

ECONOMIC REVIEW

Jan/Feb. 1995

STRUCTURAL ADJUSTMENT The Small Producer's Dilemma



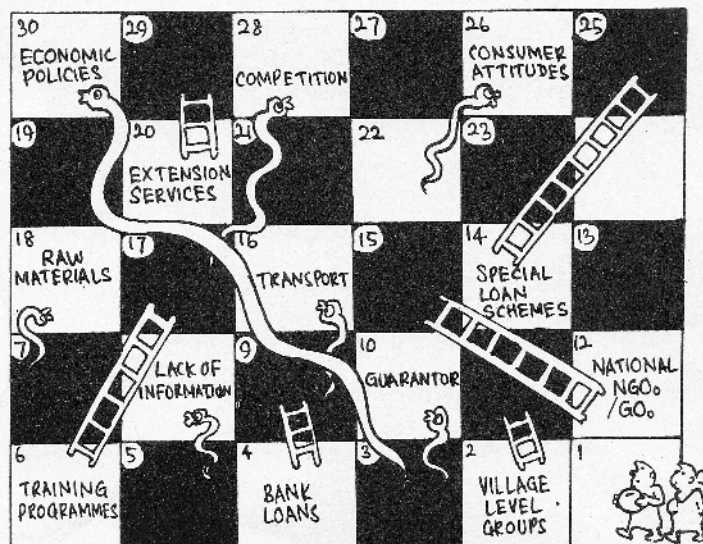
SMALL PRODUCERS IN THE PRODUCTION PROCESS



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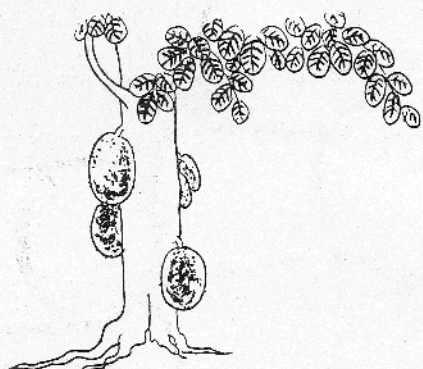
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Special Report

Structural Adjustment : The Small Producers' Dilemma

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THE ECONOMIC REVIEW is intended to promote knowledge of and interest in the economy and economic development process by a many-sided presentation of views & viewpoints, facts and debate. THE ECONOMIC REVIEW is a community service project of the People's Bank. Its contents however are the result of editorial considerations only and do not necessarily reflect Bank policies or the official viewpoint. Signed feature articles also are the personal views of the authors and do not represent the institutions to which they are attached. Similar contributions as well as comments and viewpoints are welcome. THE ECONOMIC REVIEW is published monthly and is available both on subscription and on direct sale.

Next Issue :

Women & Economy

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Overview

The World Bank, architect of Structural Adjustment Programmes (SAP), celebrated its 50th anniversary in October 16, 1994.

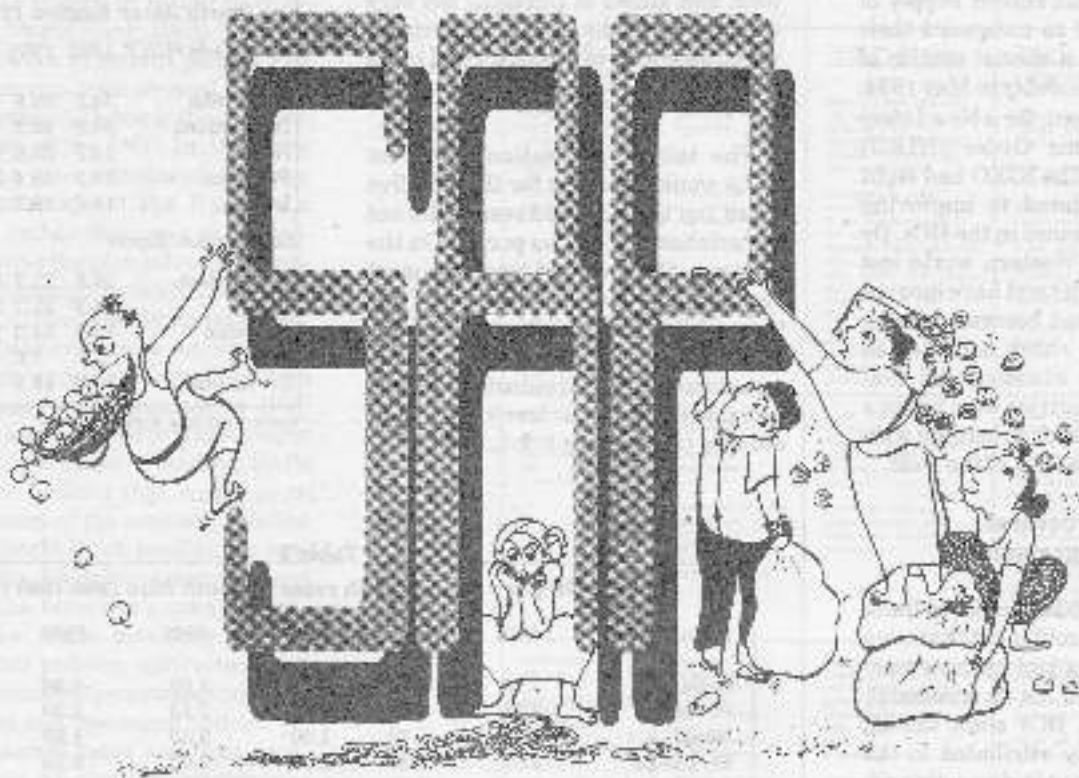
After many years of political independence and over three development decades, a large number of developing countries in the South Asia region are continuing to face deep economic and social crisis. Human Development Report 1994 places India, Pakistan and Bangladesh among the ten Least Developing Countries (LDCs) with highest incidence of poverty in the world. Accordingly, the proportion of poverty to the total population in these countries is 40%, 28% and 78% respectively. In Sri Lanka this amounts to 30%.

This alarming poverty incidence is inspite of various development and growth reforms that have been implemented for over three decades. These reforms have varied from industrial development and growth, redistribution with growth, basic needs and poverty alleviation. SAPs were introduced in the early 1980s to correct the "economic imbalances" in the developing countries to facilitate growth. After a decade under SAPs the validity of these policies to address the economic problems of the developing countries are now questioned. In fact, most critics in developing countries point out that SAPs have been quite detrimental. Increase of poverty is the one of the visible outcomes. Leading to this phenomenon are, lower domestic production and export income, higher imports and higher cost of living, lack of welfare and public utilities to the general masses, lowering quality of public facilities including education, health, transport and finance, neglect of agriculture in favour of industrial growth, and resulting incidence of malnutrition, unemployment, illiteracy, inequality of incomes and rural poverty.

Developing countries are characterised by a production base consisting of rural, predominantly agricultural, small and micro-scale producers. It is observed that neglect of this sector often result in the incidence of increased poverty. The development policies advocated by the international financial institutions do not seem address this issue sufficiently. The policies advocated are biased against the poor, the disadvantaged, the small scale agricultural based rural sector while favouring urban based, large-scale asset holding sector. The benefits of the so called open economy as promoted by SAP, are open only to a well off minority while being barred to a large majority. Thus, the overall impact of the SAP on the different sectors of the economy and on the people of the countries in which they have been implemented is often controversial and in many instances questionable.

Against this background, intermediate Technology Development Group (ITDG) an international NGO initiated a research project to investigate the impact of SAP on small scale production in the South Asia Region in order to identify alternative approaches appropriate for the development of this sector. The study consisted of five country papers: Bangladesh, India, Nepal, Pakistan and Sri Lanka. This is a part of a research project that focus on the general theme of SAP in developing countries. ITDG's perspective adds to that of other NGOs whose major focus was on the social effects of SAP rather than of its impact on the production aspects. The research project culminated in a regional workshop held in Colombo June last year.

This report is prepared based on the country papers, the regional paper with additional references of secondary sources.



STRUCTURAL ADJUSTMENT

The Small Producers' Dilemma

Background

Structural Adjustment Programs (SAPs) have become a much debated topic in recent times both in Sri Lanka and internationally. Introduced by the Bretton Woods Institutions - the World Bank (WB) and the International Monetary Fund (IMF), these policies are now implemented in most Developing Countries (DCs).

Before the 1970s IMF lending programs granted short term loans for specific projects. The problems faced

by the developing countries were believed to be short term phenomena. The loans were not necessarily tied to macro-economic policy reforms. However, despite massive injections of IMF funds into developing countries, the Balance of Payment (BOP) problems of these countries persisted and by the early 1980s reached crisis proportions. The two oil price shocks - a quadrupling of prices in 1973-74, and the world recession in the late 70s resulted in dramatic changes in the world economy. Terms of trade deteriorated for the oil importing countries, resulting in serious Balance of Payment (BOP) problems.

At the time, about half the foreign exchange earnings of the developing countries came from the export of primary commodities. These were usually agricultural products and minerals. Prices of these commodities have been unstable, and have been determined by the developed countries over the past 30 years or so. International commodity agreements to improve the situation were attempted but with little success. Although the developing countries continued to seek more favourable terms of trade, a response came only after the first oil price hike in 1973/74 which shook western Industrialized Countries (IC) and convinced

them that they had to agree to a better deal for the developing countries if only to have a guaranteed supply of raw material and so safeguard their own interests. At a special session of the UN general assembly in May 1974, a charter was agreed, for a New International Economic Order (NIEO) (Madeley: 1992). The NIEO had eight key proposals related to improving trade and development in the DCs. By the late 70s, the Western world lost interest in the NIEO and have ignored it ever since. It had become clear by then that the oil shock had created only a temporary situation and that the developing countries were not in a strong enough position to bargain with the industrial countries of the west.

Evolution of Structural Adjustment Programmes

By the early 1980s, the World Bank and the IMF were convinced that even a good project in a bad macro economic structure could not be successful. The crisis in the DCs since the oil shocks was largely attributed to the legacy of weaknesses in domestic policies and institutions (World Bank, 1989). The World Bank and the IMF felt that the debt problem and the growth problem needed to be combined and solutions sought for both. Thus, a need for an alternative set of policies targeted at the basic workings of the economic system was recognized. The Bank and IMF felt that "adjustments" were necessary in the DCs to reduce expenditure to face future shocks from external factors. The term "adjustment" was used to refer to the responses of the internal financial systems to the BOP disequilibrium. Countries facing increased current account deficits were asked to shift resources to the production of tradables either exports or import substitutes.

These "adjustment" policies were expected to make the economies more efficient and better able to mobilize and allocate resources in response to market signals. The Bank together with the IMF, extended "Structural Adjustment Loans" (SAL) and launched "Structural Adjustment Programs" (SAP) which in their opinion could address these concerns, particularly the balance of payment problem. Thus,

compared to earlier lending the SAP focused more on the medium and longer term and aimed at changing the very structure of the economy through various reforms to monetary and trade policies.

The initial expectation was that SALs would continue for three to five years, but the expected results did not materialize within this period. On the contrary, the terms of trade for most developing countries deteriorated further, while the real interest rates increased, the debt crisis and worldwide recession spread, and industrial growth remained below the levels of earlier decades (See Tables 1, 2.1, and 3).

Table 1

Various Debt Indicators for the South Asian Region 1982-1991

Total Debt / GNP	1982	1985	1990	1991
Sri Lanka	54.5	59.5	73.2	72.6
Bangladesh	38.9	42.5	54.9	56
Nepal	14.7	23.6	52.5	53.5
Pakistan	38.3	40.4	50.3	50.1
India	14.9	19.3	23.7	29.2
Debt Service / Export				
Bangladesh	19.8	21.7	28.7	19.9
India	14.3	22.7	28.3	30.6
Pakistan	15.6	24.2	22.9	n.a
Nepal	6.1	7.6	17.7	13.6
Sri Lanka	14.9	16.5	13.9	14

Source: World Bank World Debt Tables

Table 2

Real GDP per capita growth rates in South Asia 1986-1990 (%)

Country	1986	1987	1988	1989	1990	1986/90
India	2.73	8.08	3.44	3.69	-1.38	3.31
Pakistan	3.25	4.40	1.81	2.18	3.30	2.99
Nepal	1.41	4.70	1.60	3.43	1.89	2.61
Sri Lanka	0.01	1.27	0.99	5.07	3.28	2.61
Bangladesh	3.09	0.95	0.60	-1.74	0.56	0.69

Source: The IMF's International Financial Statistics 1993 and the World Bank Atlas 1987.

Table 2.1

Average Annual Growth Rates of Developing countries-1965-1990 (%)

Country Group	1965-73	1973-80	1980-89	1987	1988	1989	1990
Sub-Saharan Africa	4.8	3.2	2.1	0.2	2.9	2.9	1.5
East Asia	8.1	6.6	7.9	8.9	9.7	5.5	6.7
South Asia	3.6	4.2	5.1	4.3	8.2	4.5	4.2
Middle-East and North	7.7	3.9	2.9	1.2	2.1	1.5	-0.8
Latin America and the	6.5	5	1.6	3.1	0.5	1.3	-0.7
World	5	3.3	3.1	3.5	4.4	3.3	2.5

Source: World Development Report 1991, World Bank.

Note: This table is in Excel.

Table 3

Value of Exports and Imports of the South/South-East Asian Countries - 1950 - 1991

	1950	1960	1970	1980	1989	1990	1991*
Exports (f.o.b)	3981	4876	7480	39790	78750	89867	100462
Imports (c.i.f)	3273	6165	9037	53840	95143	115724	128155
Terms of Trade	708	-1289	-1557	-14050	-16393	-25857	-27693

Source: Handbook of International Trade and Development Statistics, 1990, New York: UN, 1991 and Global Economic Prospects and the Developing countries, Washington D.C: World Bank, 1992.

* Provisional Figures

Table 4 Structural Adjustment Policy regimes

With the deterioration of the terms of trade, SAI's increased rather than diminished. (World Bank, 1988). The IMF programs were in serious jeopardy as debt ridden countries showed very little improvement through the common prescription of the IMF. In 1985, the Baker plan was introduced. By projecting the image of the Bank as a developer rather than as a mere austerity enforcer the plan solved the problem of legitimacy (Grewal, 1994). The Baker plan lifted the limits on Structural Adjustment Loans. In addition, SAI's which were short term measures used for addressing immediate BOP problems, were allowed to take a longer term multi-year view of lending. SAI's became the policies that would go to the very heart of the economy. Unlike previous World Bank lending for specific projects, SAI's leave no important sector of the borrower's economy untouched' i.e. trade, monetary and exchange rates policies, agriculture and industry, national investment policies, investment and operating policies for energy, interest rates and debt management etc. all came under reforms.

What are SAPs?

Structural Adjustment Programmes link lending to economic policy and institutional changes in a given country. The World Bank (1989) defines SAPs as "reforms of policies and institutions; macroeconomic (such as taxes), macroeconomic (such as fiscal imbalance), and institutional (public sector inefficiencies). Kiggundu (1993) provides a broader definition. He defines SAP as "a comprehensive restructuring, management and coordination of a country's public, parastatal, and private sector organizations so as to make them individually and collectively more productive and to contribute more effectively on a sustainable basis, to the country's development goals". According to the World Bank (Sobhan 1989) SAP is expected to create a balanced macroeconomic environment which in turn will promote more sustainable economic growth, investment, better living conditions for all segments of the population and greater democratization of economic opportunities. The SAP in itself is not a development approach and does not result in any end product of development. It is only a means of

[illegible]

Only about a third of original savings of former owners remained at time. There has been
losses in the 100,000 dollar range but all individuals retained and poor. The total
\$10,000. Therefore the losses from the industry pool may not have paid back in terms being
transmitted to the survivors.

creating an economic environment conducive for realizing development objectives (Sobhan, 1993).

The primary focus of adjustment is the elimination of external disequilibria. Generally adjustment entails the realignment of domestic demand with available local resources and changing supply and production structure to eliminate external deficits. Sarris, (FAO, 1990) identifies three "classes of policies" that are usually associated with Structural Adjustment: trade, resource mobilization and efficiency of resource use. Following are the mechanisms deployed in the implementation of SA policy measures. The boxed Table 4 gives a summary of these policy measures.

Trade Policy comprising of export promotion and import liberalization

Export promotion is achieved by financial incentives such as exchange rate reforms, reduction of export duties and taxes, relaxation of export quota regulations, introduction of export subsidies and other financial incentives, improvement of credit arrangements for exporters, and allowance of duty free imports for exporters. Other support measures include institutional reforms such as the establishment of export development funds, free trade and export processing zones.

Import liberalization is supported by removal of quotas and other restrictions, rationalization of tariffs and protection, and favourable changes in import regulations and procedures.

Resource mobilization is achieved through fiscal policies, monetary and credit policies, and external borrowing policies. Fiscal policies include taxes, expenditure targets, changes in public investments such as subsidy reductions, and improved public expenditure. Monetary and credit policies cover public and private sector credit, ceilings on interest rates and specific deficit targets. Policies on external borrowing include limits on new foreign borrowing and improved monitoring and control.

Efficiency of resource use is attempted through policy measures re-

lated to public investment, pricing and institutional reforms. Public investment issues are addressed through policy measures on improved rules for project choice and privatization. Pricing policies are used to effect changes in agricultural producer and consumer prices, in input prices and in energy prices, and to the decontrol of consumer prices. Institutional reform covers policies aimed at restructuring or privatization of public sector enterprises, reduction of regulations, changes in agricultural institutions etc.

It is now realized that adjustment of any nature cannot be brought about in the short term. It is a gradual process which brings results only after years of conscious reform. It involves reordering of the priorities of a country as well as a reconsideration of policy instruments (Balassa, 1981:1).

Reform measures and time frames of adjustment programmes must be specific to a particular country situation. The following section takes a brief look at the background and the events that led to the introduction of Structural Adjustment Programmes in the South Asia region.

2. Structural Adjustment Programmes in Implementation: Introduction of SAP to South Asia*

Prior to the introduction of SAP the South Asian countries had some salient common features as well as differences in terms of their geography, economic base and relationship to the world market, social development, political ideologies and structures. Despite these differences the introduction of SAP was relatively uniform across South Asia. India and Pakistan owing to their geopolitical advantage and the strength of their economies were able to resist and negotiate the terms of the SAP package. Nepal, was relatively isolated till the early 80s was dragged into the global economy through the introduction of SAP. In Bangladesh and Sri Lanka, the governments in power accepted SAP and

its conditionalities without much resistance.

Most South Asian countries are characterised by a large agricultural rural sector consisting of small and micro scale units of production. This sector provides a livelihood for over two-thirds of the population of the region. But with the introduction of SAP many structural and institutional changes took place. The primary objective of this paper is to focus on the effects of SAPs on the small production sector in South Asia.

The Sri Lanka Experience

The Sri Lankan economy during the 1970s was inward looking, and followed an Import Substitution Industrialisation (ISI) strategy. Towards the latter part of the seventies the economy remained stagnant and growth in most sectors (except manufacturing and services) showed a negative trend. The economy was characterised by severe foreign exchange shortages and high unemployment. With the change of government in 1977, Sri Lanka began a policy of economic liberalization. There were two different phases in the process of re-structuring the economy: the first occurred during 1977-88, and the second commenced in 1989 and has since continued (Kelegama: 1994).

The first phase

The policy reforms that were undertaken during the first phase now seem fairly conventional. viz: (i) Substantial devaluation (by 46 per cent), unification of the exchange rates and the replacement of quantitative restrictions by import tariffs, lowering nominal rates of protection and partial liberalisation of the exchange controls. (ii) partial liberalisation of financial market: interest rates set closer to market levels and an amendment made to the Finance Act to enable foreign banks to operate in Sri Lanka; (iii) the removal of any price controls allowing prices to move into line with market forces; food subsidies removed and replaced with a food stamp scheme which was expected to play the role of a safety net for the poorest section of the society; (iv) a powerful incentive package was offered to foreign direct investment; and the setting up of a Free

* We acknowledge the contribution from Dr. Saman Kelegama, Dr. Sarathi Acharya, Dipak Gyawali, Imaran Zappar and Dr. Saleh Ahmed for this section.

Table 5 Changes in the International Policy & Trade and effects on Developing Countries

Event	Positive	Negative
Establishment of Bureau World Trade Organization (WTO & GATT) in 1944	Agency for multilateral development assistance was established.	The right of passage in the world market more than 50% of the world rights in the field. The impact is still less than expected as a result.
Havana Charter of 1940	An authority responsible for all aspects of international trade was suggested.	US was opposed to the charter and did not ratify it. The organization was not formed.
Development oriented strategy in GATT in 1950s and 60s. WTO adopted this model	Economic growth of LDCs. However, the benefits of growth would be reduced in the population base. Industrialization was the major foundation for the sustained growth.	Agriculture was relatively neglected, although revitalized during the 60s as a result of green revolution. Urbanization in LDCs began.
In 1950s the development approaches of WTR changed to "Basic Needs" and "Redirection" with "Growth"	During this period governments of many LDCs began to move to restructure their economies to address the widening economic imbalance. Although there was overall decline in terms of trade, inward.	The situation with the external world due to policies, had in creating poverty alleviation. The main was development in balance of payments of LDCs. Use of importing oil drastically increased as a result of oil shocks in 1973-74 and 1979-80. This contributed to worsening balance of payments problem. Hyperinflation and debt crisis, in many of the LDCs by late 70s and early 80s. Increasing and diversification of exports was not given a priority. The quality and competitiveness of the production was not emphasized.
GATT talks until mid 50s	Reduction of tariffs in 11% more 35-40% in post war period or about 2%.	Main areas which tariffs were brought down were on goods which are of particular interest to LDCs. The majority reports in new form in terms of no tariff exports etc. Final tariff product market faced increased tariffs.
UNCTAD was formed in 1964	Generalized system of preferences (GSP) introduced in 1965. Under GSP concessional use of tariffs for LDCs.	The powerful countries saw UNCTAD as a threat for expansion of their markets.
Introduction of SAP to developing countries	Improving creditworthiness of LDC governments. Increase GDP growth in some countries. Attracting more efficient state expenditure. Greater role for private sector.	Income distribution against labor and poor at top. Economic growth of 60 out of 73 LDCs have national since beginning of 80s. Only 6 out of 71 countries increased the rate of export growth.
GATT Uruguay Round	To promote freer trade market internationally.	Will have to compete equally with government corporations. Preferential systems for LDCs reduced. Tended to trade service sector. Less control over TNC activities. Technology transfer will be more difficult. Increased bill for food importing poor countries, etc.

Trade Zone, including a number of tax concessions (see boxed Table 4).

The main focus of the policy package undertaken during this initial phase of SAP was on trade i.e. exchange rate adjustment and tariff reduction. The principal aim was to achieve a regime of incentives conducive to exports, to reduce government intervention and to allow market forces to operate independently in allocative decision making. The private sector both foreign and domestic was expected to play a more active role in the economy.

Fiscal and monetary policies were frequently used to achieve overall economic stability. The aim of fiscal policy was to shift resources from consumption to investment. However, there was little surplus due to the need for counterpart funds to match foreign aid for the massive public investment Programme on infrastructure which included irrigation networks and power generation. Thus budget deficits remained high during the 1977-88 period (see Table 6). By the early 1980s, macro-economic management became increasingly difficult, compounded by an even increasing rate of inflation.

The economic environment in the short run was not at all conducive to private sector investment and growth. The low performance of public sector enterprises became an unbearable burden on the stagnant economy. Scarcity of capital investment in the industrial sector failed to transform this sector into a dynamic component contributing to the country's GDP. Due to the slow growth of the export sector, the country had to face several foreign exchange crises which finally restricted the availability of imported raw materials and capital goods.

During this period a major revision was made in the credit refinancing function in order to direct resources into priority areas. The export industry was given the highest priority (Kalegama 1984). The intention was to create a clear export bias for the manufacturing sector. However, the two digit inflation level caused the exchange rate to appreciate significantly making, on the one hand, exports from Sri Lanka

less competitive and on the other, making imports cheaper than the equivalent local products, and keeping the local small producer out of the market.

During the first phase of liberalisation the expectation was that there will be a shift in resource allocation from agriculture to the manufacturing industry. Contrary to this expectation, however, the shift was towards the

recession during the early 1980s, by the war in the North and East and the unrest in the South. Consequently, Sri Lanka had to make regular revisions of the adjustment measures in keeping with the changing economic environment.

Against this background, and in the absence of policy measures or strategies to protect local industries or to convert inefficient import substitution

dustries that survived with high protection, but did not enjoy a comparative advantage and were unable to withstand competition had to readjust or close down. One could argue that if small firms were not efficient enough to withstand the pressure of market forces, they would have to re-deploy their labour and capital elsewhere in more profitable lines of activity.

The difficulties faced by small industries stemmed mainly because of their size. Being small, they were either unable to take advantage of liberalisation or were actually harmed by it as the bigger industries had a competitive edge over them by virtue of their sheer size. Moreover, the small industries could participate in export promotion only as sub-contractors to large firms. In the absence of institutional privileges for domestic sub-contractors this participation was also not practicable.

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service sector. The result was that the manufacturing sector failed to become the leading component of the economy during the expected time frame. Overall, the major failure of the first phase of liberalisation was in its inability to make the transition from service-oriented activities to industrial activity.

The macroeconomic instability during this period was aggravated considerably by external shocks faced as a result of the oil price hikes, the world

industries into export oriented ones, most medium and small industries were exposed to the pressure of market forces and ran at a loss or were closed down altogether.

