	1,260	2.3	17.5	24.8	69	14	13		
62. Thailand	55.8	513	1,420	4.4	6.2	3.4	66	10	2		
63. Tunisia	8.1	164	1,440	3.2	6.7	7.4	67	44	35		
64. Jamaica	2.4	11	1,500	-1.3	12.8	18.3	73	...	...
65. Turkey	56.5	779	1,630	2.6	20.8	43.2	67	29	19		
66. Romania	23.2	238	1,640	...	...	1.8	70	...	...

Note: For economies with population of less than 1 million, see Box A. 1; for other economies, see Box A. 2; For data comparability and coverage, see the techni notes. Figures in italics are for years other than those specified.

BASIC INDICATORS

	Population millions end 1990	Area (thousands of square kilometers)	GDP per capita ^a		Average annual rate of increase ^b		Life expectancy at birth (years) 1990	Adult literacy (percent)	
			Dollar 1990	1985-90 (percent)	1965-90 (percent)	Female 1985		Male 1985	
1. Poland	38.2	319	1,830	...	...	54.3	71	...
2. Panama	2.4	77	1,030	1.4	...	7.3	73	12	
3. Costa Rica	2.8	51	1,870	1.4	...	23.6	76	7	
4. Chile	13.2	757	1,940	0.4	12.8	20.5	72	7	
5. Slovenia	1.9	352	2,040	8.4	8.4	12.0	87	35	
6. Algeria	25.1	2,352	2,050	2.1	10.9	8.8	66	56	
7. Bulgaria	8.8	111	2,250	...	...	7.7	73	...
8. Mauritius	1.1	2	2,250	3.2	11.8	8.8	70	...	
9. Malaysia	17.9	331	2,370	4.0	4.8	1.6	70	90	
10. Argentina	32.8	2,767	2,370	0.3	78.4	236.2	71	5	
11. Iran, Islamic Rep.	65.8	1,548	2,450	0.1	15.6	18.6	62	57	
12. Albania	3.3	28	...	...	...	...	72	...
13. Angola	10.0	1,247	...	...	...	...	46	72
14. Lebanon	...	10	...	...	...	...	85	27
15. Mongolia	2.1	1,566	...	...	...	-1.9	60	...
16. Yemen	1.8	224	...	...	...	19.4	67	...
17. Nicaragua	3.9	130	...	-3.3	8.9	432.3	61	...	
18. Yemen, Rep.	11.3	520	...	...	...	...	48	74
Upper-middle-income	450.21	12,7091	3,410w	2.0w	19.3w	102.5w	62w	19w	
19. Mexico	10.2	1,951	2,490	2.0	15.0	70.3	70	15	
20. South Africa	31.6	1,221	2,530	1.3	10.3	14.4	62	...	
21. Venezuela	19.7	912	2,530	-1.0	10.4	18.3	70	10	
22. Uruguay	3.7	177	2,560	0.8	58.2	81.4	73	4	
23. Brazil	190.4	8,512	2,580	3.0	31.3	264.3	66	20	
24. Hungary	10.8	93	2,780	...	2.6	8.0	71	...	
25. Yugoslavia	23.3	266	2,900	2.8	16.2	122.0	72	12	
26. Czechoslovakia	15.7	128	3,140	...	...	1.9	72	...
27. Gabon	1.7	263	3,170	0.8	12.8	-1.7	63	52	
28. United Arab Emirates	1.2	6	3,610	0.0	13.7	8.4	71	...	
29. Portugal	10.4	92	4,500	3.0	11.7	18.1	75	19	
30. Korea, Rep.	42.4	98	5,400	7.1	18.4	6.1	71	1	
31. Greece	10.7	132	5,590	1.2	10.3	10.0	77	11	
32. Saudi Arabia	14.3	2,192	7,050	2.6	17.9	-4.2	64	62	
33. Iraq	13.9	434	...	...	...	...	63	61
34. Libya	4.5	1,782	...	-3.0	15.4	0.2	62	60	
35. Oman	1.6	212	...	6.4	19.9	...	66	...	
Upper-middle-income	4,143.01	72,3121	540w	2.5w	16.7w	61.8w	63w	48w	
Sub-Saharan Africa	485.21	23,0681	340w	0.2w	11.4w	20.0w	51w	47w	
East Asia & Pacific	1,577.21	15,5721	800w	5.3w	8.3w	6.6w	63w	34w	
South Asia	1,147.71	5,1681	380w	1.9w	8.3w	3.0w	58w	47w	
Europe	200.31	3,1711	2,400w	...	13.8w	24.3w	70w	22w	
Middle East & N. Africa	253.41	11,3341	1,780w	1.3w	13.6w	7.5w	61w	60w	
Latin America & Caribbean	481.11	20,5071	2,180w	1.3w	31.4w	192.1w	62w	15w	
Other economies	380.31	22,6341	...	...	...	...	71w	7w
Severely indebted	453.21	21,0481	5,140w	2.1w	27.4w	179.5w	67w	24w	
High-income economies	815.41	31,7301	18,580w	2.4w	7.7w	4.5w	77w	5w	
OECD member	775.81	31,2431	20,170w	2.4w	7.6w	4.2w	77w	5w	
Other	39.61	5471	...	...	13.8w	26.7w	75w	33w
37. Iceland	3.3	70	9,500	3.0	11.9	8.6	74	...	
38. Israel	4.7	21	10,600	2.6	25.2	101.4	76	...	
39. Spain	38.6	505	11,000	2.4	12.9	9.2	76	7	
40. Singapore	3.0	1	11,180	6.5	5.1	1.7	74	...	
41. Hong Kong	5.8	1	11,490	8.2	10	7.2	78	...	
42. New Zealand	3.4	289	12,680	1.7	10.3	10.5	75	1	
43. Belgium	10.0	31	15,540	2.6	8.8	4.4	76	1	
44. United Kingdom	67.4	243	15,100	2.0	11.2	5.8	76	1	
45. Italy	57.2	301	15,530	3.0	11.3	9.9	77	1	
46. Austria	17.1	7,587	17,000	1.9	8.5	7.4	77	1	
47. Netherlands	14.9	37	17,320	1.8	7.5	1.9	77	1	
48. Austria	7.7	84	19,080	2.9	5.8	3.6	76	1	
49. France	56.4	563	19,490	2.4	8.4	8.7	77	1	
50. United Arab Emirates	1.8	84	19,680	...	...	1.1	75	...
51. Canada	26.5	9,976	20,470	2.7	7.1	4.4	77	1	
52. United States	260.0	9,373	21,730	1.7	8.5	3.7	76	1	
53. Denmark	5.1	43	22,000	2.1	8.8	6.6	75	1	
54. Germany ^c	78.5	367	22,380	2.4	5.2	2.7	76	1	
55. Norway	4.2	324	23,170	3.4	7.7	6.6	77	1	
56. Sweden	8.6	450	23,660	1.9	8.0	7.4	78	1	
57. Japan	121.5	378	23,430	4.1	7.7	1.5	78	1	
58. Finland	5.0	338	26,040	3.2	13.6	8.8	78	1	
59. Switzerland	6.7	41	32,650	1.4	5.3	3.7	78	1	
60. Norway	2.1	18	...	-4.3	15.8	-2.7	74	33	
World	5,303.91	133,1421	4,200w	1.6w	9.2w	14.7w	69w	43w	
Fuel exporters, excl. former USSR	2,62.91	12,3871	...	1.1w	14.5w	8.3w	68w	64w	