Liberalisation proved to be a failure at invigorating small and medium industries. The fundamental rationale for liberalisation is that inefficient industries should give way to efficient ones through the interplay of market forces. Those small and medium in-

The second phase

The World Bank attributed the problems of the first phase to inadequate liberalisation, which included inefficiency of public corporations, the continued government involvement in direct production sectors and exchange rate appreciation. The second phase of SAPs was thus introduced in 1989/90 period. This phase emphasized on two

Table 6
Key Macroeconomic Indicators, 1978-93 (Sri Lanka)

	1970-77	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Growth (% p.a.)	2.8	8.2	6.5	5.5	6.1	4.8	4.9	5.1	4.9	4.3	1.5	2.7	2.3	6.2	4.6	4.3	6.0
Budget Deficit (before grants) as a % of GDP ¹	-9.3	-13.8	-13.8	-23.1	-15.5	-17.4	-13.4	-9.0	-11.7	-12.2	-11.1	-15.6	-11.2	-9.9	-11.6	-7.4	-8.1
Inflation (%)	5.8	12.1	10.8	25.1	18.0	10.8	14.0	16.6	1.5	8.0	7.7	14.0	11.6	21.5	12.2	11.4	11.2
Current Account (Balance of Payments) as a % of GDP ²	-1.2	-2.4	-6.8	16.4	-9.9	-11.9	-9.2	-0.9	-7.0	-6.6	-5.1	-5.6	-4.4	-3.2	-5.4	-3.6	-5.4
Real Exchange Rate (Trading Partner weighted)		100	100	98	99	99	99	77	101	117	118	114	121	118	113	112	
Investment as a % of GDP	14.4	19.9	25.2	31.2	31.2	31.9	31.0	28.3	25.9	25.8	23.3	22.5	21.5	21.9	22.6	23.5	24.0
Public Investment (% of GDP) **	6.0	12.1	12.2	18.3	14.6	16.7											
Domestic Savings as a % of GDP	13.4	15.3	13.8	11.2	11.7	11.9	13.8	19.9	11.9	12.0	12.8	12.0	12.2	14.3	12.7	15.3	15.5
Terms of Trade	163	189	136	110	87	82	100	122	100	89	99	93	91	87	86	89	
Exports as a % of GDP ¹	14.5	25.2	29.2	26.5	24.1	21.3	20.5	24.2	20.4	18.9	20.9	21.1	22.3	24.7	22.6	25.9	26.6
Imports as a % of GDP ¹	17.0	30.6	43.1	51.0	42.6	41.9	37.1	31.9	31.6	30.7	31.0	32.1	31.8	33.4	33.7	36.0	39.3
Nominal Interest Rate	10.1	15.8	16.0	21.1	21.1	22.3	21.8	21.9	21.2	20.6	19.8	18.8	20.0	20.0	20.75	20.0	21.5
Real Interest Rate	4.1	3.0	4.7	-4.0	2.6	10.4	6.8	4.5	19.4	11.7	11.2	4.3	7.5	-1.2	7.7	7.7	9.3

Notes: Inflation (p) was estimated using the Colombo Consumer price Index and the Real Interest Rate was estimated as $[(1 + r)/(1 + p) - 1] \times 100$.

* Current account includes trade in services; ** Public investment is not available for the post-1982 years.

Sources: Central Bank of Sri Lanka, Annual Reports (various issues) and Institute of Policy Studies, Data Base.

measures firstly, further liberalisation measures to tilt the incentive structure in favour of production of tradables. The private sector was recognised as the "engine of growth" and measures were taken to revive the capital market and to encourage further foreign investment, secondly and a stabilisation package to bring down the budget deficit. This involved two components: a high interest rate policy and a privatisation programme.

The high interest rate policy resulted in rising cost of production. The situation was aggravated when this was combined with the effects of the removal of subsidies on export development and on fertilizer at the insistence of the international financial institutions. Although the privatisation programme improved the efficiency of resource allocation, small scale industries involved in production as sub-contractors for certain public en-

terprises ceased to function after the privatisation of these enterprises. Further the newly privatised companies preferred imported substitutes to the local production. Similar to the first phase of liberalisation there were no concerted efforts to promote linkages between large and small industries, and many small scale production activities were pushed out of business.

In the first phase of liberalisation

Success stories from East Asia :

There are countries which have adopted variations of market economy quite successfully. The social market economies of Germany, the open economies of East Asia where growth was engineered through open international trade which encouraged industrialisation, farmers' integration, development and maintenance of public sector, the socialist market economy of China which made China the fastest growing economy in the world. The adoption of the market economy by East Asia is the most widely studied success.

Four members of the Asian - Hong Kong, South Korea, Taiwan and Singapore - have achieved their remarkable growth in a very spectacular manner. The story of four of them are well known and have been well documented. Economists have been able to explain their success by their access to foreign markets that were well open to manufactured goods and technology. This was done in order for these regions. These countries began with poverty and warlike. They progressed through a variety of industrialisation processes to economic development.

In the 70s the growth of exports as well as the degree of industrialisation increased sharply. The growth rates of the East Asian NICs far exceeded those achieved by the rapidly more developed countries over the same period. During the period 1965-83 GDP per capita in all four countries grew at over 9% per annum. An impressive rate in the light of two oil shocks of 73 and continuing world recession, particularly 1980.

There is evidence that the rapid expansion of the manufacturing sector is responsible for this. A greater emphasis was laid on exporting manufacturing exports which included not only of basic consumer goods but intermediate and capital goods as well. Manufacturing exports comprised a large proportion of total national exports.

The barriers imposed against imports of many goods increased, protection was could not drop it. The East Asian countries had taken a very long time to develop and they continued to do so. Some suggest that the success of the countries and their economic development in China and Japan helped.

How DCA might find it difficult to achieve the same as the "Gang of Four" since Latin American countries have more export-led growth and more. Another the level of investment and the borrowing power were far all this in industrialised and more multinational under the "Gang of Four" and it.

Some doubts whether the importance of the state is particularly pronounced in the East. The strong role of the state is a key element in the industrial success in East Asia. Through the action of the state, state-owned enterprises were established and controlled. The state directly participated in industrialisation by ownership of public enterprises. More importantly the state played an industrial role by subsidising, protecting and controlling power firms. These interventions between the state and the private sector under the working of free market was the driving force behind the success.

the macroeconomic environment in regard to the production structure in the country was tilted more in favour of the non-tradeable sector. The second phase sought to rectify this but it did not prove effective because of *ad hoc* policy making. Promotion of small industries in a liberalised environment requires not only a supportive macroeconomic environment but also a proper institutional framework. However, the State made very little effort to invigorate dormant institutions or to establish new institutions to promote small industries to enable them to survive and compete in the liberalised economy of Sri Lanka.

Bangladesh

In Bangladesh the earlier part of the '80s was marked by a situation of deepening economic crisis characterised by chronic stagnation, deficits on external and domestic account and even negative growth. SAP in Bangladesh is viewed as a result of the failure of development policies pursued in earlier decades.

Since its birth in 1971, Bangladesh suffered several economic convulsions

such as the war of dependence which led to a massive destruction of the infrastructure, the disappearance of the entrepreneur class, consistent political instability, the results of the Gulf war and several shocks arising from man made and natural disasters. With savings generated around 6-7% of GDP against an investment requirement of 14-16% for a modest growth of 5-6% GDP Bangladesh was dependent on foreign aid from the early years. Given the extreme poverty level of its people, the low generation of surplus for investment, a poor natural resource base, extreme population pressure and a legacy of sharp twists and turns in the direction of economic policies, Bangladesh had little choice but to rely on a well thought out and well designed macro economic adjustment scheme; the structural adjustment programme. This was done with the hope that, on the one hand, it would allow external equilibrium to be maintained while on the other, it would permit both high economic growth rates and lead to poverty alleviation.

The package implemented included reforms in budgetary management and public sector finance, financial sector

reforms, private sector development, and trade and exchange rate policies. An overview of the impact of the SAP on the economy shows that there are some favourable macro economic indicators on the credit sides. The inflation rate remained at a low level (1.3%) and the foreign exchange reserve at a high level US\$ 2.25 billion. However, the economy faced stagnation, and the investment levels were too low to achieve a 5-6% percent growth rate. The country's major industries, namely the jute and textile sectors, have shown a decline in production, and the profitability in the private sector development in other sectors has continued to lag behind (Ahmed 1994). see Case Studies 120-1. The reforms faced difficulty in the privatisation programme. Further, apart from a few impressive macro economic indicators, micro economic developments were very sector specific. Rapid growth had been observed in certain sectors, eg. transport and communication, in the export garments, shrimp, and in leather industry. But even within these sectors the changes in the economic conditions of the different economic and social groups were not precisely known.

India

India, which is a relatively newcomer to the SAPs remained until recently, a Third World model of inward looking development policy. It sought to achieve a self-reliant economy by developing a strong industrial base. However in the mid eighties, the exports did not keep pace with the imports and this shortcoming coupled with extensive fiscal indiscipline, precipitated an economic crisis. Attempts to liberalise the economy since the mid-eighties depended on external borrowing and state subsidies and not on building local capabilities. The trade balances and credit worthiness (with the International Financial Institutions) deteriorated dramatically by the early nineties, and with only two weeks of foreign exchange left (for funding imports) large borrowing from the IMF had to be resorted to. The borrowing was conditional on the implementation of adjustment measures. A structural adjustment process was set in motion soon after with a view to correcting the fiscal imbalance and budg-

STABILISATION AND STRUCTURAL ADJUSTMENT

Stabilization and Structural Adjustment are often used interchangeably and considerably overlap. Somewhat confusingly, structural adjustment is popularly used to refer to both stabilization and structural adjustment measures. Nona Grandea argues that though these differ in policy emphasis both aim to resolve demand - supply imbalances, or adjustment.

Demand management measures of stabilization are intended to decrease macro-economic imbalances (e.g., fiscal and trade deficits) in the short term. These include: public expenditure reduction, currency devaluation and restricting the money supply. The objective of these reforms, specifically that of real exchange rate devaluation, is the transfer of productive resources from the non-tradables to the tradables sector, to result in the reduction of the rate of inflation to a sustainable level. The popular belief is that BOP problems often accompanied high inflation and that they had a common cause in large fiscal deficits.

Structural adjustment measures, on the other hand, are intended to make the economy more efficient and to stimulate supply in the medium term. They include import liberalization, export promotion, privatisation and price deregulation (Nona Grandea), 1993, Structural Adjustment and Poverty in South Asia, North-South Institute, Ottawa).

As Ferreira of London School of Economics puts it, "If Stabilisation tries to move the economy to the intersection of goods, labour, and assets markets equilibrium, as well as BOP, Adjustment aims to move the economy within the production possibility set to its boundary".

etary deficits as well as making industry and agriculture efficient and internationally competitive. Entry of multinational corporations, deregulation of markets, and market friendly policies to integrate the economy into the world system, were some of the measures undertaken.

The rupee was devalued by 20 percent (and another 20 percent a year and a half later), licensing was abolished, capacity controls were virtually done away with and foreign multinational companies were permitted to own majority shares. Public sector industries and banks began to privatise, import taxes were progressively reduced and imports liberalised, foreign financial institutions were being increasingly encouraged to enter the country, and subsidies were gradually phased out.

The adjustment programme has left little space for accommodating human resource development or re-structuring of non-competitive units, which are being shut down (Acharya, 1994). Efforts are being made to increase exports mainly from primary farm-based and commodity sectors even if that means that food prices seem to rise causing problems domestically. The role of the state in economic affairs is now restricted to enhancing infrastructural facilities.

The structural adjustment programme in India has shown mixed results. On the positive side, confidence in the economy has been partially restored. Foreign exchange reserves stand at about \$13 billion, even though much of this is in the form of capital inflows and loans rather than current account balances. Foreign project investment tends to be close to four billion dollars and another \$1.2 billion are invested in stocks (India Today, 1994; Kumar, 1993). The fiscal deficit in 1994 was down by about two per cent of GDP from about 8.5-9 per cent. Exports are expected to touch \$24 billion in 1993-4, which is not only an all time high, but more than a third higher than the average of the last two years. Lastly, inflation is down to a single digit (6-8 per cent), from 16-18 per cent in 1991. There is, however, little else besides.

Growth was virtually zero in 1991-2, 3.8 per cent in 1992-3 and about 4 per cent in 1993-4. Good monsoon rains in two consecutive years have enabled agriculture to grow at a reasonable rate but industrial growth did not exceed 4 per cent in any of these years. The main source of industrial growth came from the consumer goods sector (8 per cent in 1993-4) where foreign collaboration - the import of capital and technology, in most cases with foreign participation - produced consumer durables and non-durables for the local markets.

The capital goods sector in India has been in recession: in 1993-4 growth was negative, for two reasons. First, the import of technology on a turn-key basis appeared more attractive to the 'quick profit' oriented Indian users, than Indian capital goods. Second, in the 1990s, excise taxes (i.e. taxes on local manufacture) and import duties on industrial components had been higher than the import duties on fully manufactured capital goods. This has created a market for foreign machinery manufacturers in India at the cost of the local capital goods industry (to a great extent in the public sector).

The impact on local Research and Development (R&D) seems to have been disastrous. Capital goods industries, which embody much of the country's hard technology, are facing recession and increasing (unequal) competition from overseas, owing to the taxation system. Private companies are provided liberal tax concessions for investment in R&D, but find it easier to buy technology and processes from overseas than generate them locally - a channel made easier because of the partial convertibility of the rupee and liberalisation of imports. Production capacity expansion in the modern sector therefore means an ever expanding import bill (Vyasaiah, 1993; Mani, 1991).

Upto now, the reforms have had only cosmetic success. There is stability in the financial markets and inflation is not high, but production has not risen, and the little industrial growth that has been achieved, is supported on foreign crutches.

India remains, to a considerable ex-

tent, a small producer economy. The small producer sector is divided into broad categories: primary producers, traditional extraction/agricultural producers (including fishermen), and modern small scale industries.

The 125 million small farmers in India (cultivating up to 2 hectares), constitute about 80 per cent of the farming community. Agriculture modernisation policies under SAP favour large schemes and offer little help to the small farmer. Surface irrigation schemes are displacing a large number of small peasants. For example damming of the Narmada river is going to affect a large number of small farmers. The new policy also neglects dry land farming. With the dropping water tables small farmers in semi arid areas are unable to access large capacity motors and pumps, and have to rely on scanty and uncertain rains. Fertilizer subsidies are being phased out. Prices have risen around 50% between 1987 and 1993. Many small farmers have reduced their inputs of phosphate fertilizers by 30-35 per cent, and raised the input of cheaper nitrogenous fertilizers as a substitute. This has led to lower grain yield. And small farmers, who grow mostly for domestic consumption, lose out.

Furthermore in the 1990s under the structural adjustment programme, the financial system has been tightened. Interest rates are high, priority lending for the rural farm sector is under question, and criteria of 'bankability of projects' are increasingly being imposed. In fact, one of the banking reform committees has recommended the closure of 500 'loss making bank branches' in the rural areas.

The situation is more or less the same with small scale fishing communities, rural artisans and small producers. Effects of the new policy structures are likely to marginalise and force them to seek alternative work (Rafiq Chisri, 2). In Kerala there are instances where fishermen have become casual labourers. Lack of equal opportunities in relation to infrastructure, credit, investment and market access, as compared with the modern sector, is cited as the underlying reason for this situation.

Table 7

Public Debt as a Share of GDP						
1974/75	1984/85	1988/89	1989/90	1990/91	1991/92	1992/93
4.75%	40.51%	39.8%	44.7%	48.8%	60.8%	63.8%

Source: IMF 1993 August, Nepal-Background Paper: SM/93/193 IMF and IDS 1987 Financing Public Sector Expenditure in Nepal

Modern small scale industries which number about to one million and employ about 3.7 million workers (Sarathi, 1994) are faced with a similar fate. The new economic policy has indentified a special place for the small-scale sector, for imparting 'more vitality and growth impetus'. However, a detailed scrutiny of the policy reveals that most recommendations relate to definitional and legal aspects and that there is little than can be termed 'promotional'. Reservations are gone with the licenses, which expose small units to competition: credit is not so easily available; and transfer of foreign technology is not easy in small units as compared to large ones (Sandeshara, 1991).

Nepal

In Nepal loans began to occupy a larger share of development efforts since 1970's when the country launched major infrastructural projects. Public debt as a share of the GDP was only 4.57% in 1974/75 (with internal debt of the government being 2.48% and external debt being 2.09%). It had risen to 40.51% in 1984/85 (Table 7). To finance development. Primarily to pay for local costs of development, the government began to borrow internally and to draw on reserves in the first half of the '80s. Credit to private and public sector corporations to offset continuing losses began to expand very rapidly to the tune of 25% per annum. Reserves fell to about three months of imports by 1984/85. In the face of such a deteriorating situation, the government of Nepal adopted a stabilisation program in December 1985 and entered into a 14 month standby agreement with the IMF. This was beginning of the SAP in Nepal. In 1989, at the height of the Nepal-India trade and transit dilemma,² a second installment of structural adjustment credit was made.

Nepal's need for adjustment was not precipitated by a change in the country's external economic environment. By and large, land-locked Nepal which was a very late comer to international trade influences, continues to be relatively insulated against external shocks. Even the oil price increases of the '70s did not by themselves affect the country's external balance very

much. Therefore whatever ills that pricked the Nepal economy were more as the result of years of mismanagement, malpractice and malfunctioning of the country's planning and management system.

To set Nepal's economy on a more sustainable path, the adjustment package proposed macroeconomic management, devaluation with flexible exchange rates, tighter fiscal policies, controlled credit expansion, adjustment in administered prices, restraints on external borrowing and import liberalisation.

The domestic resource mobilisation was to occur through increased taxes and a cut in the wage bill. To strengthen the balance of payments, the increased production of carpets and garments for export, was suggested.

The private sector was offered incentive measures for investment. Public enterprises were to be reduced through closure or divestiture. Specifically targeted were two of them in the agriculture sector - the Agriculture Inputs Corporation and Nepal Food Corporation. In food grain, incentives to producers were to be increased with the phasing out of subsidized foodgrain sales and levy procurement and the introduction of a market oriented consumer price stabilisation system.

In trade and industry, realistic exchange rates were to be introduced, inputs made available without price distortions, excess regulatory control reduced, and the efficiency of public institutions, enhanced.

These stringent austerity measures were expected to have minimal social impact since 60% of Nepal's population live below the poverty line engaged primarily in subsistence agri-

culture, and are not closely linked with developments in the monetized sector of the economy.

The effect of the SAP policy measures on small scale production in Nepal is similar to that of India and Sri Lanka. The Nepal government coming under pressure from the donors to increase government revenue increased taxes in various forms; i.e. excise duty, sales tax etc. Local cottage industries had to close down under these conditions, unable to survive the competition with the multinationals (refer cases 3 & 4). There has been a disproportionate increase in the cost of raw material in comparison to labour (Gyawali: 1994). In the example of turbine manufacture there has been a cost increase of 40% in terms of materials but only 15% for labour during the period 1989 to 1992 (refer case 5). In the last ten years, the cost of steel has gone up from Rs 12 per kg to Rs 30 per kg while the cost of labour has gone up from Rs. 30 to Rs. 60 per day. These figures are significant in that they demonstrate how the relative value-added of Nepal labour has declined while the value of imported items has increased following the introduction of SAP measures.

The examples of SAP measures in Nepal (Gyawali: 1994) also indicate an attempt to strengthen the revenue and earnings of the center as against the periphery. Tariff increases and removal of subsidies resulted in the accrual of increased value to the trader and not to skills and industry. Many of the costs get externalised to the village poor and the environment.

Pakistan

SAP in Pakistan came in to effect in 1980 when the IMF offered a SAL on conditionalities similar to the numer-

one direction issued at the time. Up to 1988, the year during which General Zia-ul-Haq died, the political leaders of Pakistan had sufficient bargaining power to accept only those conditionalities which served either national interests or the interests of those in power. The reason for this position of relative equality was largely due to geo-political considerations, primarily the war in Afghanistan. The fact that Pakistan was at that time under military rule with fewer political considerations, may also have influenced the ability to take a firmer hand. As a result, changes in economic policy were few and adopted with caution. In 1985, the managed float system was introduced and a gradual, controlled devaluation of the Rupee was begun. Under this system the State Bank lagged on a daily basis the parity rate for the rupee against various international currencies. This ensured that there was no sudden or drastic change. The complex regulations regarding what and how items could be imported was replaced by a "negative" list which focused attention on those items which were subject to special regulations. This eased the manner in which productive imports were made, yet did not provide any special concessions in respect of those items which were considered to be a drain on the country. Similarly, commercial lending rates were allowed to rise but only marginally. At the same time, the leadership refused to remove subsidies in respect of the agricultural sector and on essential commodities which were the mainstay of poorer households.

In contrast to this era in Pakistan, the various democratic governments which have held power from 1988 have all adopted SAP with an unquestioning wholeheartedness. This is basically the complete package of the Bretton-Woods institutions and meant that Pakistan was to aim at more trade and financial openness, outward orientation, a liberal economy with minimal government restrictions in all markets.

Here again, the industrial policy regime has largely neglected the small producers (Zafar 1994). It is felt that there is a large untapped potential remaining with the small scale pro-

duction sector which remains underused or unused. (refer cases 6, 7 & 8). The government policy has an important role to play in creating an economic environment which will allow the small scale sector to flourish in the future.

Experience in the South Asia region point to the fact that the Structural Adjustment Policies have resulted not only in the neglect of the country's largest production sector, the small scale production sector, but various policy measures have also had an adverse impact on its development. The situation is similar in the African and South American continents (refer section on Developing Countries & SAP: a macroeconomic overview). In our view this is a result of the inherent contradictions in the theory and assumptions which constitute the basis of the structural adjustment policies.

The next section takes a look at these contradictions using Sri Lanka as an illustrative example.

Challenge to the Assumption of a Free-Market

Although it is assumed that the market is impersonal, the selfish nature of human beings make maximum satisfaction unethical. The powerful manipulate the market processes to maximise profits. If adequate and strict regulations are not enforced. Their personal, political and official contacts are often used to evade the checks on breaking the law. This leads to a situation of increased bribery and corruption in general. State machinery can take decisions assessing personal gains rather than benefits to country. Under these conditions monopolies though anti-social (very often oligopolies) prevail and thrive. Even where there is competition, the cost of bribing officials is added to the price of goods. Therefore consumer does not always get better quality at a lower price.

A free market is not a level playing field as the theory assumes. Those who are weak lose out to those who can influence the market. Those who have no access to markets are wiped out from businesses. Free and fair market economy is a fallacy given the worsening inequalities.

3. SAP: The Theories and their Contradictions

The philosophy behind Structural Adjustment is globalization of the Third World economies. Globalisation means linking the economies and producers to the globalisation capital and commodity markets through exposing the economies to world market forces. Stabilisation and adjustment are seen as mechanisms for globalizing market relations (Uyangoda: 1992). Also refer boxed Table 5.

The structural adjustment package achieves globalisation by dismantling almost all restrictions on the market. The adjustment then is market adjustment, or letting the economy readjust itself in response to vigorously unleashed market forces (Uyangoda, 1992).

Promotion of export led growth and market liberalisation are the key instruments deployed to link the economies of developing countries to world markets. However, there are inherent contradictions in this process, contradictions which are particularly detrimental to the interests of the producers in developing countries. The contradictions are observed at two levels; at a global level, and at a national level.

Contradictions at a Global level

The opening up of developing country's economy to world markets demands that market forces are allowed to work freely aiming at greater allocative efficiency. The primary contradiction is that the world market itself is neither free nor efficient. Over the past one and half decades the free market principle has been violated in both production and trade. This is demonstrated in increased protection for agricultural production and in the extended restrictions on some categories of international trade (Raghavan 1994).

Contradictions and disadvantages to the small producers which exist at a global level can be summarised as follows:

- * Firstly, market competition is unequal (See "what is free market" in box). Producers from the developing

countries have to compete with large scale, established and, subsidised producers in the developed countries.

- * Secondly, the partnership in trade between the developed and developing countries is unequal. There is

What is free Market?

In a free Market economy, the signals generated in the Marketplace are considered to be the most important factors. These signals should not be distorted by intervention. Market forces are expected to guide productive and allocative decisions. The free market process is assumed to be impersonal, and the transactors in the market secure benefits by responding to these signals.

Expected benefits of the free market

Profitable production will be created and increased. Prospects of investors, producers, as well as employees of profitable ventures will be secured. Employment opportunities will increase with the increased profitable ventures. Regions or countries will exploit their comparative advantages to earn more income. Consumers will also benefit, by being able to access a variety of quality goods of her/his choice and buy these at a competitive price.

GATT Uruguay round which ran for about seven years, strongly backed by industrial countries argued for 'better' free Market. The member countries which includes about 117 developing countries agreed to fully open their markets. GATT agreement therefore supports the World Bank's and the IMF's vision for developing countries.

The free market economy was promoted widely in the developing countries with the introduction of SAP in 80s. With the collapse of communism in the latter part of the 80s, reforms towards market economy were promoted in the Eastern Europe too.

unequal access to markets (barriers, quota systems), to information on capital and commodity markets, and to technology. Adverse terms of trade for the developing economies are also manifested in the setting of standards for goods and in setting prices. Unequal partnership limits the comparative advantage and results in unequal benefits.

- * Thirdly, globalisation results in developing countries becoming increasingly dependent on the growth of the markets in the developed world.