Economic classification by the United Nations or otherwise regarded by the author as developing. ^a See the technical notes. ^b In the two cases GDP and GNP data are not available for 1990. ^c In the case of the United Kingdom, the data for 1990 are the latest available. ^d In the case of the United Kingdom, the data for 1990 are the latest available. ^e In the case of the United Kingdom, the data for 1990 are the latest available. ^f In the case of the United Kingdom, the data for 1990 are the latest available. ^g In the case of the United Kingdom, the data for 1990 are the latest available. ^h In the case of the United Kingdom, the data for 1990 are the latest available. ⁱ In the case of the United Kingdom, the data for 1990 are the latest available. ^j In the case of the United Kingdom, the data for 1990 are the latest available. ^k In the case of the United Kingdom, the data for 1990 are the latest available. ^l In the case of the United Kingdom, the data for 1990 are the latest 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round. Hence, it is most pertinent to examine the constraints and problems at this stage. It is necessary to look back at the 3 Janasaviya rounds which have been completed in order to achieve the targets set out for the future Janasaviya rounds.

Recipients are awarded Rs.2500/- per month for a period of two years. Of this amount, up to Rs.1000/- could be used to purchase goods while it is recommended that Rs.458/- should be saved in a savings account. When Rs.1458/- is deducted for purchasing goods from the total amount of Rs.2500/- per month, they are able to build a fund worth of Rs.25,000/- by saving Rs. 1042/- during a period of 24 months and arrangements have been made for the recipients to produce the receipt obtained for this fund as security in obtaining loans from the state banks.