Protectionism in the developed countries

Protection is the opposite of liberalisation. In most industrial countries agricultural protection has increased in the 1970s and 80s. The transfer to agriculture from consumers and tax payers rose from \$61 billion to \$270 billion in 1980 (Raghavan, 1994). Subsidies to agriculture increased by 80% in the USA, 60% in Canada, and 21% in Japan between 1980 and 1985 (World Development Report: 1991). Protection has increased to safeguard the interests of the producers in the face of greater competition in the world markets.

One of the most direct outcomes of the protectionist policies in the decline in the growth of markets globally. This is disadvantageous to producers from the developing countries who enter the global markets. The estimated cost (in 1990 US \$) to developing economies in terms of foregone exports was \$55 billion in 1980, which is equivalent to the value of total official development assistance in that year (Laird and Yeates in World Development Report, 1991).

While production in the developed countries is increasingly protected, the producers in the developing countries are faced with the removal of subsidies and other protection measures under the SAP policies.

Unequal partnership in Trade

Measures which result in unequal trade partnership include export tariffs, quotas, voluntary export re-

straints, countervailing and anti-dumping measures, price restraints, health and safety regulations. According to the World Development Report (World Bank: 1991) although average tariffs in the industrial countries have been brought down to less than 6%, the use of these other protective measures have risen alarmingly since the 1960s. Between 1966 and 1986 the share of imports affected by all non-tariff measures increased by more than 20% in the USA, 40% in Japan and 160% in the European Community.

It is learnt that there is a recent move to enforce sanctions on exports from the developing countries on the basis of the bad working conditions and low wages paid (The Economist: 1994). This move is interpreted as the newest technique of indirect protectionism adopted by the developed world.

Dependency on markets

Recent tendencies in world trade show the risk of increasing dependency. The trend in international trade is depressing, the commodity markets are collapsing. The recent adverse developments in the world economy such as the continuing world recession since 1981-82 have resulted in reductions in the volume of world trade and declines in export earnings (See Table 3). Further, rising inflation has resulted in a drop in the demand for goods. Apart from this, there are disagreements of a varying nature between the large market economies which make the world trade situation unstable; (for example the recent trade dispute between Japan and the USA) thus increasing the risk for the developing countries.

The contradictions in the globalisation process are obvious; while the producers in the developed world are increasingly protected, the developing economies are subjected to a reduction in the protection measures, and to a diminution in market opportunities. The small producers from the developing countries are expected to compete in a highly competitive and increasingly unstable world economic environment.

The severity of these contradictions become more evident when we face the

GATT, WTO and the Developing Countries

GATT, established in 1948, is not an organization. It is a legal international compact entered by the nation-state countries which lay down specific rules for world trade. The aim of GATT is to provide a secure and predictable international trading environment in which national and domestic policies open for countries to invest, to trade and to create jobs (Khan, 1994). There have been several rounds of GATT discussions since the first Geneva round which concluded in 1948 and where the agreement was finalized.

Developing countries (DCs) were skeptical of GATT from the beginning, and even remained aloof. It was said to be like a "rich man's club" where DCs might be accepted, but they cannot have a significant say (Khan, 1994). Some of the key GATT decisions include: prohibition of trade on a non-discriminatory basis amongst its members; and, without even participation of selling goods allowed to be more than the cost of production. Since GATT has no executive to enforce, after it has to rely on the goodwill of its members in implementing the decisions. At a time there are many instances where GATT agreements were not adhered to. Unlike GATT, the United Nations Conference on Trade and Development (UNCTAD) was established in 1964 in the interest of developing countries. UNCTAD addressed the wider question of trade in relation to development and attempted to correct the imbalanced approach in international trade.

The Uruguay round of GATT which lasted for six years, was initiated by the USA and other industrialized countries with the main intention of liberalizing trade. The main outcome of the round is the birth of a new body, the World Trade Organization (WTO), which will replace GATT. The WTO will deal with the trade policy of its members and will be responsible for monitoring the implementation of the rules. It was believed that if the GATT round is not successful, there will be no free trade system in trade leading to a situation where the danger of protectionism. The main agreement of the round was to liberalize trade in services and intellectual property and to protect human and property rights both in agriculture and in manufacturing. All these will fall under the jurisdiction of the World Trade Organization (WTO) established in January 1995. WTO is expected to manage world trade, working closely with the World Bank and the IMF. Its relationship with the UNCTAD and UNCTAD is not clear, and this is an important concern for developing countries.

While GATT has covered only over the trade in manufactured goods, WTO which replaces GATT will have a wide purview over services, goods movement, and other intellectual property rights. The implication for the DCs is negative. The decisions favour the interests of the developed countries. For instance developing countries are major importers of services. The only service DCs had in surplus was labour. The decision on trade in services will not include labour which was demanded by rich world. Moreover, the decision involves a strong provision for the owners of intellectual property. The developed countries who largely are the exporters of technology to the DCs. The DCs would have more profits through patents and royalties. Enforcement of transfer of technology or effective transfer of technology (TFT) from rich to poor, instead of protection DCs will lead to restriction on transfer of technology.

The decisions regarding agricultural trade could also have serious implications for developing countries. Reduction of agricultural imports could allow rich countries to raise their price and reduce their market opportunities for agricultural products in these countries. But the effect on countries who depend on imports for their staple food could be more devastating. Many countries have abandoned the production of staple food because of the inability to compete with subsidized rich nations. The GATT decision could lead to food imports becoming more expensive and less accessible to the poor.

GATT decisions are being implemented in a manner where rich DCs will economic opportunities will not be followed by a similar GATS programme. Rich and global income disparity has widened during past few decades. This gap is likely to widen further and become more acute in accordance with the implementation of GATT round. Liberalization and free trade under these circumstances is not a slogan. It is a real and a protection measure to save the world's poorest people from falling into a more permanent poverty. Social justice and labour standards in the developing countries. These would be trade conditions and would be a major concern for developing countries and further economic development of developing countries.

fact that a majority (over 60%) of the producers in developing countries are rural, and operate on a small scale. Their contribution to the national economies is substantial and vital. Their production individually, is negligible, but taken as a whole represent a significant share of the GNP of a country (Boussard, FAO: 1992). Small producers in the developing world are not only the major producers of domestic food requirements, but even account for a large proportion of production for export.

Who is a small producer?

To arrive at a precise definition of a small producer is difficult, given the complex and varied nature of their assets and operation, and socio-economic status. Criteria for defining small producers vary. The scale of investment, and the type of technology and energy needs are some of the criteria used in arriving at a definition. Boussard (1992) identifies some common features of small producers as follows:

- * virtually no capital and the basic system of production is mainly a combination of land and labour (traditional agriculture)
- * low productivity of labour
- * high productivity of capital.

In Sri Lanka for instance there are number of definitions of small producers in the industrial sector.

1. The Ministry of Finance and Planning defines small industry for tax exemption purposes, as a firm where investment in assets (including land and buildings) does not exceed Rs. 1 million.
2. The Industrial Development Board (IDB) defines small industry as a firm where investment in machinery and equipment does not exceed Rs. 1 million.
3. The National accounting statistics compiled by both the Central Bank of Sri Lanka and the Department of Census and Statistics classify as small industries the whole of urban informal sector and rural cottage industries.
4. The 1982 Census of Industries conducted by the Department of Cen-

sus and Statistics uses employment rather than investment criterion: small scale enterprises are defined as those units which employ less than five persons.

5. For the purpose of credit allocation under the Small and Medium Industries (SMI) credit program, the National Development Bank (and the financial network through which it operates) subsumes small industry under the mixed category of small and medium industries and uses its own cut-off point, which has itself varied over time.
6. The Export Development Board defines small industries which have capital investment (excluding lands and buildings) up to 4 million and employ at least 10 persons.

The lack of a clear and agreed definition illustrates the ambivalent attitude towards this sector by national institutions. In addition to the above range of categories, there are micro scale producers operating largely in the informal sector who fall outside any formal definition, but who are the largest sub group in the category of small producers.

Relationship with the market

The pivot of the new economic order of globalisation (envisaged by stabilization and structural adjustment reforms) is the "market". Small scale producers interact with the market at a different and at a lower level in comparison to the large scale producers. In the process of achieving globalisation, the entire production structure undergoes changes. Producers are compelled to adjust to new production and market relationships.

The market mechanism however appears unable to reach producers at all levels (refer box on "what is free market"). In order to facilitate the process of market integration at a local level, there are the infrastructure developments, incentives for the local and foreign investments, and new developments in the information and communication systems. The benefits of these incentives largely accrue to the large producers. A majority of small producers who are at the end of the link cannot access these incentives. Because

they are unable to compete in the market with the larger producers, small producers and their incomes are adversely affected. For the small-scale producers relatively less endowed with

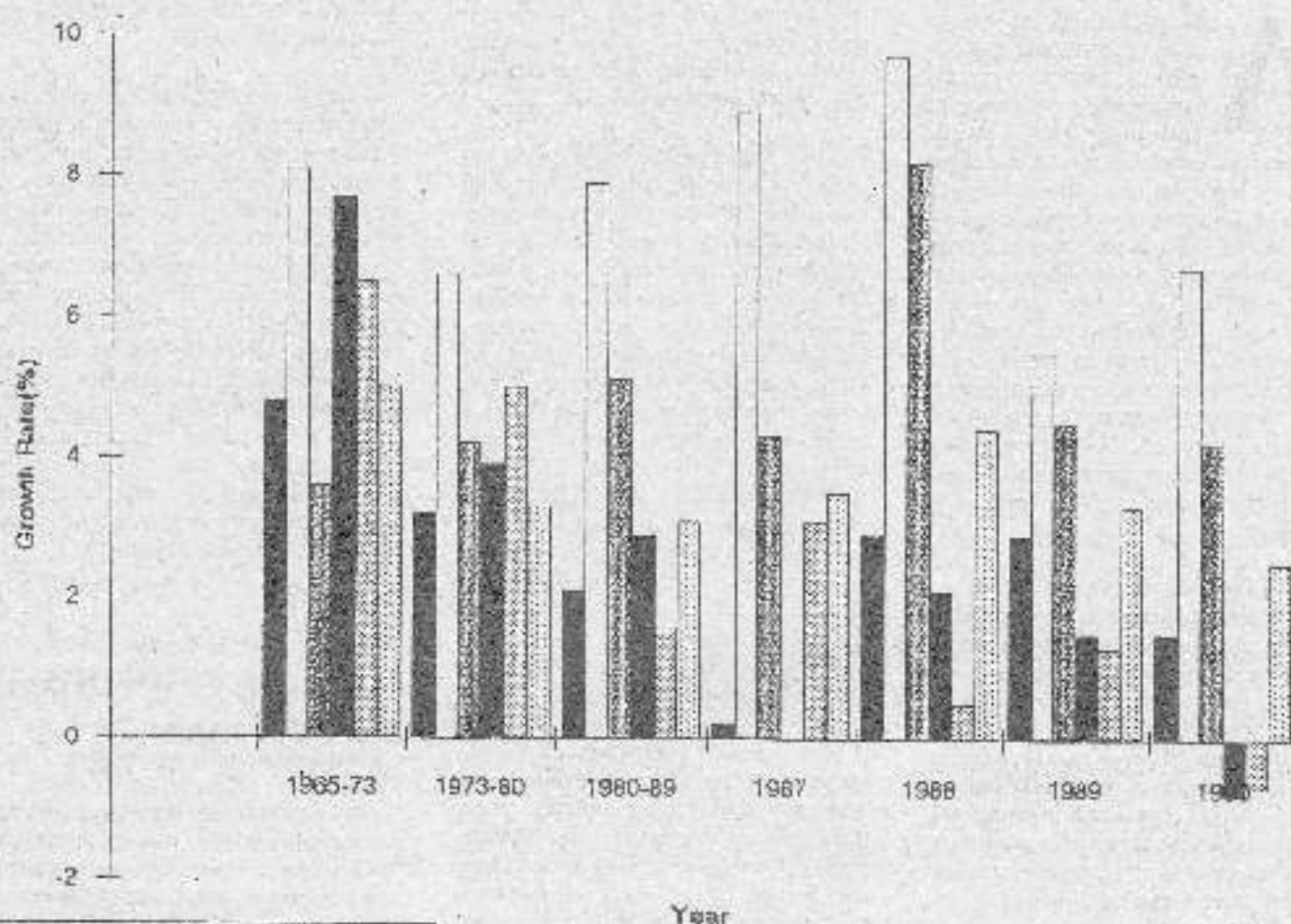
Case of Chile

World Bank and the IMF have claimed Chile as a success story of the adjustment programs. With a growing export-oriented economy it is often cited as South America's 'Tiger', a comparison with the supposedly similar experience of Korea and Taiwan. Since mid 80s the economic indicators of Chile's success include a steady growth rate, a rapid rise in exports, a positive trade balance, increased foreign investment and relatively low inflation rate. These have been quoted repeatedly as proof of sound change in economy which SAPs brings about.

Yet, a closer look at the numbers lead to strikingly different conclusions. Despite growth and improved trade balance the country has fallen in to a debt trap. Total external debt rose from US\$5.25 billion in 1976 to US\$19 billion in 1990 (Wijeratna: 1993). Investment on environment protection has been minimal. Nearly one third of the population still live in extreme poverty and by 1990 income inequality was not reduced. The claimed success has led to an increased concentration of income mainly in the economic elites of Chile while the share of income of the poorest 20 percent has now fallen to 4 per cent of Latin America's regional income (Wijeratna: 1993). The number of Latin American billionaires rose from 6 in 1987 in number to 42 in 1994. Insecurity is prevailing amongst employed with the increasing low paid jobs. Lives of majority are marked with poor health care, education, inadequate or no social security, and the spreading social disintegration, increasing violence and crime (Oxfam 1994).

Women are particularly badly hit in this situation. The dramatic fall in men's wages forced women to seek work in growing numbers in order to feed and cloth their families. The proportion of women in the workforce rose from 22% in 1980 to 38% in 1990 in Latin America. Whilst this offered an important source of income and independence for some women, the majority were forced to accept work in previous low wage jobs. Unprotected by collective negotiated contracts, their earnings are frequently 50-60% lower than those of men (Oxfam 1994).

Figure 1. Average Annual Growth Rates in Developing Countries: 1985-1990



The factors of production adjustment has become a painful procedure.

The process of globalization is continuing, and the conditions of the adjustments are getting tighter. In this situation, it is necessary firstly to analyze and clearly understand the implications of globalization on the small scale producers, and secondly to

focus on approaches which can enhance small scale production within the given structures and on approaches which would improve their competitiveness.

Situation at the National level

In Sri Lanka, like in many other developing countries, the rural informal/unorganised sector of production is relatively larger than the formal sector. Their access to information, formal sector loans, services, and to the infrastructural development is relatively less in comparison to the entrepreneurs in the organised sector. Stabilisation and structural adjustment policies are heavily urban biased with emphasis on large scale enterprises (Abeysekera et al: 1994). The major focus of the SAP policy initiative is the organised sector. The producers

in the organised sector are able to utilise the fiscal and financial incentives better, in this situation, the small producers in the informal sector are at a disadvantage in a competitive market.

The thrust on export led growth and market liberalization were intensified under stabilisation and SAP. Under the SAP policy package the economic prosperity of the country was dependent on the performance of the export sector. It was expected that economic development in Sri Lanka would happen through:

- * accumulation of foreign exchange through agricultural exports,
- * diversification of the agricultural exports,
- * export oriented industrialization (Lakshman: 1993).

Development, Growth and SAP

Although SAPs have been able to generate growth to some extent in many developing countries, especially in the Asia - Pacific region, it is becoming evident that these policies have not been able to achieve positive improvements regarding development. The International financial Institutions' vision of development and growth is conflicting and ineffective where developing countries are concerned. The need to reconcile the two conflicting economic goals of growth and development provides the rationale for the need of "SAP with a human face" which the critics see an alternative to the present problems caused by SAPs.

The concept of growth as far as its theoretical meaning is concerned is widely understood. It is the "continuous rise in real national income, i.e. a rise in money income deflated by an index of prices" (Thirwal, 1979). The World Bank defines growth as sustained increase in real national incomes. Although growth is fairly well understood, the concept of development has evolved through the years. It is an elusive term meaning different things to different people.

Initially, development emphasized the role of income in the improvement of the standard of living. Proponents of this approach suggested the adoption of measures that raise the level of real incomes of the poor by making them more productive, so that the purchasing power of their earnings, together with their subsistence production, enabled them to acquire the basic needs (UNCTAD, 1984). Such development would generally refer to "... the secular rise in real income accompanied by changes in social attitudes and customs which have in the past impeded economic advance" (Thirwal, 1979). This income centered approach assesses investment in human capital, including health, nutrition and education, entirely in terms of the extra income which exceeds the capital cost. Machlup (1967), a western economist, explained development as those changes in the

use of resources that result in potentially continuing growth of national income per head in a society with increasing or stable population. Development therefore, is much broader than growth, for it implies more than just a rise in real national income.

Then emerged the basic needs approach to development. This approach evaluates the basic needs of people in respect of certain essential nutritional requirements and health and education services. It suggests that development should be concerned with removing absolute deprivation as a first priority. The achievement of such development becomes complex both in terms of indentifying the appropriate measures, and in terms of mobilising the required political will (UNCTAD, 1994). However, it is argued that the basic needs approach, while adding a new dimension to the concept of development, is still rooted in the commodity based assessment of progress in development. To that extent, it is similar to the income approach.

The two recent approaches to development are the "Human development approach" and the "Human capacities development approach". The former brings the debate on development one step further by introducing the notion that choices and the ability to make them are just as important in the development process as access to commodities. It thus moves away from the traditional commodities/income based mode of valuing development, taking a more holistic view (UNCTAD, 1994).

The concept of Human Capacities development incorporates the objective of developing capabilities as well as using these capabilities productively. In other words, development entails investing in people so that they in turn, contribute to economic growth, productivity and employment. It thus sees development as a self-perpetuating process and encompasses both the income and the human development approaches.

Another approach to the concept of development is that of Sustainable Development which encompasses environmental aspects as well. Here, de-

velopment is identified as one that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1988).

Clearly, the development model has evolved through the decades to take on a much broader meaning. In the present context, an increase in income is not a sufficient condition for an increase in welfare, for the obvious reason that an increase in income can involve costs as well as benefits. It may have been generated at the expense of leisure or by the production of goods not immediately consumable (Karunaratne, 1992). Thus growth itself does not necessarily lead to development which is sustainable in the long term. The cases of the Latin American countries are examples where development did not occur along with export led growth.

Is There a Conflict Between Growth and Development ?

Growth and development, need not be contradictory in concept, provided both terms are clearly defined to suit the conditions and needs of the developing countries. It seems that the conflict occurs when these two concepts are treated in isolation. Economic growth when pursued in isolation, does not automatically improve people's lives, either within nations or internationally. Rather, it leads to the lowering of the quality of life of the disadvantaged groups and to widespread poverty. The South Commission which reviewed the development experience of the developing countries concluded; "... the undoubted economic growth in the South rarely removed the structural inequalities cleavages; despite the emergence of a middle class, in many countries the income gap between the rich and poor widened. As a result, with few exceptions, economic growth did not produce greater national unity and stability or social cohesion. Most countries failed to improve the social and economic status of women. Growth generally led to increased imbalances, unplanned and usually chaotic ur-

Situation of the Developing Countries at the Macro Level - An Overview

What Went Wrong ?

Beginning with the economic crisis in Latin American countries which were considered by the Bank and IMF as emerging models of free market economies (Brazil, Jamaica, Chile), African (specially Sub-Saharan) and South Asian countries have continued to face various socio-economic, and environmental problems throughout the period of SAPs. Chronic debt and falling terms of trade were the basic factors underlying this phenomena.

The SAP policy reforms were designed to create a free market that would increase growth and service the debts accumulated by the developing countries. This has not happened even after a decade of reforms. Even those countries that have achieved reasonably moderate growth rates are highly indebted because their growth could not be sustained over a long period. The debt of the Third World has risen to a historic high (US\$ 1.5 trillion) according to the IMF (Madeley, 1992).

For instance, in the South Asian region, ratio of total debt to GNP increased at an annual average rate of 10 per cent and the combined ratio of the five countries averaged 52 per cent in the year 1991 in contrast to 32 per cent in 1982 (See Table 1 in the main text). Although GDP per capita growth rates in the region have increased, when indexed, the real values show a declining trend (Table 2 in the main text) indicating failure of SAP's sustainable growth objectives. The World Bank itself admits that in Sub Saharan Africa budget deficits have increased, investment/GDP and debt/export ratios have generally worsened during the decade of 80s (World Bank, 1989).

In the new world context (1990s), stabilization and adjustment programs have acquired a wider political-economic meaning. They are mechanisms in the process of globalising market relationships. Stabilisation reforms sought to link up the domestic economies with the world market. However, this has not given the developing countries any additional advantage in their international trade relations.

The developing countries exported \$951 billion worth of goods and services in 1990, mostly to the North, compared with \$64 billion received as development aid (Madeley, 1992). The global markets make developing countries lose economic opportunities worth around US\$500 billion annually mostly through tariff and non tariff barriers, which is equal to ten times what they receive in foreign assistance (Human Development Report, 1993). Consequently, their imports in both volume and value have persistently remained greater than that of their exports, and their terms of trade have been in deficit (Table 3 in the main text). In effect industrial countries in the North have accrued more benefits out of SAP in the developing countries.

Implementation of free market and free trade policies in the developed nations as well as in the developing countries have not brought much benefit to the poorer sections. Global disparity has doubled during the past three decades: the richest 20% of the world's population now receive more than 150 times the income of the poorest 20%.

A major cause of the deterioration of income inequality is the bias of the policies against the poorer sections of the developing countries. SAPs and its sponsors are more concerned with ex-

port-import statistics and GNP growth rates rather than the living conditions of the people in the developing countries. Recent World Bank statistics showing increases in per capita growth in many developing countries masked a process of the rich getting richer and the poor poorer (See Tables 8, 9 & 10). The Bank can't yet demonstrate that this so called growth will actually trickle down.

The statistical link between exports and growth is strong in some respects but inconclusive in others. Growth will depend on which sector of the country's economy generates exports. Industrial exports lead to faster growth. Some studies have shown that while the link is strong in manufactured exports, primary exporting countries have fared poorly. Case studies on Brazil, Colombia, Mexico and Chile have failed to find a consistent relationship between greater openness and faster productivity growth (Trade and Development Report, 1992).

The incidence of income disparity in the developing countries is very much higher than in the developed world. Latin America had most uneven distribution of income in the world at the beginning of the 1980s. Over the course of that decade, average per capita incomes of these countries dropped by 10 per cent; the number of people living in extreme poverty increased from 62 million to 93 million between 1980 and 1990 and the gap between rich and poor widened in nearly every country in the continent. The reforms in Sub Saharan Africa too have lead to deteriorating conditions of the poor and an increase in their numbers. (Oxfam, 1994).

The poverty levels of the South Asian countries are among the highest in the

ward. The Human Development Report 1994 places Nepal and Bangladesh among the world's 11 Least Developed Countries (LDCs) while India, Pakistan and Bangladesh are recognised to be among ten developing countries with the highest incidence of poverty in absolute terms. As a whole, an average of 30 per cent of the region's population is below the poverty line. This level is higher among the rural areas (Cremades, 1998).

The existing poverty indicators do not necessarily capture the magnitude of human deprivation in the developing countries (See Table 8 & 9). The World Bank's poverty alleviation strategy admits knowledge that poverty is defined not only by level of income but also by quality of life. Gargan (1994) analyses adjustment policies in Latin America clearly judge these policies fall short on the criterion of 'respect for the lower rights of people to a decent and good health and a clean environment'.

Latin America is widely claimed to be highly successful in implementing adjustment. This has however a study conducted in Latin America recently highlights the other side of the picture. The core economic policies of the World Bank and the IMF after their negative results in three countries, nevertheless remain essentially the same (Fajana, 1994).

Dependency

The dependency of developing countries on the World Bank and IMF for funds has made the adoption of Structural Adjustment Policies unavoidable although implementation of such policies clearly tend to adversely impact on the consequences. Nonetheless, the austere measures of the IMF are condemned so that they have to be withdrawn. Hence the IMF and policy prescriptions by the institutions have been increasingly harsh and unyielding.

The World Bank's explanation for factor institutionalisation is that in the case of economists in the industrialised nations of the North the important development policies of the developing world of the previous decades

is, this reason for the economic crisis of the Latin which they have described as internal shocks (Wapensch, 1993). Such claims, these concerns formed, traded correction or adjustment whether the Third World countries in question rises it or not. They believed the market would correct the problems if given time and space to operate. Adjust, more they argued, was painful, but with a variety of strategies, the pain could be lessened.

It is obvious however, that in many off-shore SAPs have been expensively painful for the poorest with distribution of income becoming even more unequal. Many developing countries have become examples of export oriented growth which is economically unsustainable socially deplorable and environmentally unappealing.

The latest danger now has reached a level which means that if not done then, in a recently held conference in Washington (WAP), with over 100 participants from various states, Third World Network (TWN) expressed its concern over the state of dependency stating that 'SAP is really a mechanism for shifting the burden of economic mismanagement from the people in the North who caused the crisis to the poorest in the South. Adjustment is a policy of reinforcing the industrial North and development patterns which the Northern powers want to continue in the last century. Developing countries are now more dependent than ever on the North' (TWN, 1994).