Furthermore, Rs.3000/- per year will be paid as interest for the saving of Rs. 25,000/- which will be paid in instalments of Rs.250/- per month at the end of two years, with the completion of Janasaviya.

Two main components of the Janasaviya could be shown as follows:

First Stage :

Awarding of the Janasaviya basket and encouraging savings.

Second Stage:

Compulsary savings of Rs. 25,000/- during 24 months and consequently payment of Rs.250/- per month as interest.

First Stage

Under the first stage, our attention is focussed on the identification of goods comprising the Janasaviya basket and examining the method used for their distribution.

The aim of awarding the Janasaviya basket consisting of 25 items is to create a conducive atmosphere for upgrading the living conditions of the poorest of the poor earning an income below the subsistence level. Hence, the major objective is to enlist the participation of the poor for the development process by developing their standard of living through providing nutritious food. In other words, to achieve development through developing the human resources.

Considering the Janasaviya basket, it is evident that market demand has increased significantly by enhancing the purchasing power of a larger segment of the population.

Goods Comprising the Janasaviya Basket

1. Rice
2. Sugar
3. Cowpea
4. Green gram
5. B' onions
6. Small onions
7. Potatoes
8. Vegetables
9. Fruits
10. Coconuts
11. Dry fish
12. Vita milk
13. Eggs
14. Fish
15. Clothing
16. Exercise book, pencils
17. Agricultural implements
18. Umbrellas
19. Tools & Equipments
20. Fertilizer
21. Kerosene oil
22. Clay pots, aluminium goods
23. Mosquito nets
24. Brooms, Ekel brooms
25. Coir

Since all items included in the basket are purchased by the recipients a better idea about the market situation could be gained by multiplying the number of Janasaviya items by the number of recipients.

We examine below a few items purchased by all beneficiaries:

1. Rice
2. Small onions
3. Coconut
4. Sugar
5. B' onions
6. Dry fish
7. Cowpea
8. Potatoes
9. Eggs
10. Green gram
11. Vegetables
12. Fish, clothing

Table 3 provides an idea about the increased market demand generated through a Janasaviya round under this situation.

The Janasaviya programme seeks to foster the recipients and encourage them to produce the goods consumed by them in

order to enlist their maximum cooperation for increasing the Gross Domestic Production.

When taking into consideration the list of goods scheduled to be distributed it is evident that the process involves an extensive production programme. Steps should be taken to increase the quantity produced and to reduce the prices to the maximum level in order to discourage any unfair profit margins. The objective of making the Janasaviya recipients self reliant will be totally abandoned if the private sector is engaged in the production of goods in view of achieving large profit margins. Furthermore, the beneficiaries will be able to purchase only a limited number of goods.

Under the circumstances, our attention should be focussed on the cooperative system which is exempted from maximising profits in carrying out its activities. There is a need to commence cooperative societies to assist the production as well as the distribution of Janasaviya items.

The primary cooperative societies operating Islandwide play a major role in the distribution of Janasaviya goods at present. Hence there is a need to set up more cooperative societies to enhance the production and distribution of goods. Apex cooperative societies can perform a significant role in this regard in addition to cooperative villages which is an old concept. (Similar to Collective Farms)

Apex cooperative societies could be set up in all AGA's Divisions where the Janasaviya programme is being implemented while, cooperative villages could be started in all villages coming within an AGA's Division. Cooperative villages could be started by identifying suitable projects through developing the technical know how of the villages based on the resources available at the village level while production, distribution and sale of Janasaviya items could be successfully undertaken by the apex societies.

Apex Cooperative societies could enlist the Janasaviya recipients of the respective administrative division on contract basis or, give sub contracts to the cooperative villages (collective farms) formed by the recipients for the production of goods. The goods produced could be purchased by the Apex cooperative society for Islandwide distribution.

These activities should be taken by the Department for Cooperative Development in collaboration with the People's Bank.