SAP programs in the dependence of developing countries purposely to enrich the developed countries (McKen, 1991). The programs are designed to ensure that indebted countries earn more foreign exchange and that the money they earn is used to repay their debts and in private sector investment. But the actual effect of structural adjustment is to deepen the indebtedness, poverty and social development programs. Structural Adjustment programs are formulated by the World Bank (WB) and other agencies for each country, but all have a common thrust to transfer resources from the impoverished developing nations into the coffers of the Northern economies, international banks and multinational

lending agencies to which they are officially indebted.

The changing role of the International Monetary Fund (IMF) is itself an example of institutionalisation which imposes more dependency on the developing countries. The conditions imposed on lending by these institutions to the developing countries is increasingly take on a political nature. The World Bank protests that the requirement of market and state, can best be achieved through political reforms. These reforms are two-fold political and institutional (World Development Report 1991). However, as developing countries start with such political conditionality attached to adjustment, the adjustment policies, the adjustment capital in countries are not shifting the economic as well as political agenda for the developing world the ultimate goal which is the institutionalisation of the state (Thompson, 1992). The traditional nationalisation state and national sovereignty will most probably have no place in this era of internationalisation of the capitalist state.

Specify Adjustments

Quick and short run adjustment measures often fail to take account, and even affect adversely, the flexibility and structural changes required for the economy to obtain goals of growth (ILO, 1987). Furthermore, adjustment creates a greater inequality in income distribution and the expected trickle down does not take place. The recent adjustment crisis of the Third World is an outcome of such hastily implemented adjustment.

For Structural Adjustment to be effective, it needs gradual institutionalisation with careful planning taking into account the internal and external economic conditions in each country. While developing countries are struggling with severe economic crisis however, and not and still cannot afford such long term solutions to their problems. Development programs are often implemented and deregulation and liberalisation measures carried out almost overnight so that fresh funds can be obtained as quickly as possible. Adjustment is in essence the liberalisation

Integration into the export market was shown as the only course for earning increased incomes and getting better living conditions for the largest and relatively poorer segments of the population, especially those who make a living from agriculture.

Small scale producers find entry into the markets very difficult (Vyas 1993), specially those who are less endowed with assets and skills (refer cases 9,11). And even when they succeed in entering they are not able to obtain fair returns. In Sri Lanka small scale producers who are linked to the export market competition are disadvantaged due to the following factors:

- * Relatively large scale and established organizations dominate the export markets (refer cases 11,13).
- * Small producers lack the entrepreneurial skills and training, and the ability to take risks with new production avenues and markets (Case 10).
- * Small producers have unequal and difficult access to information, capital, and technologies and to the fast modernising service sector (refer case 14).
- * Small producers lack access to export promotion to exploit whatever possibilities that exist for export to the global market. (Madeley: 1992).
- * SAP trade policies have brought down the level of support to the small producers resulting in an increase in the cost of production through price rises in fertiliser, diesel oil, agro chemicals, water etc. (refer case 12).
- * Export markets are unstable and the risk is larger for small producers who are exploited by intermediaries and established exporters.

In Sri Lanka small producers of non-traditional items for the global market face considerable risks due to a number of interrelated factors. The domestic market is very small due to low per capita income which is approximately US\$ 500 (World Bank, 1993) and the limited extent of the urban markets. This increases the producers' dependence on external market. The small non-traditional export base results in a high degree of dependence on a limited number of ex-

port products and a concentration on a selected number of urban markets (Dunham, 1993). Little priority given to adding value to exported items also places producers in a disadvantageous position.

Consequently the small producers are highly dependent and in an extremely vulnerable position, where even a minor unfavourable development in the market can have a large impact on them. Such vulnerability and dependence firmly underline the precarious situation of the small producer.

4. Conclusion

SAP is the common prescription of the World Bank and IMF for the economic problems of developing countries. The range of SAP's policy interventions cut across the entire economic structure of a country, affecting all social groups in the short, medium and long term. After a decade of the implementation of SAPs it is now clear that:

- * Contrary to the original expectation that SAPs will be able to "correct" economic imbalances within a 3 to 4 year period, the process has taken much longer and the imbalances are worsening.
- * Even with the extended period the expected "benefits" i.e. better Balance of Payments, trade deficit, an economic environment conducive for economic growth, greater democratisation of economic opportunities and better living conditions for all segments of population, are not evident.
- * Instead of creating a level playing field. SA policies have created an environment where the rich and powerful could grab all available opportunities, and make use of them at the expense of the groups who are marginalised, and unable to compete due to their lack of accessibility to resources.
- * Although there are macro economic indicators which show GDP growth, and reduced inflation in some instances, the gap between the rich and the poor has increased, more

people are in a state of deprivation and the livelihood of the marginalised seriously affected.

- * The macro economic indicators to assess the impact of SAPs are not a time guide and do not reflect the extent of social and economic deprivation.

All in all the impact of SAPs has been mixed in the countries in the South Asian region as well as in other developing countries. The producer groups who could access infrastructure and other production resources gained the benefits of economic reforms and globalisation. But for the majority of small scale producers SAPs has been disastrous.

This disastrous outcome challenges the theories and assumptions of SAPs. The main intention of the SAPs was to achieve growth through efficient production. Yet, the consequence of SAPs is that small scale producers who constitute the production base of developing countries economies have been pushed out of production.

The intention of SAPs has also been to employ the market mechanism to make inefficient activities more efficient and economically viable. Considering that the economic activities of the small scale producers are meaningful and continue to provide them with a livelihood, a definition of efficiency which exclude a very large number of people from production is questionable and suspect.

Small scale producers have been neglected hitherto by earlier development policies. When SAPs came into effect small producers had little access to capital, information, knowledge, technology, and economic opportunities. The result of SAPs was continuation of this trend, making a bad situation worse by forcing of their entry to the global market and exposing them to an unfair competition. It is acknowledged that apart from the conditions imposed by the IMF, World Bank the internal dynamics of a country: political and social, are also responsible for this unsatisfactory outcome.

5. Recommendations

Any measures aimed at forming the economies of developing countries should take into consideration the fact that over 60% of the producers operate at small and micro scale. There is therefore, a need for the reform measures to be specially tailored to suit local conditions.

Table 8

% Households below Poverty Line (2**) by selected Sectors in Sri Lanka - 1990/91		
Socio-Economic Group *	%	Head Count Index
Agri. Employer	0.7	16.1
Agri. Labourer	12.8	40.5
Agri. Other	2.1	36.7
Non. Agri. Manual Worker	4.0	58.8

Source: Labour Force and socio-economic surveys, 1990/91, 1985/86, 1980/81.

* Classified according to the main activity of the principal income earner.

** Poverty Line, 1.76 thousand which the Head Count surveys set.

Apart from a suitable macro economic policy developing countries also require structural adjustments to the political, civil and legal institutions. These reforms are necessary to safeguard the interests of the small producers, and to create a conducive climate which enables them to be competitive in the market.

The role of the state in this situation is very important. State support for small producers predate SAPs. Often the support provided was insufficient and unsatisfactory in addressing the concerns of the small producer. The nature of the support required in the present situation is different. The role of the state must be to facilitate rather than to produce, to protect the production interests of the small producer (both locally and internationally), and to create an environment which allows small producer to compete on equal terms with other economic actors, and also provide them with a 'safety net' as a kind of social insurance.

At present the difficulty of the small producer is to gain access to credit, information, technology and markets. This is similar to the pre SAP situation. (Cases from South Asia and Case No. 15 from Zimbabwe). It is insufficient to make credit and other facilities available and assume that small producers will be able to automatically access them. There must be specific measures to enable them to avail themselves of the facilities in competition with the medium and larger producers. These measure should include appropriate training and instruction in methods of production and marketing in addition to credit and other facilities.

In these areas new relationships must be built between the state and the other institutions in the non profit private sector (NGOs, cooperative banks, professional bodies etc). The role of the state in these alliances would be to coordinate, facilitate and to regulate rather than to implement.

The state also has a role in sequencing the SAP measures to enable the small producers to adjust to the change of policy. For example the state could function the removal of import restrictions and subsidies to allow producers to increase efficiency and shift production if necessary.

The interests of the nation is another important area where concern should be shown by the state, other development organisations and the producers. In the context of globalisation and international market pressures it is vital to consider local food security, in export promotion and diversification and the careful exploitation of natural resources. Education, awareness building and a continuing discussion of these issues is vital in the long term interests of the countries concerned.

Finally, to reduce the vulnerability of the developing countries to unstable world markets and in the interest of the long term economic growth of these countries, it is necessary to strike a balance between import substitution and export promotion. Regional co-operation would be one way of helping to reduce international market instability and dependency.

Table 9

Incidence of poverty in South Asia-1990

	Population below poverty line		Income Share of poorest 40%
	Total	Rural 1990 (%)	1990-98
Bangladesh	60	96	23.7
Nepal	60	81	n.a
India	48	51	20.4
Pakistan	30	29	19.0
Sri Lanka	26	28-32	n.a

Source: World Bank, World Development Report 1992; UNDP, Human Development Report 1992; and Hordley Committee of S. Asia Development Review 1992.

Table 10

Contribution of the Small Industry to the Gross Domestic Product (at Constant prices) 1982-1993

Sector/Year	Percentage							
	1982	1987	1988	1989	1990	1991*	1992	1993*
1. Agriculture	28.37	23.64	23.51	22.78	23.23	22.61	21.34	20.43
2. Manufacturing	14.87	18.17	18.46	18.83	17.36	17.71	18.48	19.1
2.1 Processing of Tea Rubber & Coconut	8.01	2.53	2.75	2.87	2.73	2.46	2.06	2.09
2.2 Factory Industry	9.27	11.31	11.73	12.73	13.22	13.44	14.39	15.61
2.3 Small Industry	0.82	0.79	0.77	0.77	0.75	0.79	0.82	0.8
2.4 Other	1.27	1.19	1.17	0.66	0.63	0.62	0.61	0.61

* Provisional

Notes:

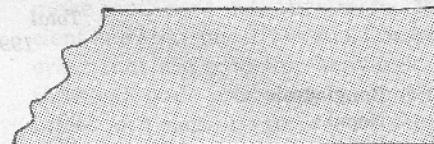
1. Some of the development approaches are: growth. Growth accompanied with equity, basic needs and alleviation of poverty.
2. A political and diplomatic problem where Indian security sensitiveness were raised by Nepal importing Chinese arms leading to India letting breach landlocked Nepal's trade and transit arrangements effectively creating an economic barrier.
3. When tariff levels are low on the exports of developing countries, low levels apply mostly to exports in raw form, Manufactured products, particularly those with labour intensive production processes (eg. processed fruits, tea in packs) continue to face significantly high duties in markets of the developed countries.
4. For example in the GATT (Uruguay round) talks, the average levels of tariffs in industrialised countries on manufactured goods were lowered to 5% in contrast to 35-45% which prevailed in the early postwar years. But the main focus of the tariff reduction procedure was on goods of particular interest to the industrialised countries rather than to developing countries (Corea G.; 1994).
5. According to Abeysekera et al. (1993) increased emphasis export oriented industry was initiated during the latter part pre 77 period.
6. Often bodies with links to multinationals dominate the export production. In comparison to local producers they have the advantages of technology, capital, access to information and to infrastructure, plus cheap labour and raw material.

cont. from page 19

would be one which focusses exclusively on their economies. It is clear that they want not just to survive but to live. Living involves developing a sense of self-worth, creating, building community, socialising, recreating, deepening the understanding of oneself and of others, developing local, regional, and international structures for communication and participation, and much more (John French, in McAfee, 1991). Attainment of such standards of living calls for a more holistic approach of development which requires not only that each individual should receive an income, but more fundamentally, that the life and char-

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acter of the individual should be enhanced by the process and that his/her self-esteem should be developed; he or she should acquire marketable skills: his/her environment should be enhanced and his/her life chances should be improved (McAfee, 1991).

The message from the Third World is clear. SAP have neither been able to bring about the sustained levels of growth nor the development goals in the long term. Although growth took place in the short term, such growth in many cases occurred along with negative macro economic and social consequences. Frequently, over emphasis of the SAPs on growth oriented policy reforms have resulted in the sacrifice of long term development. This has

brought about various negative socio-economic consequences at both macro and micro level.

What the developing countries need right now are Structural Adjustment programs which give equal emphasis to achieving development as well as growth and which consider these two concepts as complimentary to each other. Many have called it Structural Adjustment with a Human Face. The Development in this regard should be more holistic rather than income driven. The role of the state needs to be invigorated and integrated into the process of SAP. It is believed such measures will upgrade the quality of life of the majority and lead to the achievement of these twin goals.

Case Study (1)

Bangladesh

Shahidullah (40) of Dawa, Moulvibazar is an energetic young man who has built up his business of 38 looms from virtually nothing.

Having sold his share of the ancestral land despite protests from his three other brothers, Shahidullah invested the money initially in 10 looms. In the 1970s and 1980s, before the crystallisation of Bangladesh's structural adjustment program, he, along with other weavers prospered greatly.

As an entrepreneur, Shahidullah occupies an important position in the area - small loom owners come to him for advice and working capital. He has his own dyeing units and is able to provide custom service. He buys the products of smaller looms and supplies them to the wholesale market with the help of his teenage son.

The first impact of Bangladesh's trade liberalization policies were felt in late 1992 - on the grey fabric market. The tariff anomalies under restructured fiscal and economic policies pushed up the price of imported yarn to 45 - 52 % above the free trade price of yarn. Protectionism of the spinning industries due to political favour keeps the price of domestic yarn equally high.

As a result, his own produce which became 10-15% costlier than the ruling market price of grey fabric could not be sold. In addition, imported (and smuggled) Indian grey fabric which was flooding the market could be bought at his own cost price.

As his stocks of unsold cloth mounted, Shahidullah ran out of working capital to buy yarn. Now, he is only operating some 10 - 15 looms at a time compared to the 30 - 40 looms of a few years back.

Consequently, his production has fallen by two thirds and his labour force of weavers have dropped from 40 to 20.

Now, there are other competitors - powerloom units set up in his area to produce polyester blended fabric for smuggling to India; have taken to manufacturing cloth items for the domestic market since the improved exchange rate for the Taka against Indian Rupee make the Indian market unprofitable.

But, it is smuggled cloth from India that is regarded as the common enemy to both the handloom and the powerloom industries.

Nonetheless, one factor helps Shahidullah expand production. His uncle, who works in the Bangladesh Secretariat (central government building) manages to win large government cloth tenders for Shahidullah. This keeps him in business though much of the profits go to those involved in the deal.

Case Study (2)

India

Gyaneswar Worliher at 30 years is the youngest member of his family from his generation who is still involved in the family occupation - fishing.

Depending on the season, Gyaneswar and his father earns an income between Rs. 2000 - 3000 per month.

The activities of Gyaneswar and his father are generally not limited to fishing alone, but involve marketing, boat and net repair in addition to providing manual labour to other members in the fishing community.

On days when they sail they stay out at sea for about eight hours. Unlike the mechanised trawlers they do not have a freezer on board, and there are times when they are forced to set sail two or three times per day to bring the harvest ashore. On other days when they are unable to sight a shoal, they wait for long hours at sea far (off the shore) in vain.

In the 1980's Gyaneswar's father joined a medium sized motor boat through a scheme started by the fishermen's co-operative in Worli (a fishing village in Bombay). Since this boat is not very seaworthy now and, as the maintenance costs are high, Gyaneswar wants to get another boat. This does not seem possible as the cooperative's funds are now dominated by big fishermen who have little concern for small operators.

There is virtually no credit available - as policies on credit and marketing are weighed heavily in favour of export oriented trawler operators since the implementation of the Indian Government's structural adjustment program in 1991.

Gyaneswar is at present resisting the temptation to get help from the beach auctioneers who (because the fishermen do not have the preservation/transportation/marketing facilities), buys the catch cheaply soon after it is brought to the shore. However, he would then have to agree to their

terms - and lose out on the variety of his catch and also not be able to sell the fish in the open market.

Both father and son feel that over a period of time the catch has decreased - partly due to overfishing in the area by trawlers and partly, due to the dumping of industrial wastes in the sea.

The plan to introduce large numbers of deep sea fishing vessels and the declaration of India's Exclusive Economic Zone may further affect marine biology.

With such a bleak future, soon the only option left for small fishermen like Gyaneswar and his father would be to seek a supplementary income elsewhere.

Case Study (3)

Nepal

The Satyawati Soap Industry owned by Bishnu Man Shrestha in Palpa, Western Nepal was able to produce 1300 kilograms of hard soap a day, at its peak.

This soap was made essentially with local resources - from the locally available Chyuri ghee which was produced from the seeds of the chyuri tree found growing wild in the surrounding forests.

Hundreds of families from the nearby villages supplemented their subsistence by collecting these seeds (generally left to rot in the jungle), and by supplying them to the soap factory. Each season, every household was able to earn at least Rs. 2000 with which they bought much needed clothes, medicines, & school books.

Satyawati Soap Industry began to run into trouble in 1985 when the government of Nepal adopted a stabilization program under an agreement with IMF. The Government, which had borrowed heavily, was under pressure from donors to increase its revenues by raising taxes.

As a direct result, a 6% excise duty was imposed on Satyawati's soap products. Previously, as a cottage industry operating without electricity, Shrestha's business was exempted from such taxes. In addition, a 16 % sales tax was imposed two years later.

Finally, the uncertainties regarding the supply of essentials during the year-long Nepal-India trade and transit impasse of 1989/90, forced Satyawati Soap Industry to close down.

However, it is now clear that even if the Nepal-India impasse had not occurred, this industry would have been forced to close anyway as indicated by the impact of subsequent liberalization policies on other even larger soap industries in Nepal.

The impact of these measures were not confined to industry alone. Villagers of the subsistence economy were also adversely affected through the loss of income as well as through the tax hikes which meant that the higher costs were now passed on to them.

Case Study (4)

Nepal

Mr. Nand Kishore Rathi is the owner of the Swadeshi Sabun Udyog - a medium scale soap factory in Nepal which employs over a hundred workers. He, as well as other manufacturers belonging to the Nepal Central Soap Industries Association are increasingly worried about the Government's new trade liberalization policies under the structural adjustment program.

In recent years, import tax on soap products brought from outside has been reduced as much as by 12% by the Government. However, in a bid to increase government revenue, sales taxes on Nepal soap have been increased.

Import tax on raw materials required for soap manufacture - along with other inputs such as packaging (which need to be imported) all have taxes levied on them separately and at various stages upon entering Nepal. This has made it cheaper to import soap than to produce it within the country.

On top of which, the recent entry of major multinational companies (which already have established markets) such as UK's Unilever - and its subsidiary Hindustan Lever into the country, would further threaten the smaller industries. Though Nepal Lever would directly employ 120 workers at full production, Swadeshi Sabun Udyog and other soap manufacturers are already providing employment to thousands of workers.

In addition, medium scale manufacturers are allowed a tax deduction only if they spend up 2% of their gross earnings on advertisements. This makes it difficult for them to market their products successfully whereas multinational companies are free to operate without these drawbacks.

Export to other markets is not viable for Mr. Rathi due to bureaucratic hurdles as well as the government's tax policies. As a result, most factories in this industry are

operating at below 50% of production capacity at present.

Case Study (5)

Nepal

The industrial town of Butwal in western Nepal is home to one of the country's major mechanical engineering workshops - Butwal Engineering Works, established in 1977. Currently, it is a leading manufacturer of cross-flow turbines.

Of late Butwal Engineering Works and other industries in the field are coming to terms with the full implications of Nepal's structural adjustment program adopted in 1985.

These industries, which survived the Indian imposed 'trade and transit impasse' and the subsequent political reforms of 1990 without going under, are now faced with sharp increases in production costs.

The cost of steel has gone up from Rs. 12 per kg to Rs. 30 per kg during the last ten years while the cost of labour has gone up from Rs. 30 to Rs. 60 per day.

All in all in 1985, the cost of labour was more than half the total cost in the manufacture of turbines. The materials cost less than quarter of the total cost.

Since then, the cost of imported materials required for turbine manufacture have doubled while the cost of labour is seen to have decreased significantly - from 60% to 37% of the total cost.

On the whole however, it would be the massive structural adjustment projects undertaken by the government such as Arun III, which would form the gravest threat to the small turbine industry. It is expected that this type of expensive large scale hydro power scheme would, by harming the extremely successful micro hydro power industry in Nepal, reduce the demand for small turbines.

Case Study 6

Pakistan

Wajid Ali Khan still drives the black and yellow Datsun cab of the pre-1992 era which has fast become extinct with Pakistan's 'Yellow Cab Scheme', initiated under the country's structural adjustment policies.

Khan has been driving taxis for the past 12 years and had started in the business by renting the taxi on a daily basis. Four years

ago, he had finally saved the Rs. 80,000 he needed to buy a reconditioned second hand car.

The first few years were good, but as the yellow cabs started entering the streets people switched over to them and it became more and more difficult for him to pick up passengers even from his usual 'stops'. People preferred the clean new cars to his dilapidated taxi.

Finally, Khan has had to leave his usual territory and go to the poorer sections of the city. The yellow cabs do not go there for fear of accidents and congestion.

Many other black cab drivers who are facing the same plight have also had to move to these areas. But this has in turn displaced the traditional autorickshaws which generally service the poor.

Now, even most of the old black cabs as well as the autorickshaws have been junked. These old taxis however, were delivering the same service at a much lower cost to both the consumer and the nation. In comparison as a direct result of the scheme, there has been a taxi fare hike of between 150% to 500% in Pakistan and that during a time when fuel cost have not risen beyond 20%.

Despite this, and though he does not have to pay a rental or instalment, Wajid earns less than three years ago. Because he did not have enough money for a down payment on a new yellow cab, he continues to eke out a living from his old black cab.

Case Study (7)

Pakistan

Techno Fabrik (Pvt) Ltd., situated in Sindh is the sole vendor of front panels and roofs for Pakistan's Suzuki plant part of the country's fledgling automobile industry.

Currently, there are fifty people employed at Techno's presses which produce the vehicle parts from self-developed moulds. They then assemble various components to complete the part. These components which cannot be prepared on the presses are supplied by other smaller manufacturers.

The heavy tariffs on car imports make the locally assembled cars less expensive than the imported and this has been a boon for the consumers.

However, of late the demand orders for Suzuki has slowed down. Whereas Techno was producing for 3000 cars previously, there are demand orders for less than 2000 now. This has been after the implementa-

tion of the government's controversial 'Yellow Cab Scheme', under the country's structural adjustment program.

Any class of automobile is imported duty free under this scheme as long as it is yellow in colour and equipped with a computerized taxi meter. Be that as it may, these cars do not always remain as taxis since many of these cabs are actually being used in homes as personal vehicles.

Earlier the annual import of vehicles amounted to 100,000 in Pakistan, now can there suddenly be a demand for 200,000 and all of them taxis - asks Riaz from Techno.

Despite this set back to the local automobile industry, Riaz and other manufacturers like him are still able to make profits through lower costs and higher prices. Because Suzuki has ceased to import the parts in CDR form and cannot re-start importation without having to pay full duty. Techno is able to raise prices.

Cashew, importing the smaller components such as nuts and bolts have turned out to be cheaper because duty has been lowered and bureaucratic procedures simplified under the country's restructured fiscal policy. Also, labour has become more efficient with time and planning procedures and controls improved.

Though hard hit the local automobile industry in managing to survive, but the same cannot be said of the smaller export industries. Of course, had the 'Yellow Cab Scheme' included cars that were of local production, it would have created jobs not only in the transport service sector and the automobile industry but also the sub-contractor vendors who supply parts to the industry.

Case Study (A)

Pakistan

Despite a sizable local market under Pakistan's liberalized economy most of the leather industry now target the export markets.

Moiz Hussain is an exception - he owns a small shoe production facility which caters to the local market while providing employment to six people.

Having been in this business for over twenty five years he has personally trained more than thirty people in shoe making skills. He both boasts and complains about the fact that several of his apprentices have been hired by the big producers Bata and Servis.

Currently he provides supplies to several retail shops in Karachi and keeps up on the designs by studying what is available in the other shops and from the customized orders that the retail outlets pass on to him. He is so skilful that he can copy any type of shoe from a photograph or advertisement.

The massive expansion of Pakistan's leather export industry in recent years, have caused the supply of skins and hides to dry up. This has resulted in escalated prices - the price of one square foot of treated and tanned leather is Rs. 38 today compared with the 1993 price of Rs. 20 a sq foot.

In addition, there are artificial shortages of raw materials due to supply bottlenecks being formed. Nonetheless, Hussain is still doing quite well.

The usual price that he charges more than compensates for inflation prevalent Pakistan today. As imported shoes are so much more expensive due to the depreciating rupee, people are willing to pay his prices. Also, people have started asking for better quality shoes and are becoming more conscious of design.

Moiz hopes that he can arrange the finances to expand his production capacity later in the year - and barring difficulties in credit arrangements, he looks forward to greater prosperity.

Case Study (B)

Sri Lanka

20 year old W. A. Shantha Jayakath, is from a village well known for cashew processing in Gampaha. He identifies himself as a full time cashew businessman, although he also cultivates paddy and pineapple in their family land.

Ten years ago his mother started investing in small amounts of raw cashew nuts for processing whenever possible. Now he has completely taken over the business from his mother, and actually employs his mother and sister as well as two more hired labourers to decorticate cashew for a living. He himself does not engage in decorticating or cleaning cashew nuts as it is considered a women's job.

As there is no risk in any wastage or spoiling Jayakath now stocks cashew for processing through out the year with loans he has received from various credit schemes and institutions such as RDB and Sornadaya.

Like many in the cashew processing business, Jayakath is unaware of international standards and of product grading, and is satisfied with whatever information

on prices he can gain from the village Mudalali and other business contacts.

The village mudalali sells fully processed nuts directly to exporters in Colombo. Jayakath himself has not explored these possibilities.

Contrary to the expectations of economists and global credit institutions, the rural processors do not always benefit from the liberalization of the market. In fact, adequate information on export market requirements do not reach them at all. Instead, Sri Lanka has seen the entry of middlemen to the export/import market who absorb the profit.

At the macro-level, the benefits are gender biased and not equally distributed. As a supplier and collector of cashew, in less than four years Jayakath has managed to increase his working capital, gained access to loans and acquired a motorcycle.

In sharp contrast, Shantha's mother's life remains almost the same, despite been engaged in processing for more than 15 years and still doing it. This is typical in cashew industry, where, men usually involved in marketing and supplying have progressed substantially, while the women who do the harder work get lesser benefits.

Case Study (C)

Sri Lanka

After Maria Isabela's husband fell sick, six years ago, she switched from the family activity of highland farming to cashew processing with cashew collected from a few trees growing on their land in Wilpaha. Initially, she started decorticating with no prior training but soon acquired the skill through experience.

As a member of "Kantha Periarumaya" the local women's society, Maria has access to credit through JTF. She uses this money as well as her savings to buy and stock raw nuts. This provides her with work during off seasons.

At present, she buys raw nuts at about Rs. 36 per kg and sells them decorticated at Rs. 175 - 220/- per kg to a Mudalali who lives about a mile away. She gets information on current prices from outside traders who come to the village.

Maria does not know anything much about the export market nor is she in a position to take advantage of any technology that would improve the methods of processing. Efforts to introduce an oven to women processors to dry cashew for further value addition have not been successful in the village as women fear the risk in marketing the

nuts locally if they fail to establish direct links with exporters, since the local Mudalali will not buy dried cashew.

As such, Maria does not have any contact with institutions like the Cashew Corporation or Export Development Board. She has some access to credit facilities only because she belongs to the village society and since risks are low in cashew processing, credit institutions have been willing to increase the availability of funds to the society for lending.

Currently, an import/export company is negotiating to subcontract people for cashew processing during the off season with nuts imported from Nigeria, due to the general dearth of raw nuts to meet both the local and international markets.

Maria has not agreed to this as she feels that the conditions of processing stipulated by the company can only be achieved with the greatest difficulty and as the prices paid are low. However, she might be agreeable if the contracts were negotiated through the village society.

As in many other production / processing spheres under economic liberalization, private sector initiatives for contracting might take place in the cashew processing industry as well, although it is again obvious that the rules will be laid down by the export companies.

Case Study (11)

Sri Lanka

Gherkin was introduced to Sri Lanka during the last decade under the export diversification drive of the structural adjustment policies. Attracted by the quick returns of the crop, Anthony Fernando, a farmer from Daluwa (off Kalpitiya), who had been growing cash crops all his life started to grow gherkins with the help of his wife and two school-going sons.

Since the collection center of the company which promoted the crop was within close proximity, Anthony received all the necessary inputs, advice and payment in time and, his first crop was very good earning him a total income of Rs. 50,000.-

However, in subsequent cultivations, his crop failed many times mainly due to disease. Even on the few occasions that he did not lose his crop, his profit margin decreased and at present he is heavily indebted to the company and to the local RRDB as well.

There were also other reasons why Anthony could not cultivate gherkins profit-

ably. The company sold seed only in large quantities and large scale cultivation in excess of 1/4-1/2 acres was impossible for a single farmer to manage. Additional outside labour had to be employed by Anthony not only in the land preparation, sowing and watering but also during the harvesting. The total cost of additional labour amounted to approximately Rs. 14,000 which included the wages of three workers at Rs. 2,500/- per worker for a period of one month and women employed during harvesting at a day rate of Rs. 70 for three months. Since payments were not made promptly by the company, Anthony had difficulty retaining these workers.

It is vital gherkins are harvested at the correct time as the vegetable tends to grow quickly. A few hours delay could result in the produce being graded low, and the farmers' income reduced. Apart from this, the grading of the gherkins is done by the company as the sole buyer of the produce.

Because farmer in Sri Lanka are not experienced in gherkin cultivation they did not know initially, for example, that it should not be cultivated during the rainy season.

Apart from the hard work of Anthony and his family, other necessary conditions for a successful harvest are the availability of technical advice, agro-chemicals, and timely payments.

Anthony does not realize that many of his problems are due to the limitations in his contract with the export company - as it does not address the risks of the producer. Nor does it consider the capacity of the small farmer to manage labour intensive cultivation such as gherkin or the specific problems of the rural small farmer. Since the partnership with the company is unequal the producer cannot make demands such as prompt payments.

Anthony feels that gherkin cultivation is the only way out for him, as he does not see other viable options. In fact, he says he would prefer to cultivate big onions, but simply does not have the capital required for seed and fertilizer. Like any gambler, he believes that one day his luck will change.

Case Study 12

Sri Lanka

W. Wilson was a poor farmer working in 1 1/4 acre encroached land in Mampuri, Daluwa for tobacco and other vegetables with his family. He prefers onion and chili cultivation, but they need higher capital for buying seed and fertilizer. As a small farmer, he has applied for credit from banks without success.

On hearing from other farmers about the quick returns of gherkin cultivation along with the inputs available on credit, he too turned to gherkin.

Wilson's cultivation was based on trial and error - from his experience with cucumber and the hearsay of other farmers. He did not receive any training or information on technology when he bought seed from the export company promoting the vegetable in his area.

In Mampuri daily watering of gherkin was essential as the soil there was very sandy and water retention was minimal. Input in the form of a water pump - an unaffordable item for the poor farmer, was necessary to prepare and maintain the soil. Having had no access to company extension services, he rarely received payments or other inputs on time, despite the need for ready cash daily to pay labourers and for fuel for his water pump. He had crop failure many times and he was unable to obtain the expected yields.

When new brands of seed issued by the company failed to bear fruit Wilson and other small producers were not assured of full compensation. In this case the farmer also bears the cost of the R & D at total risk. Gherkin had not proved to be an option for the small farmers like Wilson. This is a typical case where the farmer bears the total risk and loss due to lack of information, timely inputs and payment.

There is no written contract with the company and the farmers have to comply with the conditions designed by the company. This, coupled with the abject poverty levels in the village, leave no room for farmers to be in a position to bargain or to point out when the responsibilities of the company/agent were not carried out.

Due to lack of options in the village, those farmers who eventually did give up gherkin cultivation were compelled to work as hired labourers for local Mudalalis who cultivated Gherkin on a large scale. Though they are at present overworked and underpaid, there is heavy competition for these jobs. Such competition has made it impossible for farmers to organize themselves into unions to make demands.

Structural adjustment programs have linked small farmer like Wilson to the global market through the exporting companies. Nonetheless, he is not better off than those who are linked to the Mudalalis, and remains dependant and very poor.

In fact Structural Adjustment has made them more dependent than ever because the new policies have removed whatever entitlements they may have enjoyed before. Re-

ently, food stamp subsidy was removed by the recommendation of the Cornucopia Subsector on the basis of having acres of cultivated land, and they grow gherkin. The reality is that the income from their land is very low and it can not be used as hand collateral since it is encroached. Gherkin is a low value crop requires assistance from children in cultivation and their education is very rarely continued thus creating a vicious circle problem.

This case depicts how the capitalists use the marginalized communities who are vulnerable to exploitation.

Case Study (13)

Sri Lanka

Four years ago, at the height of the export promotion drive a company agent persuaded Winson Peiris - a successful and dynamic young chili cultivator from Panapitiya, Unapumatt (off Puttalam) to grow gherkin.

Because the crop was new to Sri Lanka, the company provided advice, and other extension services like seeds and fertilizer on credit to the cultivators.

Peiris followed the company's instructions carefully, and his first crop was a good one though subsequently he started having problems.

The young farmer understood the technology of growing the new crop well, and also helped other farmers in the area. To him, gherkin cultivation required the attention and care like bringing up a child. Skills in fertilization and watering on time were essential. However, such hard work was in vain as if principal support services from the company was not forthcoming. This in fact was the problem.

Not all of the Company's field officers were able to advise on cultivation, nor were they very reliable. Sometimes, the company employed inconsistent and irregular sorting and grading agencies and payments were hardly received on time so that it was difficult to retain labour. At times the company supplied poor quality seeds and the resulting crop failure had to be borne by Peiris.

The cultivation of gherkins was very arduous and time consuming work as the plant is very sensitive to land and weather conditions. If harvesting got delayed even by a few hours the gherkins would be too big and consequently graded low and drop in value.

Since gherkin is cultivated solely for export, small farmers like Peiris, due to their lack of knowledge of the liberalized market, are completely dependent on the company for marketing their produce.

Peiris soon became heavily indebted to the company and fell into the vicious circle of having to cultivate gherkin again and again to pay off his debts.

Finally, the overall uncertainty and hardships have become too much for him and Peiris along with many other farmers in the area have given up gherkin cultivation.

Peiris feels that the enterprise was unsuccessful because the company did not fulfil its promises and as such the market risk in gherkin cultivation was transferred completely to the small farmer. Ultimately when the farmer got into trouble, the company simply moves into another area.

Case Study (14)

Sri Lanka

B. L. Sumanawathi is a 47 year old widow with four children. About 10 years ago, having some money she had managed to save selling plantains at the village fair, she decided to cashew processing as it could be done at home along with her other household chores and as her three daughters and son could help her.

Now her children have all left home and because she is unable to dismantle large amounts of cashew, Sumanawathi cannot afford to stock large quantities of raw nuts for the off-season or hire labour to expand her processing activity.

Therefore, since last year, she works for a family in Gampaha as a wage labourer decorticating raw nuts for about Rs. 100 per day, working from about 8.00 am to 6.00 pm (she is paid at the rate of Rs. 30 for shelling 1000 raw nuts).

As a member of the village society, Sumanawathi is able to obtain loans from the Surudaya credit program and she employs Sumanawathi to process it further while her son helps in the marketing.

She too used to be engaged in decortication for years and suffers from backache as a result. This is a condition which affects many women as a result of sitting on the ground all day long in one position for years in order to process the nuts.

In addition, there is the danger that the toxic substances in the broken cashew nut shell would harm the hands and fingers of women who are out a living from this industry. Though the Cashew Corporation factory has improved on decorticating technology by developing relatively inexpensive cutters, no attempts have been made to pass this to rural women processors.

Sumanawathi's employer has been told by the village Mudali who buys the processed cashew knowledge to paste the cleaned halves of cashew nuts, implying that this

was a current market requirement. Because they do not have access to any other source, they do not realize that by adulterating the product in this manner they are risking their own market in the long run.

Being in the cashew processing business for over 10 years has not brought benefits to Sumanawathi. She continues the hard work despite potential health risks, and her position remains the same. Due to the lack of access to information, Sumanawathi like most rural women, is not aware of available credit schemes and incentives given to export agriculture under the export promotion drive in Sri Lanka.

Case Study (15)

Blacksmithing in Zimbabwe

High Class Blacksmith is owned by John Madzanga, who learnt the craft from his father while working part-time as a labourer on a tobacco farm.

His first breakthrough came in 1990 when a local farmer ordered 100 hoes. This encouraged John to give up his farm job and become a full-time blacksmith. Today there are four other smiths working for the business, making high-quality hoes, axes, sickles and a whole range of other farm implements to order from nearby farms. High Class Blacksmith has even competed successfully with large-scale hardware manufacturers.

One of the major constraints on the enterprise is the high cost of raw materials, especially steel. Under Zimbabwe's Renowned Structural Adjustment Programme (ESAP), currency devaluation and removal of subsidies led to a 300 per cent increase in the price of basic metals over a period of 18 months. Competition for scrap metals, which were John's main source of supply, has increased in consequence.

John's profit margin has fallen rapidly. His business makes products to order, so an agreed price, generally buying raw materials once the order has been agreed. He cannot pass the cost increases into his clients and remain competitive.

Large-scale manufacturing enterprises face the same price rise as High Class Blacksmith and other small operations, but only they can take advantage of discounts from buying in bulk.

If John had access to credit he might be able to get the same discounts. Credit has always been an issue for small enterprises but ESAP has made the situation worse: credit has been squeezed and rural bank branches have been closed down.

Structural Adjustment and Employment Creation in Sri Lanka

by

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1. Introduction

Structural adjustment started in Sri Lanka with the liberalization process initiated in 1977. The liberalization policies were a means towards achieving structural adjustment in the economy. Thus the impact of structural adjustment on employment could be examined by analysing the impact of liberalization policies on employment. The liberalization policies that started in 1977 were carried out further in the ensuing years. The 1977-88 period could be considered as the first wave of liberalization and the period from 1989-1994 could be considered the second wave of liberalization. The government of Sri Lanka played a crucial role during the first phase of liberalization by embarking on a massive public investment programme. Thus when examining the role of liberalization in employment creation it is essential to separate the employment created by the State.

In this paper we have divided the period from 1977-94 into two phases, i.e., 1977-85 and 1986-94. The reason for this division is the fact that 1985 was a year when unemployment reached a peak during the 1977-94 period. Thus the initial period is first considered in order to analyze the employment trends and thereby explain the rising unemployment trend. The post-1985 period is then considered, and an attempt is made to explain the currently prevailing unemployment level of about 13 per cent. Finally, some concluding remarks are made.

2. 1977-1985 Period

Subsequent to implementing the economic liberalization programme in 1977, employment generation increased in the immediate aftermath. Consequently, the level of unemployment, which was 20 per cent in 1977, came down significantly to 11 per cent by 1981/82.¹ However, the initial spurt of employment-creation was not sustainable and by 1985 the level of unemployment reached nearly 21 per cent.² In the following discussion the role of liberalization policies in shaping the employment structure is examined.

Accurate data on overall employment and unemployment on an yearly basis are hard to obtain in Sri Lanka. According to an authoritative survey, 175,000-200,000 employment opportunities were created annually during the 1978-82 period, and overall unemployment fell to a level of 850,000-900,000 by 1982 (Korale, 1988, p.19). Although it is difficult to compare statistics from different institutions, statistics comparable to those of Korale (1988) are available from reliable surveys conducted during the post-1980 period by the Centre for Demographic and Socio-Economic Studies.³ They have been summarized in table 1. It shows the average employment-creation per annum during the 1982 - 85 period to be roughly 54,000 compared to the normal Sri Lankan average annual addition to the labour force of 120,000 (the value varies between 120,000 to 140,000). What is clear from the abovementioned statistics is that

annual employment creation has declined very sharply during the 1982-85 period compared with the 1972-82 period.

In the immediate aftermath of the new economic measures in 1977, the strategy which produced an almost immediate impact on the employment situation was the decision to permit people to go overseas for employment. The sharp devaluation of the rupee in (and after) 1977 contributed to increasing the rupee earnings of those who had found employment abroad, and devaluations became an incentive to other employed and unemployed persons to explore the possibilities of finding jobs abroad. Thus job opportunities overseas became the most lucrative avenue to new employment after 1977. Available estimates indicate that about 350,000 to 400,000 people found employment in the Middle-Eastern countries during the 1977-84 period.⁴ But not all of them were in employment in the Middle East at the same time.⁵ It must be noted, however, that the second oil-price hike in 1979 increased the demand for labour in the Middle-Eastern countries. Thus liberalization policies *per se* were not responsible for the massive exodus of workers to these countries. A survey carried out by the Ministry of Plan Implementation showed that about 250,000 families, or one-tenth of the country's population, had at least one member of the family working abroad. Many who went to the Middle East, except housemaids, had jobs in Sri Lanka, and their departure created job opportunities for the unemployed. Roughly, it could be said

that for every Sri Lankan who found employment overseas (in particular, in the Middle-East), one job was created at home (Ministry of Plan Implementation, 1985).

In considering the increase in employment during the 1977-82 period, some interesting observations can be made. According to Rodrigo and Jayatilaka (1989), nearly 200,000 workers migrated to the Middle East during this period. Further, under the Sirimavo-Shastri agreement of 1964 nearly 337,000 persons of Indian origin from the estate sector were repatriated during the period 1977-82. Furthermore, there was a slight ageing of the population. All these factors reduced the labour force participation rates (Sanderatne, 1983, p.20). Thus, viewed against these factors, the increase in domestic employment during this period seems to have been of modest proportions. Thus it appears that the 175,000-200,000 jobs created annually (a/a, Korale, 1988,) during 1978-83, also include migration and self-employment.

Domestic employment during this period came mainly from the service and construction sectors and not from the agriculture and industry sectors. For instance, liberalization of trade and payments, such as the removal of restrictions on travel, had a fairly immediate impact on employment. It gave opportunities to a large number of newcomers to enter the import trade, transport and tourism and also helped to provide jobs for clerks, typists, bank-keepers, accountants, stenographers, drivers and other workers in these sectors (employment in the tourist sector is shown in Table 2). The resulting greater availability of goods led to a surprise in the level of business activity, and consequently employment in the wholesale and retail trade increased.⁶ In the retail trade, the secondary effects of import liberalization were felt in the large informal sector outside the urban areas, with a considerable expansion in the volume business in the village trading centres and fairs. All service sector areas showed a rapid increase in employment after 1977. Moreover, self-employment increased after 1977 with the increase in services such as repair work, particu-

Table 1

Population, Labour Force, Employment and Unemployment in Sri Lanka, 1982-86 ('000)						
	1982	1983	1984	1985	1982-85 average	1990
Population	15,183	15,416	15,699	15,702	155,500	16,008
Labour Force	5,135	5,256	5,375	5,495	120,000	8,989
Employment	4,173	4,227	4,281	4,336	54,011	5,961
Unemployment	962	1,028	1,094	1,159	65,989	1,008

Source: Karmali (1987), p. 284. Figures from the Census for Demographic and Socio-Economic Studies under the supervision of S.N.S. Samarasinghe (Sri Lanka Labour Force Survey, Department of Census and Statistics 1980), p.7.

Table 2

Employment in the Tourist Sector	
Year	Total Employment
1974	75,404
1975	18,472
1980	47,900
1981	52,800
1982	61,262
1983	63,608
1984	58,898
1985	54,533
1986	53,494
1987	48,511
1988	47,904
1989	46,000
1990	60,000
1991	64,800
1992	71,587
1993	75,000

Source: CECAR, various years.

larly in electronics, electrical equipment, airconditioning, and motor repairs.

The massive Mahaweli project and other construction programmes (house-

ing, urban development) that did not come under liberalization policies, also provided employment during their construction phases. Accurate figures on employment generated by the above-mentioned schemes are not available. However, according to Stern (1984), employment generated by these programmes over the 1978-82 period accounted for nearly half the total employment increase during this period. Thus it appears that policies other than liberalization contributed a significant share in the modest domestic employment-creation during the 1978-82 period.

Table 3 indicates the share of employment and output in the main sectors of the Sri Lankan economy for

Table 3

Employment and Output Shares in the Sri Lankan Economy for 1971, 1981/82, 1985/86 and 1990/91								
	1971		1981/82		1985/86		1990/91	
	Output	Empl.	Output	Empl.	Output	Empl.	Output	Empl. ^a
Agriculture	28.3	50.1	21.8	61.2	27.7	49.3	26.9	47.3
Industry	17.4	9.7	17.0	14.1	17.3	13.9	16.4	15.7
Manufacturing	10.7	9.8	13.6	12.4	14.7	12.6	14.3	14.1
Mining	0.7	0.4	8.4	1.7	2.3	1.3	2.1	1.6
Service and Construction	54.3	40.2	58.4	34.7	53.3	36.8	66.7	33.6

Source: Employment figures from Karmali (1986) and Department of Census and Statistics (1987), p. 161; output figures from Central Bank of Ceylon, Annual Report, various issues; Department of Census and Statistics (1990), p.8.

larly in electronics, electrical equipment, airconditioning, and motor repairs.

The massive Mahaweli project and other construction programmes (house-

1971, 1981/82, and 1985/86 (also 1990/91).⁷ The agricultural sector accounted for nearly 50 per cent of total employment during the first half of the 1980s. Despite the agricultural sector being a large employer, labour absorption in

the major tree-crops subsector had been declining from 1950 onwards (Gooneratne and Wesumperuma, 1984:5-6). The paddy subsector which grew rapidly after 1977 also ceased to be a source of employment in the mid-1980s (Korale, 1986: 111-112). Although accurate figures in respect of employment in the agricultural sector are not available, it would appear that employment levels rose and fell with levels of production,⁸ a rise in employment in this sector must, however, be considered insignificant in comparison with the huge expansion of the service sector, and the substantial employment creation generated by the Mahaweli project-centred Public Investment Programme.

Table 3 shows that the manufacturing sector accounted for nearly 12.5 per cent of total employment during the first half of the 1980s. According to Korale (1986), the manufacturing sector is "the key determinant of employment in the medium and long-run in Sri Lanka" (p.112). One of the main aims of economic liberalization was to generate more employment in the manufacturing sector. However, as the 1985 unemployment figure (21 per cent) suggests, employment creation by the manufacturing sector was unsatisfactory during the 1977-85 period (also see Kelegama and Wignaraja, 1992). According to the estimates of the IDB (1980) survey, employment in new industries (which were established after 1977) increased by 7 per cent. Even if allowance is made for the fact that export industries take time to respond to policy reforms, the fact that unemployment increased to pre-1977 levels by 1985 clearly shows that labour absorption in the new export-oriented industries was low in relation to annual additions to the labour force.

Why did not the new policies generate much employment in the industrial sector? This was primarily due to the adverse effects of import liberalization on domestic industries. It has been estimated that the total loss of employment in the handloom sector alone during the 1977-80 period was 40,000 (Waidyanatha, 1980: 32). This figure increased to a little over 120,000 by 1986.⁹ The total employment losses in rural and other small industries in

the unorganized sector during the same period were at least 30,000.¹⁰ Thus the overall loss of employment in the abovementioned subsectors of the industrial sector during 1977-80 amounted to at least 70,000, but this loss in employment was not matched by an increase in employment in the organized industrial sector which, by 1980, amounted to 35,987 (see Table 4).

The industrial employment figures in Table 4 clearly show a highly unequal pattern of increase in employment in the organized sector. Out of the total increase in employment between 1977 and 1980, 71 per cent came from two sectors: textile and wearing apparel (44 per cent) and the non-metallic mineral sector (27 per cent). Even in 1985, for instance, nearly 54 per cent of the total employment increase came from these two sectors, with the former contributing 44.5 per cent, and the latter contributing 8.5 per cent. The increase in employment in the textile and wearing apparel sector reflects the expansion of garment industries under FDI, while the increase in employment in the non-metallic mineral sector reflects the expansion of construction industries. In both cases, growth occurred chiefly owing to non-liberalization factors.¹¹ The contribution of new industries with foreign capital participation (set up after 1977) to overall increase in industrial employment was 59.5 per cent in 1980 and 65.2 per cent in 1985. Although these percentage figures appear impressive, it must be noted that, in relation to the growing unemployment problem, labour absorption in GCEC and FIAC industries was negligible. Of the total addition to the labour force of about 120,000 per year, the GCEC has provided, on the average, employment to about 4,000 per annum or less than 4 per cent of the additions to the labour force, while the FIAC has provided, on average 3,000 per annum or less than 3 per cent of the labour force. Thus, overall 1977-85 FDI related employment amounted to less than 7 per cent of the addition to the labour force.

As regards re-employment of the large proportion of displaced labour from the pre-1977 protected industrial

sector, were they all absorbed by the expanding activities of the economy? There is no doubt that such re-employment took place to a certain degree, as is seen from the improvement in the overall unemployment situation by 1981/82. However, the massive job losses were not immediately compensated by the new job opportunities, since different skills and abilities were required for these. Some who lost their jobs were absorbed by the expanding construction and service sectors, while others migrated abroad, in particular, to the Middle East. A few also secured jobs in the expanding new industries and in the Mahaweli project.

Stern (1984) has shown that under the Mahaweli project, generation of employment reached a peak in 1981 and thereafter most people who were employed became unemployed on project completion. Thus, by 1980/81 a substantial portion of this displaced labour remained unemployed until new job opportunities arose. The presence of these workers in the unemployed pool exerted tremendous pressure on the government to find new avenues of employment. Besides, by the end of 1980, 60,000 skilled workers¹² who were sacked after a general strike in July that year,¹³ swelled the numbers of unemployed, and they were inclined to turn aggressive. In order to dissipate these tendencies the government recruited a large number of the displaced workers (excluding those who participated in the 1980 strike) to government corporations (mostly by over-staffing). Thus, public enterprises became sources of readily available employment for the unemployed, and consequently the idea of rationalizing of these public enterprises to make them more efficient became a secondary objective. Even the idea of privatization became very difficult during the early 1980s owing to the employment factor and to the strong roots that public enterprises possessed in the economy.¹⁴

The foregoing discussion reveals several disconcerting features of the quality of the new employment. First, the major thrust in labour absorption came from sectors which were unable to generate sustained growth in employment. Consider, for instance, construction-related employment. As is

well known, the construction boom was not matched by a corresponding domestic resource mobilization; it was financed partly by deficit financing and partly by foreign aid. Also, by the early 1980s the government had to cut down its construction programme in order to balance its budget (as well as the balance-of-payments). Secondly, the expansion of service-sector employment was largely due to import-trading spurred by import liberalization. Most of the industrial subsectors which had shown dynamism since 1977 also benefitted from import liberalization, which allowed greater availability of raw materials and capital equipment. But, the whole regime of liberalized imports was sustained through external props rather than by any intrinsic strength of the domestic economy during 1977-85. In short, new employment took place in areas financed either by monetary expansion, increased capital inflow, or worker remittances, all of which showed considerable fluctuation.