Table 4

LOANS BY BANKS TO JANASAVIYA RECIPIENTS SAVINGS & CREDIT - ROUND 2

A.C.A. Division	BANK OF CEYLON				PEOPLES BANK				C.R.B.			
	No. of Loans	Am. Rs. m	Repay. Rate	No. of Loans	Am. Rs. m	Repay. Rate	No. of Loans	Am. Rs. m	No. of Loans	Am. Rs. m	Repay. Rate	No. of Loans
01. Colombo	595	2.91	78%	299	0.71	78%	725	3.30	85	0.2	85	0.2
02. Hingurakgoda	302	3.61	91%	216	1.76	45%	1738	12.84				
03. Homagama	192	2.46	85%	715	4.87	78%	1207	8.7				
04. Homagama	258	1.01	38%	388	1.85	31%	1570	8.45	812	3.21		
05. Kandy	96	0.53	14%	152	0.81	43%	493	2.7	149	0.66		
06. Kandy	590	2.77	58%	330	1.17	51%	625	3.80	32	0.18		
07. Kandy	105	1.15	71%	209	1.01	32%	838	4.60	98	0.90		
08. Kandy	434	3.51	103%	403	2.40	82%	331	6.01	340	0.92		
09. Kandy	31	0.26	-	174	1.12	78%	2387	13.75	110	0.71		
10. Kandy	328	2.28	81%	518	3.24	84%	1801	7.85	145	0.78		
11. Kandy	187	0.70	58%	-	-	-	2877	27.00	45	0.90		
12. Kandy	949	2.5	58%	1080	5.10	40%	8211	7.1				
13. Kandy	-	-	-	602	2.45	58%	-	-				
14. Kandy	296	0.30	87%	270	1.54	80%	535	3.40	108	0.78		
15. Kandy	57	0.28	63%	400	2.02	74%	1515	0.530	185	0.50		
16. Kandy	474	1.14	38%	1520	3.57	90%	1619	10.07	90	0.87		
17. Kandy	-	-	-	520	4.05	40%	1750	0.033	58	0.24		
18. Kandy	125	1.15	35%	814	5.73	16%	302	2.1				
19. Kandy	79	0.67	44%	-	-	-	1512	21.00	319	2.03		
20. Kandy	290	1.87	37%	-	-	-	703	0.146	302	1.34		
21. Kandy	602	2.9	38%	152	0.44	79%	823	6.9				
22. Kandy	-	-	-	1302	0.68	57%	-	-				
TOTAL	6144	41.40	69%	11587	70.59	72%	26542	135.22	3860	17.07		

LOANS BY BANKS TO JANASAVIYA RECIPIENTS SAVINGS & CREDIT - ROUND 1

A.C.A. Division	BANK OF CEYLON				PEOPLES BANK				C.R.B.			
	No. of Loans	Am. Rs. m	Repay. Rate	No. of Loans	Am. Rs. m	Repay. Rate	No. of Loans	Am. Rs. m	No. of Loans	Am. Rs. m	Repay. Rate	No. of Loans
01. Agnew	8760	11.64	42%	1031	0.40	61%	80	0.29				
02. Alagaha	787	7.01	43%	551	2.58	73%	55	0.15				
03. Anuradhapura	1493	10.12	35%	588	6.25	63%	349	1.97				
04. Anuradhapura	3089	23.04	63%	1582	15.86	30%	-	-				
05. Battaramulla	920	3.17	39%	942	8.18	42%	-	-				
06. Battaramulla	8228	19.00	41%	2009	17.72	-	01	0.1				
07. Galle	1288	9.06	52%	1567	14.80	60%	66	0.42				
08. Galle	489	8.16	71%	318	3.19	82%	516	3.18				
09. Homagama	561	0.80	68%	255	1.21	75%	387	2.05				
10. Homagama	3342	21.35	81%	2702	19.36	61%	-	-				
11. Homagama	1815	18.35	28%	1191	9.56	39%	-	-				
12. Kandy	705	7.11	44%	870	6.00	47%	359	1.08				
13. Kandy	1873	12.54	77%	870	4.96	70%	140	0.45				
14. Kandy	194	10.16	68%	882	0.67	61%	142	1.24				
15. Kandy	1025	1.19	31%	435	9.65	31%	41	0.21				
16. Kandy	277	1.54	50%	315	9.47	30%	-	-				
17. Kandy	357	6.42	67%	-	-	-	-	-				
18. Kandy	1488	8.90	53%	1239	6.29	99%	29	0.25				
19. Kandy	-	-	-	500	5.38	42%	1013	2.47				
20. Kandy	2572	38.61	41%	752	8.83	40%	-	-				
21. Kandy	958	1.98	63%	1501	10.41	65%	184	1.12				
TOTAL	28965	248.28	63%	21605	138.20	57%	9626	75.41				