One of the most disconcerting features of the quality of new employment during 1977-85 pertains to the social value of that employment. There are several aspects to this problem. First, in the process of structural transformation in the country's industrial sector, after 1977, there took place a re-allocation of labour from the unorganized sector in general, and from the rural sector in particular, towards the organized sector (industry and services).

This had detrimental effects on regional balance in growth. Table 5 provides some evidence for this. Moreover, it was the urban sector that showed the highest employment expansion. As Table 6 shows, the highest decline in unemployment is seen in the urban sector, in particular in the capital city of Colombo. It may also be noted that within the urban sector it was the female unemployment rate that recorded the highest decline, reflecting the Middle-East migration, expansion of services (e.g. tourism) and the garments industry which employ mostly females.¹⁵

There is evidence to show that in some parts of rural districts unem-

ployment not merely failed to decline but, in fact, increased during the 1977-85 period. In particular, the level of unemployment among rural youth increased significantly after 1977. The unemployment rate in the age group 15-25 was in the range of 30-40 per cent during the years 1984/85 (Department of Census and Statistics, 1987, p.281). Further, a majority of those who were employed in rural handlooms and cottage industries, but were not prepared to migrate, had to join the ranks of the unemployed since there were hardly any new employment opportunities in the agricultural sector or in rural non-farm activities.¹⁶

Secondly, the regional balance also accentuated inequality in the distribution of income. The third disconcerting factor is that labour diversion from basic industries to construction and services deprived the economy of powerful linkage effects. Similar adverse effects, related to employment in the manufacturing sector, also slowed down the speed of trade liberalization and prevented it being carried to the second stage (Kelegama 1989).

The reverse trend of employment creation in the 1982-85 period can be understood by examining the overall pattern of employment generation in the country. First, migration to the Middle East countries for employment opportunities had begun to decline from 1983 owing to slackening labour demand in those countries. Secondly, although activities related to the Mahaweli scheme created much employment during its construction phase, the total of direct and indirect permanent employment from the Mahaweli scheme was estimated to be about 55,000 by 1986.¹⁷ Given that the total addition to the labour force per annum in Sri Lanka is around 120,000, the scheme produced only 6 per cent of permanent employment per annum, which was quite low. Thirdly, certain subsectors of the service sector (e.g. transport) reached saturation levels in employment creation. Fourthly, labour absorption in the manufacturing sector remained low (Kelegama and Wignaraja, 1992). These factors, together with the problems in regard to employment generation that were highlighted, explain the unemployment situation that resulted in 1985.

3. 1986-1994 Period

As discussed above, the State was the major creator of new employment from 1977 to 1985. The liberalization measures launched played a secondary role in employment creation while State intervention in the form of the Mahaweli irrigation scheme and other construction programmes was at the forefront of employment creation. In the second half of the 1980s, the unemployment rate remained high at approximately 18-20 per cent. The slight decline from the 1985 level may be due to fatalities (around 60,000) and the large emigration that resulted from the deteriorating security situation during 1987-89 (which reduced the labour force participation rate) and due to the large recruitments in the armed forces during the same period. The decline in unemployment was marginal because of the slowdown in growth of the economy as a result of the internal crisis in the country.

The occupation of the Indian Peace-Keeping Force in the North and the East contributed to the escalation of the ethnic crisis, and thus many industries such as cement in Kankesanlurai, caustic soda in Paranthan, saltworks in Elephant Pass and Nilaweli, ilmenite at Pulmoddai, ceramics at Odducuddan and Amparai, the paper mill at Valaichenai, etc., either stopped functioning or ran far below capacity with consequent job displacements. In agriculture, rice in areas such as Mullaitivu and Vavuniya, coconut cultivation in the Eastern coastal areas of Mullaitivu and Killinochi were adversely affected by the war with adverse consequences on employment. In fishing, nearly the entire coastal stretch from Pattalam to about Potavil was adversely affected and many fishermen ceased to work as fishermen. There were job losses in the tourist sector as a result of areas such as Pasikudah, Nilaweli, Arugam Bay, Marble Bay, Vilpattu, etc., being out of reach for tourists.

The JVP crisis in the South too contributed to close down some factories and employment losses and also large migration from the country. Both the North-East conflict and the JVP crisis should be seen as massive internal

shocks that are not related directly to the liberalization policies that were broached. In addition to internal shocks, Sri Lanka also faced a massive external shock when there was a sudden inflow of migrant labour from the Middle East during the Gulf crisis in 1990/1991. The number of workers who returned as a result of the Gulf crisis is put somewhere close to 125,000 (estimated from Lakshman, 1993).

With the gradual waning of the shocks and the renewal of liberalization in 1990, the high unemployment trend was reversed. The economic recovery was accompanied by a rise in private sector employment. This trend was indicated in the surge in tourist sector employment in the early 1990s (Table 2), new EPF registrations, and the increase in GCEC employment (from 84,600 in 1990 to 104,220 in 1992). Despite these advances through private sector-led growth, the unemployment level did not fall significantly. The latest labour force survey (1993, 3rd quarter) indicated unemployment at around 13 per cent. This compares with the 15-16 per cent unemployment recorded for 1990 (Department of Census and Statistics, 1990). At this juncture it is imperative to examine how effective the liberalization policies have been in generating additional employment.

After 1985, there were three policy initiatives in the context of employment creation that may be categorized as liberalization. Firstly, the preliminary divestiture of the assets of state-owned enterprises (SOEs) took place around 1987 and the pace of divestiture was accelerated after 1989. This was accompanied by some degree of administration restructuring. Secondly, further liberalization of the financial sector, prices, foreign investment, exchange controls, etc., took place in the 1990s. Thirdly, self-employment schemes such as Janasaviya and the credit schemes for small and medium-scale industrialists came in the form of market supporting policies.

Firstly, let us consider the privatization programme. According to the available evidence this scheme has caused employment reversals in the labour markets. This is because of early

Table 4
Employment Patterns in Organized Sector Industries

Industry	1977 Level	Increment 1977-80	Increment 1977-85
Food, Beverages and Tobacco	28,429	3,936	35,453
Textiles, Wearing Apparel and Leather Products	33,180	15,793	41,658
Wood and Wood Products	6,476	2,252	3,385
Paper and Paper Products	7,650	612	-66
Petro-chemicals and others	14,446	2,750	7,808
Non-metallic and Minerals	9,963	9,960	7,951
Basic Metal Products	1,790	453	-222
Fabricated Metal Products, Machinery and Transport Equipment	15,513	-437	-3937
Other Manufacturing Products	1,129	668	870
Total Manufacturing	118,576	35,987	93,576
(a) GCEC		11,942 (33.2)	31,846 (36.4)
(b) FIAC		9,465 (26.3)	25,239 (28.8)
Total (a+b)		21,407 (59.5)	57,085 (65.2)

Note: The figures in parenthesis show the FDI firms' employment increase as a percentage of total manufacturing employment increase.

Source: Estimated from Central Bank of Ceylon, Review of the Economy (1986), p.69; and Ministry of Finance and Planning (1988), Table III.

retirement and retrenchment policies. 43 enterprises have been privatized during the period 1989 - Mid-August 1994. The divestiture of State enterprises is preceded by compensation payments being offered. If the workers accept the compensation package, they are retrenched. According to the labour Commissioner, about 20,000 workers have been retrenched voluntarily since the start of privatization. However, trade union sources put the figure at about 60,000 workers.¹⁸ This takes into account the workers who were forcibly retrenched.

The restructuring of the administration also led to employment losses. In an effort to achieve the target of retrenching 25 per cent or 80,000-90,000 staff over a four-to-five year period based on the recommendations made by the Administrative Reform Committee, the government retrenched about 10 per cent or about 40,000 of the Central government and provincial staff in 1990 (under the "golden handshake" package). Thus during the second wave of liberalization starting 1989, in total 100,000 workers have been retrenched from public enterprises, government corporations, and administrative offices.

Although privatization contributes

to short term employment losses, in the long run, with the expansion and diversification of privatized ventures they would create new employment opportunities. The retrenchment from the administrative sector was mainly confined to those who were nearing the age of retirement. Thus, the overall employment losses from this restructuring process should be viewed as a feature of a public sector restructuring exercise that is temporary.

Secondly, the further liberalization measures did contribute to the creation of new employment opportunities. There were many new employment opportunities emerging in the financial market with the development of stock market activities, venture capital, merchant banking, etc. In the manufacturing sector too many new employment opportunities were created. Total employment in non-GCEC projects approved after 1977 increased from about 2,500 in 1978 to approximately 70,000 by about 1992. Moreover, foreign direct investment made a significant contribution to employment creation - local employment in GCEC firms recorded a ten-fold increase, from 10,538 to 104,220, between 1980 and 1992. About half of these employment opportunities were in manufacturing (Athukorala, 1994).

There was also an increase in the manufacturing sector employment because of the various concessional schemes such as tax holidays granted by the Board of Investment (BOI). The most noteworthy among them was the 200 Clermont Factory Programme that was partly incentive-induced and partly a forced scheme. It was designed to create mass employment with a rural emphasis. Each factory was expected to employ between 200 to 400 workers. From the factories that have come up so far a total of 50,000 new jobs have been created.³

The number of Sri Lankan workers abroad by 1989 has been estimated at around 317,000, the equivalent of 6 per cent of the national labour force (Rodrigo, 1991). About 60 per cent of the overseas employment migration was to the Gulf States.⁴ On average since 1989, about 80,000 workers have been going to the Gulf for employment - an improvement from the slackening demand for jobs there during the mid-1980s. Further liberalization of exchange controls, opening up Non Resident Foreign Currency (NRFC) accounts, etc., did assist to increase the migration for overseas employment.

Thirdly, there was a rise, since the late-1980s, of self-employment schemes spurred on especially by financial liberalization. One of these schemes includes the liberalization of credit to small and medium-scale business enterprises starting in 1989. This has provided an opportunity for a far greater access to credit for smaller entrepreneurs. The most significant policy of this credit scheme launched by lending bodies such as the DFCC and the NDB, is the reduction of the bureaucratic barriers which block access to credit. As the loans are given on a concessionary basis, they have had a major impact on self employment schemes.

The most important self-employment scheme is the Janasaviya poverty alleviation scheme. Though the scheme appears an interventionist and income substitution scheme, in practice, it is linked to a training-cum-production programme which aims at encouraging self support. Thus it is a market-supporting or market-auxiliary

measure. The specially targeted disadvantaged groups are assisted over a two-year period with a monthly allowance of Rs. 1,458 per month for financing consumption needs. A savings component of Rs. 1,042 per month was expected to add up to a fund of Rs 25,000 at the end of two years. This savings component could be used as collateral to obtain a bank loan to establish a business. To accompany the scheme, special credit programmes were established (e.g. Janashakti Banks). Preliminary evidence suggests that the number of people who have found employment as a result of the poverty alleviation programme is about 40,000-60,000. However, given its informal nature these figures cannot be substantiated. Special self-employment creation schemes were also launched by various NGOs such as the National Youth Service and Credit Organization (NYSCO), Women's Bureau, Sarvodaya, Sanasa, etc.

A large part of the increase in employment in the 1990s is due to self-employment and unpaid family work (i.e., informal sector). The share of self-

Table 5

Province	No. of Establishments (%)	Employment (%)
Western	74.4	71.8
Central	5.8	5.0
South	6.2	3.9
North	3.1	2.6
East	1.0	4.1
North West	0.5	1.0
Uva	0.6	0.1
Sabarasgamuwa	8.4	5.0
	100.0	100.0

Note: These Statistics cannot be compared owing to a difference in surveying techniques.
Source: Based on data from Department of Census and Statistics (1981).

Table 6

	1978/79	1981/82	1985/86	1990/91
Urban sector	20.7	14.2	19.5	14.4
City of Colombo	20.5	12.8	-	-
Rural Sector	11.6	12.0	13.2	16.9
Katula Sector	5.6	5.0	7.8	-

Source: CEC (1979/80, 1981/82, and Department of Census and Statistics (1991), p. 304.

employment remained high at around 25 per cent throughout the 1990s. A greater 'casualisation' of the workforce appears to have accompanied the expansion of employment. The Central Bank's Consumer Finance Survey of 1986/87 reports one half of the paid employees as being in casual employment. In the Labour Force Survey of 1980/81 the corresponding share was 41 per cent (Rodrigo, 1994).

Clearly liberalization measures have contributed to generating more employment opportunities compared to the dismissals. However, this has not been adequate to reduce unemployment to a single-digit level. One explanation is that the liberalization process itself did not go far enough in the labour market in order to remove certain rigidities that were related to some labour legislation. Thus the private sector faced considerable difficulties in generating large-scale employment due, *inter alia*, to some of the prevailing labour legislation. For example, restrictions imposed by the Termination of Employment Act (TEA) greatly reduced the scope for job crea-

tion, which were essential for production restructuring and expansion.²¹

Leaving a margin for the rigidities in the labour market that slow down private sector employment generation, in an overall sense it appears that the liberalization process by its very nature has failed to make significant dents in the unemployment rate. The explanation seems to lie elsewhere. The following factors explain the high unemployment level to a great extent.

(a) Long Job Search Periods

Unemployment in Sri Lanka is largely voluntary. Poverty surveys suggest that poverty is due to inadequate earnings rather than lack of employment (World Bank, 1990, 92). Underemployment seems to be the major problem for the poorest section of the population. Even though the poor engage themselves in what is technically defined as employment, this employment is often of low marginal productivity. Unemployment among the section of the population defined as poor (those who fall below the World Bank definition of a daily income of US \$1 a day), is estimated to be not very different from that of the entire labour force. Further evidence of involuntary unemployment is the fact that more than 90 per cent of unemployed people depend on their families for financial assistance.

It appears that the unemployed are more interested in the scarce jobs in the regulated sector of the economy, than in the abundance of jobs available in the non-regulated sector. Partly this could be explained by the job security that prevails in the regulated sector. There is an implied guarantee of employment in the terms of recruitment to the regulated sector, whether it is the government or the private sector. On the other hand, in the unregulated sector, jobs are less secure and benefits are meagre. Accordingly, the unemployed seem to prefer to engage in a job search for a long period until a suitable job comes their way. It is reported that 85 per cent of unemployed spent more than a year searching for jobs in 1990.

The responsiveness of sectoral wage increases to the unemployment rate is

a way of testing the reluctance to obtain jobs in the unregulated sector. If the unemployed do not compete for jobs in the non-regulated sector, then high unemployment should not restrain wage increases in this sector. Thus there should be wage increases in spite of high unemployment. In addition, because higher unemployment is associated with lower manpower availability, wages could increase proportionately with the unemployment rate. A recent study by the World Bank has shown that this is the case in the unregulated sector.

(b) Increase in the Labour Force Participation Rates

A further explanation for the prevalence of unemployment in the 13-14 per cent range is that, with employment expansion, there has been an increase in the labour force participation rates during the post - 1982 period in contrast to the period 1977 - 82. In particular, the large entry of women into the labour force in the absence of an equiproportionate outflow of labour has increased the participation rates. Young female workers form the majority of the workers in the FTZ work force (78.2 per cent or 81,412 in 1992). The predominance of young women is a feature of FTZs all over the world. These young women would have remained outside the labour force in the absence of FTZ job opportunities. The overseas workers also consist mostly of women and they may have remained outside the labour force if not for new migration opportunities. With the increase in education, those young women who come forward for jobs but fail to find work add to the growing labour force. This explains the rise in the labour force participation from 47 per cent in 1985/86 to 52.2 per cent in 1990, while absolute employment increased annually by 0.6 per cent (Kelly, 1994).

(c) Inflow of Migrant Labour and Voluntary Unemployment

The migration of labour overseas has in one sense reduced the unemployment rate by creating an average of 50,000 domestic jobs annually since the mid-1980s. However, a point often missed in discussing the employment effects is the inflow of workers from

abroad in search of domestic employment. Rodrigo (1991) points out that the inherent nature of contract migration implies a return flow. At the termination of their contracts an equal number of workers return annually. The annual return was estimated at 67,000 in 1989 (Rodrigo, 1991). In some years in the 1990s, perhaps due to the crises in the Gulf States, the number of workers who returned outstripped those who left.

Available statistics point to the high rate of reported unemployment among returned migrants. The unemployment rate works out to 45 per cent according to a 1986 Marga survey. The rate of unemployment among returned workers is particularly adverse for women. The higher wage expectations, inferior working conditions and inappropriate skills are the main obstacles. For instance, the Marga survey found that housemaids who returned, preferred to live off their savings rather than work for lower pay and worse conditions domestically. There is also a large number of workers who are planning to return to the Middle-East and there are now indications of contract migrant labour increasing to the pre - 1990/91 levels.

A further aspect of overseas migration which keeps the unemployment level relatively static, is the dependency of relatives on overseas workers. This phenomenon is common to the Tamil youth who have left the country as refugees since 1983. Because spouses, children and other relatives are dependent on foreign remittances, they choose not to work at wage levels below what they receive as family assistance. This is often the case among the husbands of housemaids who are overseas.

4. Concluding Remarks

While these features partly explain the high two digit level of unemployment in Sri Lanka, it is imperative that Sri Lanka design policies to reduce the unemployment level in the future within the broad structural adjustment framework. It is not the intention of the writer to suggest micro-level policy options to solve the problem of unemployment. But at a very broad macro

level, the unemployment problem should be conceptualized in the following manner.

The current unemployment rate is estimated at about 13 per cent (about one million) of the labour force. This, together with the additional numbers entering the work force, has to be effectively addressed. The average annual addition to the labour force is around 120,000 persons. The average employment creation during the 1990s has been around 70,000 per year. Clearly, to absorb the accumulated unemployed and the new entrants in the labour force in the next decade, a much higher growth performance in the country is required.

A 5 per cent growth rate corresponded to 70,000 jobs in the early 1990s, thus simple logic shows that to absorb the 120,000 new entrants a 8.5 per cent growth is required. When considering the accumulated unemployed the required growth should be even more than 8.5 per cent in the future, i.e., a growth rate that generates at least 200,000 jobs a year. The type of growth required should be a labour-intensive one, which creates backward integration and other multiplier effects. This is the challenge for Sri Lanka in her march towards the 21st century.

Notes

1. The 11 per cent figure corresponds to the Budget Speech (1997), the 11 percent figure corresponds to the CFS (1991/92).
2. Sri Lanka Institute of Social and Research Studies (1996). Also see Kumarakuru (1997) p. 167.
3. See Kumarakuru (1997) Chapter 10.
4. See Ministry of Employment (1990). Although migration towards the suburbs started around 1975, a decline in the number of rural-to-urban migration during the pre-1977 period reduced the numbers of people from going abroad.
5. In the mid-1990s there were, on average, 300,000 people employed in the Middle East. See Rajaratne and Kumarakuru (1998), p.238.
6. This was due to the number of container ships passing through the port, which rose from 400 in 1977 to 62,000 in 1994.
7. These years were chosen because of data on the unemployment rate.
8. The use of labour saving technology in agriculture still remains very small. This is because of the fact that labour was displaced because of new technology.
9. According to the Ministry of Trade and Commerce, of the 110,000 boats in 1974, only 11,000 remained in 1980, and by 1985 this had risen further reduced to 10,000. The average employment loss for 100 boats was about 100 for the corresponding number of boats. In 1985, the total employment loss during the 1977-88 period amount roughly to 120,000.
10. According to the 1990/1991, the total number of a reduction in the number of the unemployed in the unorganized sector in 1990 was roughly 16,000. It was around half of those added to the labour force in 1990 which is 30,000.

unemployment increase, as already mentioned, the share of the added labour force by small industries with fixed and mobile labour is 1.1 per cent in 1990 and 1.2 per cent in 1991. If we also assume that each unit had four employees (which is the usual estimate) then the total employment loss would be roughly 160,000.

11. Although the increase produced by the industrialization may have been an addition to the labour force, the increase of the labour force investment in the primary industry would have occurred in the case, from the estimate in East Asian countries, and because of Sri Lanka's somewhat geographical location in the international transport network. The industrialization factor is equal to the non-manual industry was the public investment programme.
12. The industrial sector is around 10% of GDP.
13. This is because the government has not been able to reduce the unemployment rate in the industrial sector. The government's commitment to the policy of import substitution in the 1960s, 1970s, and 1980s, which was a major factor in the industrialization, has not been able to reduce the unemployment rate. The government, from the very beginning, chose to strengthen its own industrial sector. However, the government's policy of import substitution, which was a major factor in the industrialization, has not been able to reduce the unemployment rate. The government, from the very beginning, chose to strengthen its own industrial sector. However, the government's policy of import substitution, which was a major factor in the industrialization, has not been able to reduce the unemployment rate.
14. It was only in 1968 that privatization was officially considered as a policy option. This was because of the government's commitment to the policy of import substitution in the 1960s, 1970s, and 1980s, which was a major factor in the industrialization, has not been able to reduce the unemployment rate. The government, from the very beginning, chose to strengthen its own industrial sector. However, the government's policy of import substitution, which was a major factor in the industrialization, has not been able to reduce the unemployment rate.
15. The industrial sector is around 10% of GDP.
16. The industrial sector is around 10% of GDP.
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19. The industrial sector is around 10% of GDP.
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21. The industrial sector is around 10% of GDP.

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The Economics of Crime

by

W. A. Wijewardena

Economists view crime as a violation of 'property rights'. In an economic democracy, every individual is considered to possess an absolute property right over his 'person' and any 'physical property' owned by him. Hence, an individual could sell, or decide not to sell, the fruits of his person (labour services) or physical property (other factors of production) in a market arrangement. Thus, the infringement of one's property rights by another with the consent of the former and with sufficient compensation does not constitute a violation of property rights and hence, a commission of a crime in an economic sense. A crime occurs when such infringement takes place without consent and proper compensation.

The above analysis indicates that a crime in an economic sense has a wider coverage than a crime from a legal point of view. According to a jurist, a crime is deemed to have been committed when a law or a statute imposed by a sovereign is violated. The forceful acquisition by the sovereign, the fruits of labour services or any physical property, is not considered as a crime by jurists, if there is a law authorising such action, or if the sovereign has authority for directing such acquisition. Hence, the nationalisation of private property by the state, forced labour services and compulsory military services are not regarded as a crime by them as long as such activities are conducted in a legally prescribed manner. However, in economics, such activities, too, constitute a crime, since they are committed against the consent of the owners of such property, even though, sometimes, the victims may have been either partly or fully compensated.

Economists normally object to crime on two counts. First, the violation of

property rights adversely affects the resource allocation processes in an economy, since one person, whether it be the state or a private individual, is allowed to reap the benefits of the labour of another without having to make a compensatory sacrifice. In an economic democracy, individuals help each other, but such help is extended through two-way voluntary exchanges in the market. Thus, for instance, by providing my labour services, I help my employer, but he too helps me to make a living by paying me a salary. As long as this exchange is voluntary, I have the freedom to withdraw from it (so does my employer), if I find that the compensation is not commensurate with the contribution (or from my employer's point of view, contribution is not commensurate with the compensation). When this free choice to sell or not to sell is suppressed as in the case of a crime, such infringements hinder the resource allocation process in an economy. This is because, in such situations, resources could be diverted by force for various activities without necessarily following criteria of efficiency. Second, economists frown at crime because once it is permitted, it provides an opportunity for one party to get enriched at the expense of another party. Such a situation is not helpful to the long-term sustenance of the economy, since, given this opportunity, it leads to the breeding of a class that preys upon another section in the society. The realisation that there is a possibility of acquiring immense economic benefits in this manner would encourage everyone to allocate his resources not for productive employment, but for gaining an unearned income. The societies which are full of such people after this unearned income are called by economists '**rent seeking societies**' since a rent is another name for an unearned income. Hence, from the economists' point of view, crimes committed both by the sovereign and

the private parties, are equally inimical to the proper functioning and the long-term sustainability of an economy.

The economist's prescription for crime is that, while the state should refrain itself from any uncompensated forced acquisition of property, the private individuals should be deterred from committing such activities. The deterrence is delivered by establishing an effective machinery so as to raise the cost of such freely acquired economic benefits. In this case, economists extensively utilise a doctrine known as 'utilitarianism' which tells us that every human action yields either a pleasure or a pain and human beings are inclined to search after pleasure, while avoiding pain. Hence, if a discouragement of any activity is desired, the most effective strategy to achieve that objective may take three different forms: reduction of pleasure, increase of pain or resorting to a combination of both. Accordingly, a criminal could be said to be deterred from his action if pain is inflicted on him using such methods as the deprivation of his life (death sentence), liberty (jail sentences) or property (fines). However, a rational criminal would always compare the benefit from his criminal activity with the pain he would get if he is caught by the law enforcement authorities. He would be deterred from committing his crime only if the pain to be suffered is higher than the prospective benefits. Hence, economists prescribe, in order to reduce criminal activities in the society, an increase in the probability of catching criminals and imposing penalties in varying degrees in accordance with the size of perceived economic benefits to be derived from each type of crime. This rule requires more severe penalties for more serious crimes. However, economists believe that the scarce resources of the society should not be used for this purpose without a due comparison of the costs and benefits of crime prevention. Hence, an optimal use of resources for maintaining the police systems, judiciary and jails could be achieved, when resources are used up to a level where the additional benefit of reducing crime (marginal benefit of reducing a criminal activity by one more unit) is equal to the additional cost of crime prevention (marginal cost

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The Benefits of Effective Policy Making

by

Kala Maheswaran

Background

The necessity of effective policy making in the paragraphs that follow as a measure to investigate the different aspects of policy making and the roles of these policies in the effective workings of the government system.