TABLE 4 - B
LOANS BY BANKS TO JANASAVIYA RECIPIENTS
SAVINGS & CREDIT - ROUND 3

A.G.A. Division	BANK OF CEYLON			PEOPLE'S BANK			C. R. B.			R. R. D. S.	
	No. of Loans	Amt. Rs. mn	Recovery Rate	No. of Loans	Amt. Rs. mn	Recovery Rate	No. of Loans	Amt. Rs. mn	Recovery Rate	No. of Loans	Amt. Rs. mn
01. Anuradhapura	35	0.54	-	48	-	0.5	294	2.32	-	178	1.46
02. Battaramulla	-	-	-	70	-	0.3	48	0.30	-	11	0.08
03. Bulathsinhala	-	-	-	12	-	0.1	160	0.60	-	-	-
04. Habaraduwa	128	0.42	-	307	-	1.2	67	0.08	-	-	-
05. Kalonnawa	81	0.35	-	168	-	1.5	104	0.60	-	-	-
06. Kandasale	-	-	-	163	-	1.4	1357	12.09	-	37	0.27
07. Kotmale	-	-	-	116	-	1.3	908	4.45	-	-	-
08. Kumbukkanpola	-	-	-	110	-	1.2	11	0.05	-	-	-
09. Minuwangoda	-	-	-	-	-	-	67	0.50	-	-	-
10. Minipe	-	-	-	-	-	-	670	4.33	-	-	-
11. Mulatiyana	-	-	-	-	-	-	40	0.75	-	12	0.04
12. Mahakula	-	-	-	-	-	-	-	-	-	207	1.85
13. Madirigirya	-	-	-	-	-	-	51	0.33	-	-	-
14. Mawanella	-	-	-	-	-	-	04	0.02	-	04	0.01
15. Maho	74	0.64	-	13	-	-	-	-	-	25	0.24
16. Pallopola	-	-	-	67	-	0.6	250	1.33	-	-	-
17. Pallama	-	-	-	52	-	0.3	-	-	-	24	0.35
18. Polpalgama	02	0.23	-	142	-	1.4	187	0.94	-	-	-
19. Pabuganwewa	-	-	-	71	-	0.9	-	-	-	-	-
20. Soranatala	-	-	-	99	-	0.6	91	0.50	-	-	-
21. Tissamaharama	-	-	-	35	-	0.2	95	0.51	-	30	0.19
22. Wellipola	-	-	-	264	-	1.3	159	0.78	-	10	0.02
TOTAL	300	1.88	-	1758	-	12.8	4371	29.50	-	538	4.38

Table 3
Janasaviya Programme

Basic statistics on the consumer need under one round of the Janasaviya

Item	Units	Total	Item	Unit	Total
1. Rice	Met.tons	8832	14. Fish	Met.tons	384
2. Sugar	"	480	15. Clothing	Metre(millions)	0.576
3. Cowpea	"	384	16. Exercise books & Pencils	Millions	0.432
4. Green gram	"	576	17. Agricultural implement	Units	30,720
5. Red onions	"	192	18. Umbrellas	Units	11,520
6. B'onions	"	192	19. Technical equipments	Units	960
7. Potatoes	"	288	20. Fertilizer	Met.tons	2,112
8. Vegetables	"	960	21. Kerosene oil	Litres (Millions)	0.576
9. Fruits	"	96	22. Clay pots, plates & aluminium goods	Units	268,800
10. Coconut	Millions	1.92	23. Mosquito nets	Units	1,920
11. Dry fish	Met.tons	192	24. Brooms, Ekel brooms	Units	9,600
12. Vitamilk	Packets	96000	25. Coir	Met.tons	7.68
13. Eggs	Millions	0.96			
<hr/>					
25 Districts	28 AGA Divisions	188,945 Families	47 Multi Purpose Co-operative Societies		

areas. Unplanned production led to accumulation of stocks and the failure of projects. The Janasaviya recipients were not aware that the goods should be produced according to the market demand. However, proper guidance was not provided and no attempt has been made to remedy this situation up to now. The state banks tried to implement the Janasaviya programme only through providing quick financial assistance without identifying or evaluating the projects which led to the failure of most projects.

Another reason contributing to the failure of projects was the unavailability of raw materials because the recipient lacked the basic knowledge that the selection of projects had to be based on the resources available in the respective areas. Furthermore, most recipients lacked the technical know-how particularly with regard to producing high quality goods under a perfect market competition. They were only interested in producing goods and were unaware that goods need

to be sold at the market. Despite the facilities available for the development of the technical knowledge and skills of the recipients, due to lack of commitment of relevant organizations goods produced were of low quality and as a result remained unsold. The end result was that the loans obtained for such projects could not be settled and were considered as past dues.

2. Marketing problems

Marketing problems can be identified as a major reason for the failure of Janasaviya projects. Lack of an organized marketing system and absence of marketing organizations to purchase the goods were the main reasons contributing to this situation. Constantly production was higher compared to the demand prevailing in the relevant area and lack of marketing organizations to purchase and distribute the excess contributed to the stagnation of goods.