The policies that are made for enforcement and enactment should primarily be of two purposes, i.e. user oriented and need oriented.

The variation between user oriented policies and need oriented policies are that user oriented policies are a bottom up approach whilst the need oriented might be in response to crises or needs identified by the different levels of public sector personnel or institutions.

The policy maker and his/her exposure and understanding of a specific problem plays a significant role in the planning and design of the enforcement procedures of a particular policy stand. Therefore the need for preparation prior to adopting a particular policy stand and the investigation to justify the need for such a policy stand is vital. The preparation to adopt a policy stand has to be carried through out the structure of the particular government institution to identify the required resources, skills and avenues to enforce the particular policy stand in a cost effective manner.

The different levels of policies made within a particular macro level policy stand should fall into categories that would enable the easy enforcement and enactment in meet the purpose of the particular policy stand.

To attain this end a careful analysis of the different levels of government institutions, their roles and their capacities to enforce the group of policies falling within the policy stand to be enacted should be considered. This analysis will serve as a guideline in

the subsequent enactment. Measures to receive a feedback during enforcement and enactment would serve as a monitoring process which would lead to the effective use of the available resources and skills allocated for the implementation of the said policy stand. The programmes and projects implemented by government institutions in this instance would serve as a vehicle to attain the benefits targetted by an established policy stand.

In certain instances the implementation of programmes/projects within respective governments is constrained by the scope of the policy stand adopted. In such instances the reviewing of a policy stand would enable the policy maker and the support personnel to make available the full benefits of the programme/project to the beneficiary/user.

Categories of Policies

Within the Government structure the categories of policies are at different levels. Some of the Macro level policies, which encompasses the variety of policies formulated are: self sufficiency in a selected number of food crops, earning foreign exchange and saving foreign exchange.

Then the supporting policies would be formulated to attain the long term objectives of the Macro policies. For this, the subsequent policy making has to be sensitive to the socio-economic environment of the current times. Any how the macro level policies laid down to date are determined for economic purposes and reflect the vision of attaining economic goals.

Further to these macro level policies which are but a part of economic policies there exists other types of policies such as performance policies which deal with rights of citizens, ethnic groups, religion etc. Within the

framework of economic policies the author in one of the previous articles, published by the *Economic Review* presented a breakdown where the enforcement of economic policies are of three groups: macro-economic policies, economic-environment policies and administrative policies.

The numerous acts and bills approved by the parliamentary system generally fall into the second category of the policies listed above.

The macro level policies are generally held at a national level as long term goals of the government. The variation in the economic environment of the times is encompassed by the economic environment policies and reflected in the day to day action of the government system.

The third category of policies are worked for the purpose of enforcement and enactment of the stands adopted in category two.

Since the most reflective policies fall under category two and their enforcement and enactment are carried out through the administrative policies formulated within the numerous government institutions involved in the implementation of the economic-environment policies.

Though policies formulated are frequently economic policies, they are to reflect needs which are generally economic in nature. Ethnicity, religion and other such social factors could also be brought under this category of policies due to the fact that these policies fall within the broad framework of the environment/situation of a given point in time.

Anyhow, these policies that reflect social factors are also formulated and enacted through a category of policies, described as performance policies.

In this instance it could be argued that these policies are not economic in nature and therefore the levels worked

out for economic policies do not necessarily stand valid for the purpose of working out levels for policies reflecting social factors.

Anyhow, the different policies have to be perceived and the benefits and results that are realised out of the enforcement and enactment of these policies should be reviewed, monitored and evaluated for the purpose of deriving timely and economically realistic results.

Constraints in Effective Policy Making

Effective policy making is yet to be defined. Anyhow, the effort here is to establish the efficacy of a particular policy stand through the benefits and results it derives.

The constraints to attain this end are manifold and diverse.

The primary constraints thus determined generates certain approaches to attain the needs and the accuracy applied in this identification process are generally products of skills, exposure and experiences of the persons at various levels of the government or from various status in the civic sector.

The roles played by persons from the identification of needs of the masses to policy making and the ultimate of implementing/enforcing/enacting calls for a sequence of decisions and plans which are governed by attitudes, approaches and the experiences of the personnel assigned for the purpose. Here lies the main of effective policy making since these intangible sources, which heavily depends on the individual, are the guiding lines, to policy making, enforcement and enactment.

Communication as a source to effective policy making is yet to be considered in its full potential. The necessity to employ communication in policy making is explored due to its hidden role where the needs first, when identified, have to be communicated back to the source where policy making/decision making is effected. The needs of the masses could be identified within the government struc-

ture or the civic sector out of the government. The recognition and the eventual absorption of the need and the realisation that measures have to be taken to meet needs through the adoption of policies, be it at a macro level or at micro levels within the government structure is achieved by the means of communication.

The top down approach in policy making and implementation has its constraints due to the fact that at implementation there could be bottle necks which were not foreseen during the early stages where policy making was realised. Therefore, it is recommended that a bottom up approach be built into the procedures of policy making and as stated in the previous paragraphs the necessity to identify the resources, skills within government institutions to implement/enforce/enact is to be considered as a vital feature to derive benefits by the users to whose advantage these policies/decisions are adopted.

Policy making for the benefit of the masses/users to be examined within the numerous perspectives that exists in the government and the community.

Government policy to be accepted by the community has to then be acceptable within norms adopted by the community. These norms vary from an individuals like or dislike to politics in a given community.

Therefore the examination of the efficacy of a particular policy could be evaluated, in the early stage of policy implementation in the backdrop of community participation and politics, for its viability over time.

For the purpose of establishing viability in the acceptance of a specific policy stand vigilance is to be exercised by the government structure through its institutions, which are responsible for the interaction with the masses, to effect feedback on the responses received during implementation. The user participation in refining the policy enacted is envisaged to be a means to derive the full benefits of the policies enacted.

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of reducing one unit of criminal activity). Consequently, economists do not advocate for a zero level of crime in a society; only an optimal level of crime prevention that is permitted by the available resources. At this optimal level, there may be a certain incidence of crime, but using resources to eliminate it would be an extremely costly affair for the society. In other words, the society should not seek to prevent any criminal activity, if it does not pay for the society. Hence, instead of enlarging the crime prevention machinery of the state, attempts should be made to check on crime by raising its productivity.

The suggestion by economists that it is ineffective and unproductive for a society to aim at a total elimination of crime may not be acceptable to certain sections in the society. However, this suggestion is based on the practical experience in the western countries, especially the U.S.A., where more rigorous crime prevention campaigns were found to have bred new waves of crime. This situation can be compared with the '**problems of resistance and resurgence**' often confronted by biologists in insect control campaign. (Think of the insect as a criminal). When a certain toxic chemical is applied to an insect population, some insects with stronger genes are able to detoxify it and escape from the harmful effect. The successful resistance by these survivors to the chemical results in a resurgence of a stronger population of insects which explodes back even to a larger size within a short period of time with little or no competition for food from others. Some stronger criminals in the same manner may be able to survive rigorous crime prevention campaigns and soon become more sophisticated and innovative in their actions causing crime preventers to use more resources to keep them in check. Hence, after a certain point, the use of more resources for crime prevention may not pay back, requiring the society to tolerate a certain level of crime, as a natural rate of unemployment.

Women's Participation in Education and its Impact on Development

by

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Introduction

Women in development is a subject of serious discussion all over the world today by both National and International Organizations. The common complaint of women has been that they were discriminated against in the development process and had less access than men to resources like land, credit facilities and have equal access to all resources; most importantly to education which is a pre-requisite to equal opportunities and a proper management of most other resources.

Sri Lankan women however have made significant progress towards achieving equal status in many fields, and particularly in education during the last five decades. The introduction of free education in 1945 and the switch over to the national languages as the medium of instruction in schools during the period 1945 to 1959, together with the opening up of central schools since 1940's and rural *maha vidyalayas* later in the 1960's created wider educational opportunities and increased enrolment at both primary and secondary levels. This resulted in high literacy rates and educational attainments which put Sri Lanka way above other Asian countries with few exceptions. Gender today is no longer a discriminating factor in education.

Despite women's high literacy and educational attainments gender bias in the labour market still remains. Women are largely concentrated in the 'gender appropriate' jobs, and in schools, universities and vocational

training centers most women follow arts based courses.

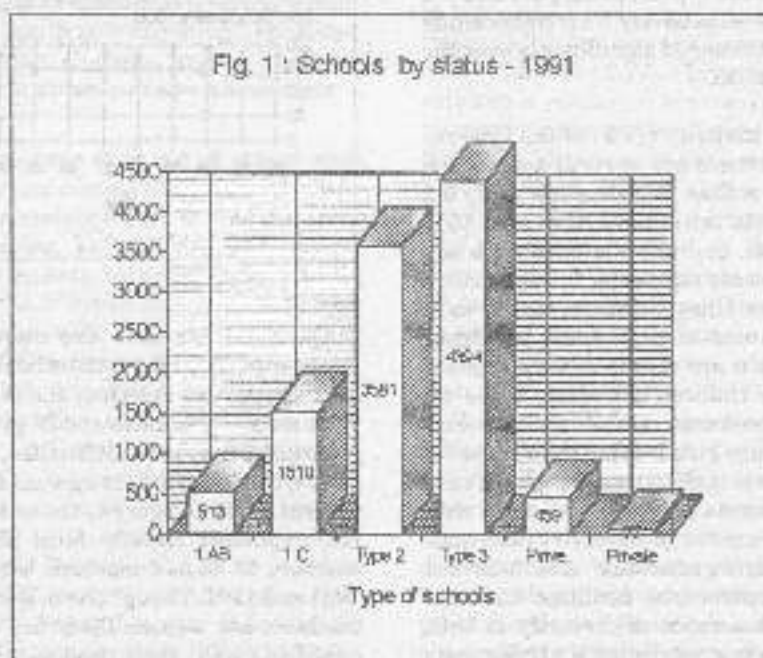
This paper set out in six sections, examines the trends in the enrolment and participation of women in education and its impact on the development process. Section one deals with the type of schools and teachers in the education system, educational capabilities of male and female children are discussed in section two, enrolment in schools are analyzed in section three, women in higher education and the impact of education in development are discussed in the next two sections. The concluding remarks are set out in the final section.

2. Type of schools and teachers in the education system

2.1 Schools

By 1991, there were nearly 10,000 government schools, 69 private schools, 547 privates, 9000 vocational training centers, nine universities and several affiliated university colleges. Government schools are categorized into four groups: 1A, 1C, Type 2 and type 3. 1A schools have classes upto GCE (A/L) science and type 1C schools have classes upto GCE (A/L) commerce and art courses. Schools having classes upto year 11 and year 1 to year 8 or year 1 to year 8 are categorized as type

Fig. 1: Schools by status - 1991



2 and type 3 schools respectively. on an average, 97 percent of the pupils are in government schools, 2 percent in private schools and 1 percent in pirivenas.

Of the 10,000 Government schools, only 513 i.e. only 5% are type 1AB schools; majority (43%) are type 3 schools (Fig. 1).

Annually a certain number of type 3 schools are added to the school system. At the same time schools are upgraded to the next higher category by providing them with necessary facilities. As a result, the percentage of type 1AB and type 1C schools has gradually increased while the percentage of type 2 schools has decreased correspondingly.

The private schools largely cater to the children of affluent families and expatriates. Private schools, where the medium of instruction is English, are in the western and central provinces only and the tuition fees of these schools are exceptionally high.

The schools are predominantly (96.5) co-educational. Only 2 percent are girls' schools and 1.4 percent boys' schools. It is difficult to categorize schools by ethnic group of pupils since Tamil and Muslim children also enrol in Sinhala schools. On an average, about 72 percent of the schools are predominantly Sinhala schools, with Tamil and Muslim schools representing 20.6 and 7.1 percent respectively. This composition has not changed significantly over the last decade.

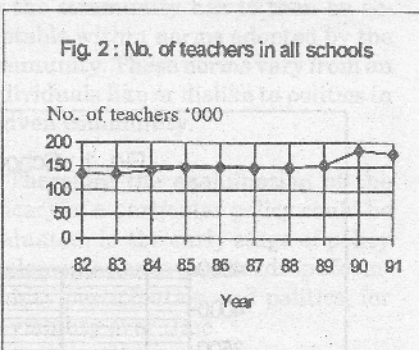
The majority (77%) of the Government schools are in rural areas, each with less than 500 students. Only 5.1 percent of the schools have over 1500 students, and are equipped with science classes and better infrastructure facilities. Opportunities for children in rural areas to participate in higher education are therefore very limited. Female children are likely to be affected most as social and cultural norms discourage girls leaving their home for long periods. Since sending children to urban areas is expensive, male children are given preference in the matter of higher education. A serious lack of infrastructure facilities in rural areas is a cause of disparity in both literacy and educational attainments

between urban and rural schools. A further factor that affects performance in schools is the uneven quality of teaching.

2.2 Teachers in Government schools

There are nearly 185,000 teachers in government schools of which 113,912 or 62 percent are females. Teachers' qualifications vary widely and qualified teachers are largely concentrated in the developed districts giving rise to a gap in the quality of teaching between urban and rural areas.

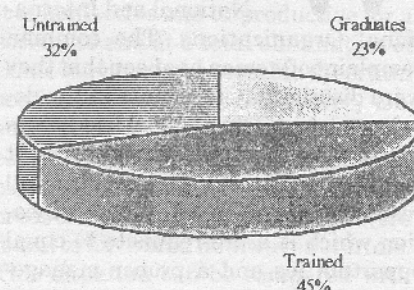
There has been a steady increase in the number of teachers in keeping with the increasing pupil population. The number of teachers increased from 135,000 in 1981 to 184,822 in 1990 (Fig. 2). The increase in the number of teachers is reflected in a fairly steady pupil teacher ratio between 25 and 26 pupils per teacher, despite a increase in the number of pupils. The substantial addition to the teaching cadre in 1990 has improved this ratio to 23 pupils per teacher. Currently the ratio in private schools (27.2 pupils per teacher) is higher than in government schools.



Qualified teachers are unevenly distributed throughout the schools. On an average, one fourth of the schools teachers are graduates and 27 percent are trained teachers. GCE (O/L), GCE (A/L) qualified teachers account for 27 percent. This category is the one that has expanded rapidly from 28,857 teachers to 46,544 teachers between 1981 and 1991. Though the majority of teacher's are women there are more qualified men than women. Some

trained and experience teachers retired as a result of the early retirement scheme effected in 1990. The new recruits were mostly untrained teachers. In 1991 about 55,000 teachers (32 percent) of a total of 171,000 were untrained (Fig. 3), and makes of teachers training a priority. The smaller schools conducting classes upto year 5, are mostly in rural areas, and have fewer teachers than others. In these schools on the average, there are over 50 pupils to a trained teacher-nearly twice as many as the national average. In certain districts the ratio is extraordinarily high exceeding even 100 pupils to a trained teacher.

Fig. 3 : Distribution of teachers by qualifications, 1991



As the majority of schools are co-educational schools, both boys and girls receive the same quality of education.

3. Educational capabilities of male and female children

It was believed that there were differences in ability and educational performance between male and female children, but this has been disproved by results. A number of researchers tended to support the claim that there is a gender difference in spatial ability which is considered important for achievement in mathematics and science. Subsequently theories that posit generic factors such as brain lateralization, chromosomes and hormones have been discounted by researchers (Jayaweera, Perera, Rupasinghe, 1991).

Several studies have shown that there is no statistically significant dif-

ference between male and female children in performance at the entry point to primary school and also at primary and secondary schools levels. In fact a study (Abhayardevi, 1991) has shown that girls have the edge over boys especially at the primary stages.

Several studies have been conducted to ascertain whether there is a gender difference in performance at secondary level education. Six out of nine studies cited in a paper (Rana-singhe, 1991) show that gender is insignificant when it comes to performance. Statistically significant differences however have been found in three studies but the results were not consistent: in two studies males were found to have performed better than females, and in the other the reverse was the case. In the studies where a gender difference was found, differences were mainly attributed to the fact that students were from non co-education schools. In all nine studies cited in the above paper sex difference in achievement was not significant in the co-educational or mixed schools where both males and females are exposed to the same teaching methods. Had there been inherited differences in abilities, differences in performance of males and females would have been observed.

Though male and female children have similar capabilities females are disproportionately represented in the main educational streams like science, commerce and arts. Most women work in jobs considered appropriate to their gender an attitude perhaps engendered in schools and sanctioned by society.

Even in school texts, the importance given to male as opposed to females and the frequency of their appearance, seem to suggest a secondary role for females (Jayakuma, 1991).

In a period of changing expectations of women, it is essential that the roles of women are portrayed in keeping with their aspirations and capabilities. Many projects are being implemented to give women equality of status but a rethinking and revision of socio-cultural attitudes may be equally or even more effective in achieving this end.

Table 1

Number of female and male characters in English readers			
Reader	Year	No. of female characters	No. of male characters
English	6	7	14
English	8	9	42
English	10	13	45

4. Enrollment of children in schools

Education of both girls and boys was given priority by successive governments as a means of improving the living standards of the people, and consequently there has been a steady increase in the number of females schooling at primary, secondary, and higher levels. The country's high literacy rates, enrollment rates and the low dropout and repetition rates are evidence of this.

Almost all young children of school-going age attend school and only about 2 percent of them were without any schooling at all according to 1991 figures, which stood at 10 percent a decade earlier in 1981. The number of admissions each year has increased up till 1988, due to the increase in the number of children reaching school entry age. In 1981, there were 323,694 new admissions and in 1991, 388,815. The number of children reaching school entry age is now declining due to demographic changes, and so also the absolute number of new admissions.

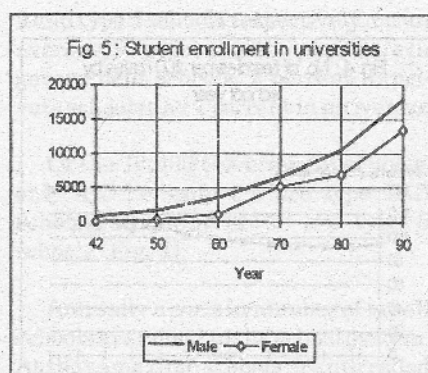
More boys drop out of school and also repeat classes than girls. In 1991, approximately 4.5 percent of children numbering 127,000 dropped out of school system between years 1 to 9. The rate is lower among girls (3.8%) than boys (4.9%). The highest drop out rate of 10.6 percent was reported from the Northern province probably due to the unsettled conditions there and lowest rates of 3.3 percent reported from the Western province. In 1991, nine percent of pupils numbering 397,500 repeated the grade they were in 1990. Repetition rate of females (5.7%) is lower than that of males (9.84%). Repetition rate is lowest in the Western province (6%) and high-

Fig. 4. No. of females per 100 males by school year



est (10.8%) in the Eastern province. Those who have to repeat classes reduce considerably the return on the investment in education.

More females go in for higher education than males (Fig. 4), although employment opportunities for young females are very limited compared to males. Families experiencing economic hardship encourage male children to begin work very young to earn for the family, and so drop out of school early while female children continue their education. In 1991, participation rate of age 15-19 of males was 41.2%, and females 42.7%. This difference is found in both urban and rural areas: urban males 41.9%, females 45%, rural males 40.0%, females 41.3%. Participation of children in education has continued to increase with no gender disparity from 55.35 (55.8% males, 55.6% females) in 1981 to 62.5% (62.1% males, 63.4% female) in 1991. On the average nearly 44.4 percent of females in the age group of the 5 - 24 years do not participate in education. Every year a large number of students both male and female move out of the formal education system as a result of limited facilities in the formal higher education institutions. Poverty, the cost of education, and dependence of the family on the earning of their children are chiefly responsible for this. Gender unbiased development programs such as vocational training should be started for those female non participants so that they could be gainfully occupied.



5. Women in higher education

In Sri Lanka higher education institutions are normally universities that provide access to remunerative and prestigious employment. On the basis of merit now both men and women have equal access to higher education.

Attitudes towards educating girls vary according to the Socio Economic groups, place of residence (urban, rural, estate), level of parental education, the perceived value of education, and the cost of girls attending school. In addition to the direct costs such as fees and books there are indirect costs as measured by hours of cost to the family. In Sri Lanka, the role and expectations of women during 1940's were not for higher education and a career. In this period children of parents in white collar employment (professional) could send their children to universities. This situation has now changed and parents from all walks of lives send their children to universities on the basis of merit. In 1950, 69.5 percent of female university students, were in professional and management positions and only 1.4 percent were small farmers and unskilled workers. This gap has since narrowed considerably and by 1990, both these proportions have reached about 21 percent.

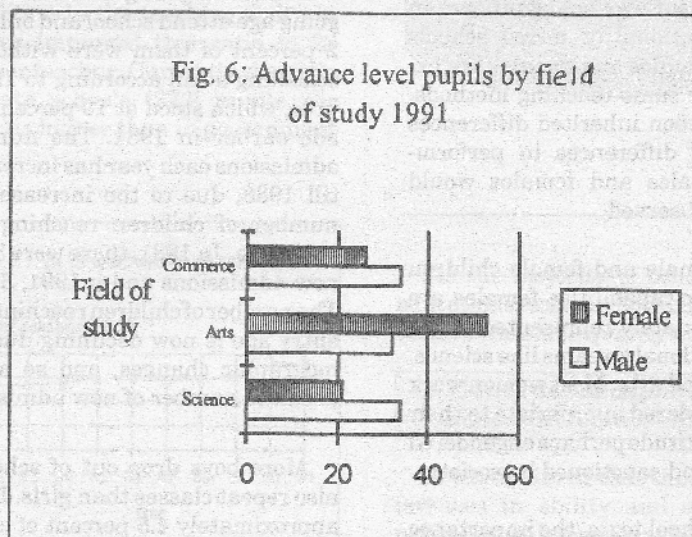
In addition to the encouragement of the parents, students in secondary level education themselves show keen interest in following higher studies. According to a study (Rupasinghe, 1991) a large percentage of female students of GCE (O/L) grades irrespective of gender and ethnic group have indicated

their interest in pursuing higher education in the universities.

As a result of educational policies adopted including the expansion of secondary education in the late 1960's and increasing aspirations of societies percentage of women in higher education increased remarkably (Fig.5.) In 1942, the percentage of women in university courses was only 10.1 percent. In 1967 it rose to 40 percent and since then it has never been below 40 percent. This increase is apparent in all ethnic groups except for Muslims. A study attributes the low participation of Muslim women in higher education to their attraction to business rather than professional studies. Also the practice of purdah reduced the number of women students entering higher education (Jayaweera, 1993). Such socio-cultural factors still persist in affecting the participation of women in higher education, despite egalitarian educational policies.

gin from the secondary level education. Approximately 187,000 students are enrolled in GCE (A/L) classes in the schools, the majority of them are girls : 140 girls to 100 boys. Male students follow the three main streams of study (science, commerce and arts), in more or less equal numbers. On the other hand, the number of female students per 100 males for science courses vary from 59 to 94; for arts 142 to 342 and for commerce 90 to 130.

More women are now entering the faculties of agriculture, management and the social sciences. But engineering still continues to be a male preserve. In 1990, nearly 40 percent of the women were in the social science and humanities faculties of the universities as opposed to 4.6 percent in architecture, 11.3 percent in medicine and 2.6 percent in engineering. This imbalance may well reflect the employment possibilities for women even after they qualify. Needless to say this



Though women's participation has increased over the past four decades, most women seem to opt for arts based courses. Education for girls commonly emphasizes household or domestic activities while in the case of boys the emphasis is on general academic subjects and vocational training that lead to employment opportunities. In 1990, 56.5 percent of females followed University arts subjects as opposed to only 36.8 percent who did science courses (Fig.6). These disparities be-

discriminating attitude towards employing women is both a waste of human resources and deprives of the opportunity of contributing to national development. This situation could be remedied by a change of attitude where the most suitable people are employed on a low gender basis.

6. Education and development

According to the United States Agency for International Development

a better education for girls has a direct impact on a country's economic development. The term economic development involves creating the environment that enhances the capacity of both men and women to create wealth.

Girls and women contribute a great deal to economic development, and by not providing appropriate education and job oriented skills for girls, many countries miss out on this most valuable resource. In Sri Lanka, better educational opportunities available for women at all levels, have improved the quality of their lives and been beneficial to society as a whole. The population growth rate has decreased from 2.7 percent in 1940 to 1.4 percent by the 1990s due to decreased fertility resulting largely from the longer years of schooling of women and the consequent postponement of marriage. During the last three decades the average age of marriage has increased to 25 years and average size of family has declined to 4.9. The literacy rate of women has increased remarkably from 46.2 percent in 1946 to 83.8 percent in 1992 (Table 2) with corresponding improvements in levels of educational attainments.

Table 2

Literacy rate by sex

Sex	1946	1967	1992
Male	76.6	78.8	86.9
Female	46.2	67.1	83.8
Total	62.6	72.8	85.9

The process of development is altering aspects of the traditional division of labour in which the tasks of men and women had complemented each other to ensure survival of the community. Women tended to perform tasks within or near household. For women to be independent they need to be made income earners. Most of the socio cultural issues associated with women are centered around their dependence on men (bread winners). This means that women completing their education should have access equal to men for employment. But here women are faced with a contradictory situation. Gender role stereotypes operate as instruments of social control creating conflict between aspirations and

behavioral norms. Educational opportunities put more educated women in to the labour force while gender role stereotypes operate to control their opportunities for employment by various means such as by creating a gender division in the labour market.