However, this situation will not arise if the above mentioned apex cooperative societies can be set up in all administrative districts.

A major problem is that, the purchasing centres already in operation have not been able to provide a solution or achieve the objectives set out under the Janasaviya programme. There were many instances when these purchasing centres have functioned in order to achieve profits like private traders.

Another weakness is that state banks have not taken any steps to remedy this situation. This situation would not arise if financial aspects of the marketing problems were taken into consideration in evaluating the projects. Apex cooperative societies can be set up as a viable solution for the marketing problems, it will eradicate the exploitation of recipients and generate a reasonable price and facilitate marketing. Setting up of marketing centres on an Islandwide basis would facilitate the production of goods to meet the demand of the entire country. Remedial measures have to be taken immediately to prevent the Janasaviya recipient being treated as defaulters.

3. Unavoidable constraints

Constraints related to weather conditions can be identified as the next reason for the failure of projects. The recipients obtain loans mostly for cultivation. The cultivation may be destroyed due to non availability of rain water or due to heavy rains.

Further animal husbandry projects are subjected to various diseases. The recipients engaged in such projects will be unable to pay back the loans if all the animals die of a disease.

If Janasaviya projects are unsuccessful due to such unavoidable reasons a new loan scheme should be implemented for the rehabilitation of projects without considering the recipients as defaulters. The credit system of the state banks should be organized to meet this need. The project rehabilitation loans granted by the Grameen Bank of Bangladesh can be used as a model for organizing a suitable scheme for Sri Lanka.

The Agricultural Insurance Board can play a major role to remedy this situation by educating and assisting the recipients with regard to selection of a suitable insurance scheme.

Case Study

Project loans for Janasaviya recipients Hannwella AGA Division

Our study was based on the Hannwella AGA Division which occupied an important position under the first round of Janasaviya. The major reasons being the awarding of the highest financial assistance for the Hannwella AGA Division and its close proximity to Colombo.

This AGA Division consists of 104 Grama Wasams supervised by a Grama Seva Niladari.

Of the total population of the Hannwella AGA Division, 85% consist of rural population while only 15% is urban inhabitants. With regard to the literacy level, about 90% of the population have obtained school education and 76% have received secondary education. Half of the total population of the area has studied up to G.C.E. ordinary level.

However, their knowledge with regard to business and industries is marginal and only 35% has received any training with regard to technical skills. Only 7% possess trade experiences.

Financial assistance was provided by Bank of Ceylon and People's Bank for new projects implemented by Janasaviya recipients and also for the projects already in progress in the Hannwella AGA Division and loan schemes designed by the relevant banks for other purposes were utilized to pay the advances and loans for the Janasaviya recipients. We give below the details of the loans granted by Bank of Ceylon and People's Bank at the time of our study.

These projects can be categorized into the following fields:

	Quantity:
Bank of Ceylon	
No. of loans granted - 3,342	Rs. 2,13,50,000
People's Bank	
No. of loans granted - 2,192	Rs. 1,93,50,000
1. Industries	
2. Animal husbandry	
3. Trade	
4. Agriculture	

Development of the Industrial sector

There were 12 minor industries
Sewing of clothes, Weaving, mining, making of brooms, eel brooms and coir

mattresses, carpentry and wood carving, home decor and wall hangings, manufacture of sweets, flower pots and cement blocks.

Animal Husbandry

Rearing of chicken and goats to obtain meat and cows for milk.

Trade

Trade activities were as follows:

Marketing of milk, fruits, ready made garments, clothing and fish, purchase and sale of paddy and sale of pickled spices.

Agriculture

Majority of loans obtained by the Janasaviya recipients were for the cultivation of vegetable and loans were also obtained for the cultivation of bananas.

The quantity of loans is about Rs.8,000/- according to the advances paid.

Only 75% of the Janasaviya projects were in operation after the awarding of loans. The percentage distribution of loans is given below:

Industries	43.7%
Animal husbandry	28.3%
Trade	23.9%
Agriculture	2.2%

About 50% of the project in operation have achieved good results while constant assistance should be provided for the rest after a proper evaluation. Further, the absence of organized programmes to rehabilitate and restart the totally unsuccessful projects and those which have ceased to function was evident.

Repayment of Loans

With regard to repayment of loans the Bank of Ceylon has shown a satisfactory position. Sixty one percent of the loans granted by the Bank of Ceylon were repaid while the rate of repayment was 44% with regard to the People's Bank. (Please see the tables).

About 12% of the recipients have totally refrained from repaying the Janasaviya loans the reason being the total failure of projects.

The Savings Trend

The savings of the recipients are calculated by deducting the cost of production and basic expenses of the family from the income earned by marketing the goods. According to our ad hoc survey based on the income levels, the recipients are in the habit of saving a section of their income earned from 75% of the projects operation.

4. Organization and Planning

The major problem which has led to other difficulties is the absence of a separate official and an office for implementation of the Janasaviya and, lack of coordination between the organizations and financial Institutes providing assistance. Through proper coordination the assistance of the Industrial Development Board can be obtained with regard to promoting awareness on the identification of projects and technical know how for the production of high quality products. Further, better results could be gained by coordinating the activities between the Janasaviya officials and the financial Institutes. The Janasaviya official could play a major role with regard to evaluation of the projects prior to awarding assistance and once financial assistance is made, encouraging the payment of loans and suggesting timely, remedial measures with regard to crop failures and diseases. Such actions will undoubtedly assist the Institutes providing financial assistance for Janasaviya. However, under the prevailing system such services cannot be performed by the Grama Seva Niladari as it will lead to the disruption of other duties performed by him. Janasaviya offices should be started in each AGA's Division while a special officer should be appointed for each Grama Seva Vassam. This field officer should have a knowledge about identification of projects, organization evaluation and coordination of activities with a total commitment towards developing the country and uplifting the living conditions of the villagers.

If these improvements could be effected even after completion of the 2nd round of the Janasaviya the success of this important concept could be witnessed by the entire world.

5. Political Reasons

Another reason which has contributed to the failure of the Janasaviya is the prevailing political atmosphere of the country. Since the political system is based on a party system the opposition is most likely to oppose any new concept introduced by the ruling party. This situation has affected the Janasaviya programme too.

Although all political parties declare that they are committed towards eradication of poverty they often criticize and instil false fear into the minds of the people. There were instances where the recipients were encouraged to refrain from paying the debts obtained under the Janasaviya programme. It should be mentioned that the state banks have been

The Uses of Mass Media Theories

Senarath Tennakoon

Modern mass media have captured everything everywhere in the universe. There is growing fragmentation of the media with increases in the user groups of different types of mass media. The use of newspapers is growing fast despite the increased growth, development, and proliferation of other forms of mass media. Research in USA has revealed that better educated readers have higher incomes and those in the 35-55 year age group are likely to be the most committed readers.¹ Newspaper use measurement would be improved if standardization were sought and if use measures were based on an index of use, established by combining answers to several questions asked most frequently.²

There are four mass media theories that attempt to explain and assess newspaper audience effects. The first of these uses the user and gratification approach that came into being in the late 1950s. This theory has three basic tenets;

1. The people choose from the media the messages that interest them most.
2. The selection of media messages is largely influenced by the gratification produced by the message.
3. The choice of the media message is individualistic. But this is influenced by the socio-economic status of the audience.

The lower socio-economic audience are influenced heavily by the entertainment and the immediate gratification effect of the media content. The higher socio-economic audience are influenced

by the delayed reward content of the media message. The former do not rely on newspapers. The user and gratifications theory is generally regarded as a "weak media theory" as the media have very limited control over the audience effects³.

The second theory deals with information diffusion. It originated from the diffusion studies of the US Department of Agriculture in 1920s during the investigation procedures of farmers' adoption of hybrid corn varieties⁴. The four key areas in this theory are:

1. Information flow follows a diffusion curve. Some individuals receive information directly; some indirectly and the rest do not receive it. Although the news dissemination is simultaneous the audiences do not receive it at identical times in an identical manner.
2. The speed of arrival of a media message depends on an individual's socio-economic status as the socio-economic status relates to media use. The literate read more newspapers than the illiterate and they are better informed.
3. Different messages are received at different speeds. Election results would reach the audience more quickly than the news of a famine.
4. In a crisis situation most people first learn of it by word of mouth and last from newspapers. In non-crisis situations the nature of the situation will determine the most appropriate medium for information

transfer. For instance, the radio medium was the first to report the bomb blast at Pettah and Havelock Town in Sri Lanka in the recent past.

Diffusion theory is also a weak media theory as there is a lengthy and involved process in information transfer. There are flaws pertaining to the assumptions about crisis topics, speed of transmission, media effects and inconsistencies in methodology⁵.

The third theory deals with knowledge gap considerations. People in low socio-economic strata are the media poor audience and those in the upper socio-economic strata are the media rich audience. There is a knowledge gap between these two audiences. When the flow of information increases due to additional new media such as the cable television and the proliferation of magazines, the media rich will begin to use these new channels and the media poor suffer from a lack of knowledge, thus widening the knowledge gap between the rich and the poor. This theory is a powerful media theory. It assumes that the media poor makes less use of the print media and spend more time enjoying television entertainment. Apart from the socio-economic status, education and perceived need for specific information exert a great effect on media attention and knowledge gain. In the media rich there could be a "ceiling" effect despite continued increased information flow. Previous knowledge on a topic exerts an inverse effect on knowledge gain. Interpersonal communication could counteract one's lack of print media use in case of highly relevant issues⁶.

Agenda setting function is the modern theory of audience effects. In this the media identify the issues that are interesting to the audience and focus their attention. Those important to the media are given wide and vivid coverage. Thus the media sets a public agenda revealing the philosophy that the people carry mass media messages.⁷

In the developed industrialised countries there is wide privatization of the media and the information offered to the public reflects the media owners' interest. In many less developed countries the radio and the television are state monopolised organisations. Hence, public

Letters to the Editor

Communist Labor Party of the United States of North America

January 29, 1993

Dear Editor,

Thank you for sending the latest issue of *Economic Review* and the accompanying letter. As you know we are especially interested in any material on events concerning the Western hemisphere.

The Sri Lankan article on Che was particularly moving. Che's name will be forever linked to dedicating one's life to revolutionary action. The article reminds us of how Che always uncompromisingly acted on the logic of his estimate of the situation.

Plekhanov, in his essay on the "Role of the Individual in History" points out, "A great man is great not because his personal qualities give individual features to great historical events, but because he possesses qualities which make him most capable of serving the great social needs of his time, needs which arose as a result of general and particular causes... A great man... sees further than others and desires things more strongly than others."

The subject matter which the article raises is becoming very critical for our movement in today's world. The rapid spread of production based on electronics has created new conditions under which revolutionaries must operate. On the one hand the producing an abundance of goods for everyone on the planet. On the other hand, electronics drives the value of labor power towards zero, and eliminates jobs for the overwhelming majority of people. With the growth of absolute poverty under capitalism, and the inability to circulate the abundance of goods produced, the necessity for a communist reorganization of the economy has become an immediate objective necessity.

The above quote from Plekhanov continues, "He [a 'great' man] is hero. But he is a hero not in the sense that he can stop or change the natural course of things, but in the sense that his activities are the conscious and free expression of this inevitable and unconscious course. Herein lies all his significance; herein lies his whole power. But this significance is colossal, and the power is terrible."

Today the conditions demand that the 'new man and woman' that Che wrote about and exemplified, step onto stage of world history. It is time when those who recognize the inevitable historical necessity of communism can be free to become the heroes of our epoch.

We look forward to receiving the coming issues of *Economic Review* and the exchange of ideas that it has stimulated.

Comradely,
International Committee,
Communist Labor Party

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agenda setting could become an affair instrumented by the state. Further, poor Asian countries are influenced and led by the western electronic media. What is known most and best about the Gulf Crisis or the disintegration of the Soviet Union has been learnt from the western media inputs. This media dependency will continue as long as poverty continues to exist in the Asian countries.

The theories on mass media are helpful to understand the intricacies of media proceedings. Organisations and colourful individuals find it very difficult to hide from the media watch. The personal problems of the Royal Family of Great Britain, in particular, that between Prince Charles and Princess Diana, have been highlighted by the mass media as very sharp sensational issues. The media watch is extremely sharp and vivacious. The media theories, could to some extent, help the audiences to assess and validate media messages.

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Cont. from page 31

discouraged to grant loans as the percentage of repayment was recorded to be at a very low level.

There are common characteristics to all developing countries with regard to planning

of the development process, implementation and evaluation of its success.

Eliminating the weaknesses of each development project and taking remedial measures through discussions have come to a standstill due to the fear and belief that privileges enjoyed by the bureaucracy and their importance with regard to the duties performed

in connection with the development process would cease if the country is fully developed by perceiving a development concept with total commitment.

We wish that a similar situation would not affect the Janasmiya programme which is committed to the eradication of poverty in Sri Lanka.

***'...SOUTH AFRICA IS A KIND OF
MICROCOSM OF THE WORLD
CAPITALIST SYSTEM, ASSEMBLING
ON ITS TERRITORY FEATURES
PROPER TO EACH AND
ALL OF THE "FOUR" WORLDS.'***

SAMIR AMIN

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