In Sri Lanka, since the 1960's and particularly in the 1980's the female labour force increased at a much faster rate than the male labour force as a consequence of population growth and rising educational levels (Jayawarna, 1993). And since the economy was unable to absorb the job seekers, unemployment increased since the late 1980's, dropped slightly in 1970's and increased again between 1980 - 1990. However since 1990, unemployment tended to decline, but the number of unemployed women was more than double that of the men. This is partly because women with their household and maternal responsibilities lack the mobility and flexibility required to do jobs commensurate with their educational attainments. Women therefore tend to limit themselves to job that require relatively little training, low skills, low productivity, and correspondingly lower wages. Although there are a large number of women in the labour force, their potential is not fully used for development either because their labour is not sufficiently valued in many terms or because they work part time. Consequently the knowledge acquired through education is not used for the country's development.

Table 3

Unemployment rates by sex

Sex	1980	1993
Male	10.2	9.9
Female	24.1	21.0
Total	15.2	18.6

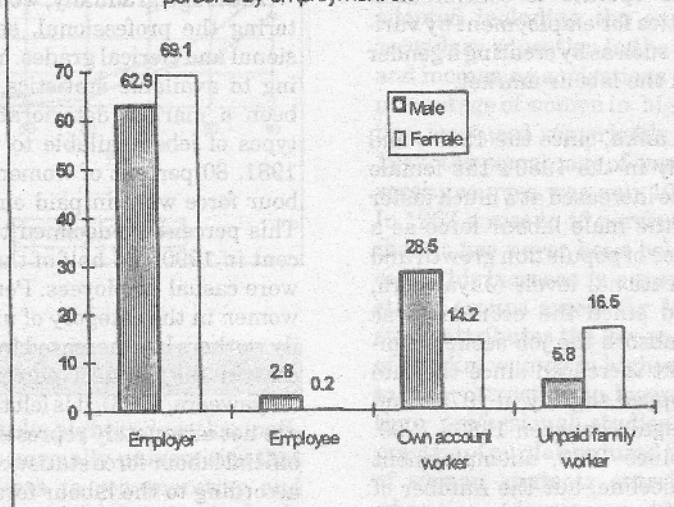
There is no linear relationship between educational attainment and the employment rates of females in the rural sector, which is characterized by low literacy rates. Women in these categories accept any kind of employment as otherwise they would remain unemployed. This presents the serious question of providing equal educational

opportunities particularly for women in the rural areas.

Although gradually, women are entering the professional, semi professional and clerical grades. Yet, according to available statistics, there has been a marked deterioration in the types of jobs available to women. In 1981, 80 percent of women in the labour force were in paid employment. This percentage declined to 55.6 percent in 1990 and half of these women were casual employees. Percentage of women in the category of unpaid family workers has increased from 6.6 percent in 1981 to 25.1 percent in 1990 (Jayawarna, 1993). It is felt that women are not adequately represented in the official labour force statistics. But still, according to the labour force statistics unpaid female family workers in the currently employed labour force, has been more than twice that of males (Fig. 7) it is however, encouraging to note that there has been a significant improvement in the recruitment of women employees in the public and cooperation sector. During 1985-1990 the share of temporary women employees was down from 63.9 percent to 45.1 percent. Share of permanent PNP/EPF women employees has risen from 12.3 percent to 16.1 percent. Pensioner and re-employed percentage has been almost double from 7.1 percent in 1985 to 15.8 percent in 1990. In the case of permanent and pensionable occupations this share has remained around 36 percent.

Despite the increased standard of education of women, gender division in the labour market still persists. The great proportion of women still work in peasant and plantation agriculture, traditional and rural industries, assembly line operations in modern industries, education, health, and domestic services. According to the Employment Census of Public and Corporation sector, in 1990, while 90 percent of the nurses were women, only about 9 percent of them were Engineers (Table 4). On the other hand the percentage of women at the highest decision making or management levels has increased from 3.7 percent in 1984 to 17.6 percent in 1992, probably influenced by the UN demands for

Fig. 7: Percentage distribution of currently employed persons by employment status and sex



women ; 1975-1985. But nearly 80 percent of the women working in industries are either joint, primary or sole income earners. Women are perceived as supplementary income earners, and are regarded as secondary, low cost, and willing workers in labour intensive, semi skilled manufacturing operations.

In order to narrow the gender division in the labour market there are two issues that need to be dealt with: one, the encouragement of women to follow professional courses, and second, sensitizing those responsible for planning and implementation of educational programmes on the need to provide for both males and females a level playing field.

Women following university courses in subjects like engineering, architecture, etc. are few. The majority opt for arts and the pure sciences. It should be the responsibility of the authorities to revise these courses to include more practical subjects like computer science, electronics, business management, etc. in responding to changing business requirements. Most of the men or women in higher positions have followed practical course after obtaining their basic degrees in pure science or arts basic courses. But some females tend to terminate their studies after the basic degree and accept whatever employment is available to them,

Employment Category	Total Employees	Female Employees	Percentage of Females
All Categories	700,592	207,856	29.67
<i>Selected categories</i>			
Senior Govt. officials and managers	9,039	1,007	11.14
Engineers	2,752	272	9.88
Doctors	1,745	733	42.01
Dentists	238	123	51.68
Nurses	11,261	10,179	90.39
Midwives	4,413	4,413	100.00
Surveys and cartographers	811	82	10.11
Draftsmen	2,341	875	37.38
Judges and lawyers	278	154	55.40
Accountants	1,821	349	19.17
Statisticians	91	28	30.77
Computing professionals	301	98	32.5
School teachers	144,182	98,123	68.05
Technicians	24,844	2,862	11.52
Clerks and related	82,957	28,586	34.46
Stenographers and Typists	14,148	11,517	81.40
Skilled workers	82,202	3,109	3.78
Office peons and office labourers	47,583	2,292	4.82

Source: Derived from: Department of Census and Statistics, Public and Cooperation Sector Employment Census Report, 1990.

mostly in the service sector like nursing, teaching and so on.

As only a limited number can find places in the Universities, vocational education and a training in skills should be available to those who fail to gain entrance. Unfortunately vocational training in Sri Lanka has a gender bias. According to the training and vocational education commission es-

tablished in 1990 there are 3000 vocational training institutes. Females constitute over 90 percent of the students in health related courses, 60 percent in teacher education courses, and 45 percent in law and accountancy courses. More than 50 percent of the agricultural labour force are women. Currently there are two types of agricultural training programs; scientific agriculture and farm management for men and home economics for women. The farm women's agricultural extension programs started in the early nineteen seventies still suffers from the home economic syndromes (Jayaweera, 1993). Similarly, in secondary school education girls are taught needle work and home science while boys are taught metal work, wood work etc.

7. Discussion

Teaching imparted by mother play an important part in children's learning competencies and educational achievements. It has been found that when both parents have similar education levels, the mother spends more time on the education of the children and plays an important role in the education of the growing family.

In Sri Lanka relevant educational policies implemented from time to time since independence, have improved the quality of life considerably. Women have benefited much from these policies. An increase of literacy of women from 42 percent in 1940's to 84.3 percent in 1993 and the increase of women following university courses from 10.1 percent to 40.0 percent, are evidence of this. However, it is discouraging to note that there have been inadequate arrangements made to absorb the qualified women for suitable employment, resulting in the position of women not having improved in proportion to their increased education attainments.

Policies on education, vocational training and employment seem to lack innovation. Women are employed largely in the service sector. Although the percentage of women in university courses has never been below 40 percent since 1987, there are still only a few women in management and decision making jobs. In 1988 there was only 16.7 percent. But almost 95 per-

cent of the nurses were women; 67 percent were teachers. This gender discrimination has serious consequences as regards productivity and development.

Educational policies and programmes could help to improve the quality of life of women, in three ways:

1. Designing and implementing appropriate programmes to improve their capabilities and skills.
2. Eliminating gender discrimination in the matter of job recruitment.
3. Eschewing of conventional and traditional attitudes that prevent women taking their place as equals with their male counterparts in the task of national reconstruction and development.

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political ethics of the borrowing countries in this situation, the manner in which the Institutions comply to give loans just because these countries are willing to accept their conditionalities, cannot be easily overlooked. Funds given in such irresponsible manner and adjustment programs implemented haphazardly may result in exports and the GDP statistics reaching significantly high levels, but this occurs along with widespread poverty levels and increased incidence of malnutrition, crime and social dislocation which characterise a deteriorating quality of life. Stabilisation measures designed to relieve the adverse effects in the short term have not succeeded. They are mainly concerned with economic aspects rather than social aspects of development. Their effective-

ness is questionable even where economic aspects are concerned.

Even the Bretton Woods institutions have accepted the adverse social impact of SAPs. However no shift in the policy direction is envisaged, though since late 80s poverty alleviation programs in the form of safety nets have been encouraged in over 100 countries.

While Structural Adjustment stabilization programs have reduced structural imbalances, they have also constituted harsh economic medicine for much of the population (Casper, 1992). The introduction of severe austerity measures plunged most economies into a steep recession and high inflationary conditions leading to lower real wages, higher food prices and increased taxation of the majority. Cut in social services and education diminished the quality of the work force while unemployment rose. There are low paid informal workers across regions. Women workers in textiles garment industry (Chile, Peru, Sri Lanka, India, Bangla-

desh, Vietnam etc), domestic workers working mainly in middle east, agricultural workers and women are the worst hit. (See Table 9.)

Thus, the overall macro-economic impact of the adjustment process is uneven on different segments of the society, falling disproportionately on the poor, the young, the aged and on women (Casper, 1992). A majority of them has been forced to end up in the informal sector of the urban economy, working as street vendors, day labourers and the like, earning less than the legal minimum wage. These conditions have increased social tension and polarisation in the Third World. Consequently, a large number of their youth—especially in urban centers, are forced to take to crime, violence, delinquency, drug trafficking and ultimately terrorism.

1. The Poverty Line is the cut off income level based on a minimum calory intake. Those incomes below the poverty line are considered poor.

"Natural Rubber - International Price Stabilization Measures - Historical Review"

by Ranjit Maligaspe

Director General, Sri Lanka Tea Board

Low prices for agricultural commodities have drawn the attention of developing countries for decades. The resultant low incomes and savings retard economic development and industrialization of these countries and consequently measures such as International Commodity Agreements, Export Quotas, Multilateral contracts, Bilateral Trade Agreements etc. have been resorted to obtain the best possible prices for such commodities.

International Commodity Agreements were extremely popular instruments in sixties and seventies but with the limited successes in Sugar, Cocoa and Coffee Agreements and with the collapse of the Tin Agreement in 1985 their acceptability is waning. International Natural Rubber Agreement (INRA) is the only agreement with market interventionist measures which is functioning although not following a smooth path.

In this article I have tried to trace the history of price stabilisation of Natural Rubber beginning from the turn of the century. The evolution of producer only supply rationalisation methods on to producer - consumer co-operation and the change from maximisation of price receivable to price stabilisation are two important aspects which run across this historical analysis.

The earliest attempt in intervention into Natural Rubber prices was in 1911 when the Brazilian Government, stemming from the pressure of producers entrusted the Banco de Brazil

with the task of stocking Rubber and withholding them from the market. This failed due to influx of Rubber from the Far East.¹

Interventions shifted to the Far East and the initial controls were voluntary and producer oriented with no government participation. In 1917 such a scheme was established by plantation companies in Malaysia to curtail production to three quarters of capacity. This was shortlived and in 1920 a similar scheme by British Rubber Growers Association to restrict output in Malaysia and Ceylon was introduced.² However non-participation by small producers and the decline in U.S. demand made this ineffective.

The most known intervention in the early part of the century was the Stevenson Plan of 1922. Similar to other intervention schemes of the era it was also producer oriented and was aimed at boosting prices in a depressed market than stabilising the price of Natural Rubber.

The Stevenson Plan was based on a report of a committee of Inquiry appointed by the British Government under Sir James Stevenson to investigate on courses of action to boost falling Rubber prices mostly due to reduced U.S.A. demand.³ The Plan consisted of an export quota system based on historical production levels. Under the scheme, registered exporters who were estate producers and dealers were each given a ledger to record their export rights and physical exports. Similarly smallholders were given transferable export coupons which were to accompany the Rubber till it reached an exporter.⁴

The main drawback of the Stevenson Plan was that it was restricted to exports from Malaya and Ceylon. Dutch producers in Indonesia did not participate. As in any supply restriction scheme without the participation of all major players, its success was also shortlived. Non-members increased their production, prices dropped and the plan had to be abandoned by 1928.

Opinion on the outcome of the success of the scheme is divergent. According to A.D. Law it had a history of the most highly criticized commodity control schemes of all time.⁵ The resentment against the scheme in the U.S.A., the largest importer of the time was high. It also resulted in the creation of a monopsony in U.S.A. imports. The Scheme also adversely affected the native smallholders of Malaya with their low quotas and lack of alternative sources of income.

According to Gordan Ashworth the most important long term achievement of the Plan was the stimulus it gave to new Rubber production by presenting a veneer of stability to the international Rubber Market.⁶ According to this author, Rubber prices remained relatively stable during 1920's and the Plan at the least prevented prices from falling further.

Perhaps the most valuable lesson learnt from the Stevenson Plan experience was that on supply rationalization scheme without the active participation of all the main producers would result in a success - a universal experience gathered in respect of any agricultural commodity - as seen by Brazil's

restrictions in exports of Coffee in the beginning of the 20th century leading to their substantial losses in the share of world's market' and by successive failures in the International Cocoa Agreement - sans a major player Ivory Coast till recently in the modern period.

Apparently the biggest winner from the Stevenson Plan was Netherlands which increased its Rubber production in the Colonies of Borneo and Sumatra in Indonesia. However the winners themselves obviously had to face the falling world prices exacerbated by the decline in the U.S. demand and the large accumulated stocks.

By 1929 the producers of Natural Rubber in Malaya and Ceylon who were instrumental in introduction of controls were clamouring for their abolition.² The loss of their export markets to Indonesia was cited as the reason and the bowing down by the British Government to their pressure contributed to a great extent the termination of the Stevenson Plan.

The Great Depression rekindled interest in the supply control of Rubber. By this time U.S.A. buying had virtually ceased. Producers resorted to making of trees and even this could not prevent further declines in prices and accumulation of stocks. By 1932 the price had fallen to just 3% of what was in 1925.³

Again Rubber producers came to the forefront to counter the falling prices. For this purpose by 1930 they had formed British - Dutch Liaison Committee.⁴ This Committee was of the view that a mandatory scheme was needed to regulate output of Rubber and to discourage any increase in the area cultivated. However both the British and Dutch Governments were hesitant to initiate mandatory schemes which were difficult to administer.

Further price falls as time passed made British and Dutch Governments more receptive to some controls and by 1932 the latter had invited the former for negotiations. Initial negotiations proved futile and the Rubber Growers themselves again had to take the ini-

tiative. This paved the way for the International Rubber Regulations of 1934.

The Regulations envisaged regulating exports and reducing stocks thereby stabilising prices at levels which were reasonably remunerative to producers. Export quotas based on past performance, prohibition of new planting and reduction of stocks to 1/3 of the annual production were the mechanisms used.⁵

Regulations of 1934 administered by a Committee were subscribed to by all major producers i.e. Britain, Netherlands, India, France and Siam by the year 1938 and this brought in about 98% of the total Rubber Plantations at the time.⁶ A unique feature of the Regulations was that for the first time 3 representatives of consuming countries were also co-opted to the Committee.⁷

The Regulations of 1934 were not devoid of criticism. 'The *Straits Times of Malaya*' in an issue in 1937 attacked the scheme on the grounds that the export control mechanism favoured the larger European producers as against the small scale domestic producers.⁸ The latter claimed that at a time when they were expanding their production at a rate faster than the Estates, the Regulations artificially checked that development.

Partly due to the controls and partly due to the increasing demand and war stock-piling, Natural Rubber prices remained buoyant during the period of the Regulations except for a lull in 1938. The Regulations became ineffective in 1941 due to the Japanese interruption of supplies from South East Asia.

The introduction of Synthetic Rubber into the market in 1941 eroded the strategic importance Natural Rubber held from the beginning of the century. Although the disruption of supplies consequent to the Japanese invasion was a primary reason for its appearance, the reaction from the consumer countries against the supply controls exerted by producers for nearly half a century cannot also be totally discounted. With U.S. buying interests

waning the Regulations were finally abandoned in 1944.

World War II disrupted Natural Rubber supplies to major consumers and no interest was shown by producing countries in supply or price stabilisation in the immediate post-war period. The absence of such an attempt is attributed by Gordon - Ashworth to the gaining of independence by most of the producing countries who changed their attitude from control of production and exports to increased production by encouragement of new plantations.⁹ This was with a view to develop their own economies.

Two important happenings vital to Natural Rubber emerged after World War II. First was the establishment of International Rubber Study Group (IRSG) based in London in 1944. It was a forum of producing and consuming countries with objectives of mutual consultation and collection of statistical data. The question of regulation of prices or supply was non-existent in the minds of IRSG and only in 1952 that the Group established a sub-committee to consider negotiation of an international agreement, which also unfortunately failed.¹⁰

Second was the growing concern of producers of all major commodities for international regulatory arrangements in order to secure stable and remunerative prices. The producers of tin, sugar and wheat and who had involved themselves in commodity control in some way or other during the inter-war period had high hopes in the suggested charter for an International Trade Organization taken up at the Havana talks in 1946 and 1948. The Charter had provision for commodity agreements with the participation of both producers and consumers. However due to the U.S. insistence, the Charter finally agreed that Commodity Agreements should be used only as a last resort i.e. only when normal market forces fail to alleviate producer distress. Nonetheless the Charter legitimized intergovernmental intervention into commodity markets when such dire circumstances arose.¹¹

The decade of 1980 saw certain world political events contributing to devel-

oping countries - almost everyone a primary commodity producer - having a bigger voice in international affairs. In early 1960's the majority of them gained admission to the United Nations. In 1963 the Group of 77 consisting of developing countries was formed as a forum for voicing their views on issues of concern. In 1964 the United Nations Conference on Trade & Development (UNCTAD) had its first meeting in Geneva and this was followed by its second meeting in 1968 at New Delhi. UNCTAD became the main forum for developing countries to bring up inter alia, issues pertaining to commodity trade and economic development.

The two decades of 1950-1960 also witnessed the establishment of International Commodity Agreements for a number of Agricultural Commodities. Agreements such as those of Sugar (1954 and 1958) and Coffee (1963) incorporated price intervention mechanisms while those of wheat (from 1949 to 1962) included multilateral contracts.¹⁸ In the circumstances it is somewhat surprising that no such international market intervention mechanism for Natural Rubber was brought up during the period.

It may be possible that the increasing market share of Synthetic Rubber over that of Natural Rubber could have restrained NR producing countries from implementation of any measures leading to higher prices and consequent loss of market share. As Table 1 would reveal the market share of Synthetic Rubber grew from 37.6% in 1956 to 46.6%, 55.6% and 65.4% in 1960, 1965 and 1970 respectively. Hence, in addition to the changes in the objectives from control of production and exports expecting higher prices to increase in production with a view for economic development as pointed by Gordon - Ashworth, the looming threat from Synthetics would also have played its role in stifling any market controls at the international level.

By the end of 1960 decade, the price of Natural Rubber had fallen rapidly from their heights during the Korean boom. It fell from S\$ 3738 per M.T. in 1951 to S\$ 2383 per M.T. in 1960 and to S\$ 1171 per M.T. in 1968.¹⁹ The

Table 1

Year	Natural		Synthetic	
	Production Volume (1000 tonnes)	Percentage	Production Volume (1000 tonnes)	Percentage
1956	1907	62.3	1153	37.6
1960	2098	53.4	1826	46.6
1965	2420	44.4	3020	55.6
1970	2990	34.6	5635	65.4
1975	3367	32.3	7027	67.7

Source: Rubber Statistical Bulletin. Various Issues.

producing countries were naturally concerned. The rhetoric at the G77 Meeting in Algiers in 1967 and UNCTAD II Meeting at New Delhi in 1968 as well as the Algiers Charter of 1967 which brought to the surface again the necessity of producer cartels would have accentuated the desire of producers for steps to counter such price declines.

In 1967 Prime Ministers of Malaysia and Ceylon agreed to make joint representations to Rubber stockpiling countries such as U.S.A. and to International bodies on fair and stable prices.²⁰ However nothing materialised thereafter. Further in 1970 Natural Rubber producing countries decided to establish their own producer organization, i.e Association of Natural Rubber Producing Countries (ANRPC), but the initial deliberations were unproductive on deciding the path it should follow.

1970's were a hyperactive period for the developing countries in the international arena. The UNCTAD preparatory Meeting of G77 at Lima in 1971 and UNCTAD III at Santiago in 1972 saw such countries espousing the cause of primary commodities and remunerative prices for them. In 1972 UNCTAD was successful in sponsoring conferences for a new Cocoa Agreement and for re-negotiation of existing Agreements for Coffee, Tin, Sugar and Wheat.²¹ However the most effective stimulus came with the OPEC success of 1973 in quadrupling petroleum prices. This gave the producers of primary commodities a stimulus for a properly co-ordinated producer cartel to achieve better prices.

A consequence of high oil prices was inflation and increased prices for all commodities inclusive of natural Rubber. However it soon had a negative impact when it led to a recession in the industrial world and a decline in the demand for Rubber.²² Price of RSS grade rose to Malaysian Cents 280 per Kg in Jan. 1974 and that dropped to below Malaysian Cents 100 per Kg in Dec. 1974. Farmers rioted in Malaysia and in December 1974 the Government unilaterally withdrew 104,000 tonnes of Natural Rubber from the Market and introduced restrictions on tapping.²³ This had an effect in arresting the decline in international prices as Malaysia was the predominant supplier.

Malaysia in 1976, fearing a repetition of events of 1974 obtained the consent of other producers for the establishment of a producer cartel within the ANRPC. The resulting Jakarta Natural Rubber Agreement concluded in 1976 included provisions for a 100,000 ton buffer stock and other supply rationalization measures.²⁴ The Agreement did not become operational due to buoyant prices in the following few years. However the Association (ANRPC) became a key player in subsequent supply rationalization efforts.

A new era dawned in 1976 for producers of primary commodities including Natural Rubber with the decision to set up a common Fund under the Integrated Programme for Commodities (IPC) sponsored by UNCTAD at its 4th Meeting in Nairobi. Natural Rubber was accepted as one of the ten 'core' commodities where financing from the

common Fund would be made available for buffer stock operations in order to stabilize their prices at a level remunerative to producers and fair to consumers. With an initial expected funding of US\$ 6 billion, the Common Fund was a source of inspiration to commodity producing countries largely awaiting the establishment of a price supporting regulatory mechanism.

By this time producing countries were well aware that any regulatory mechanism should include the wishes of consumers as well. This was far different from their attitude of producer only cartels - a concept which was adored by them from the beginning of the century. The deliberations at the IPC in Nairobi were certainly instrumental for this change of attitude. Another significant change was the producer perception that control mechanisms were by and large meant for price stabilisation than for price increases. The UNCTAD Secretariat in a reference to Malaysia's withdrawal of 100,000 tonnes of NR from the market in 1974 and its subsequent discontinuance after prices rose, clearly stated that the genuine and sincere exemptual approach of the Government was not for a price hike but for a measure of price stability at reasonable levels.²⁸

It was the Association of Natural Rubber Producing Countries (ANRPC) which was initially in the forefront in setting up the International Natural Rubber Agreement (INRA) of 1979. Based on the 1976 producer Agreement and including buffer stocks and supply restriction as the main mechanisms, they placed a proposal for price stabilisation before the UNCTAD preparatory meeting in January 1977.²⁹ From the beginning, the ANRPC countries considered that the participation of the consuming countries was vital during the sessions as amplified by their statement "... members of the ANRPC are aware that whilst the Scheme is being initiated by Rubber producing countries, the participation and support of consumer countries to the scheme is vital in ensuring its successful implementation".³⁰ The damage already done by Synthetic Rubber in consuming countries as well as the

necessity of their financial support in any buffer stock operation could have contributed to this thinking.

From the beginning there were differences of opinion between the producers and consumers at the deliberations for an Agreement. While the producers requested for a buffer stock of about 400,000 tonnes which is equal to about 10% of world production, the consumers mainly U.S.A. wanted a buffer stock of about 700,000 tonnes which would remove the necessity of other supply rationalization measures which, if implemented, could have led to shortages and higher prices. For similar reasons the consumers were against a floor price for Natural Rubber as suggested by the producers. However as negotiations proceeded these differences were narrowed. The fear of shortage of Natural Rubber in the future, and the assurance of adequate supplies at fair prices through an Agreement prompted the consumers to be flexible in their attitudes. Similar flexibility by the producers also saw the conclusion of the International Natural Rubber Agreement (INRA) on 8th October 1979.³¹ It provisionally entered into force on 23rd October 1980 and conclusively on 15th April 1982.³²

13 exporting countries and 50 importing countries were signatories to this Agreement. A buffer stock 400,000 tonnes and a contingency buffer stock of 150,000 tonnes were the only instruments of price stabilisation.

In spite of INRA, in May 1982 the members of ANRPC decided to reduce the Natural Rubber output by 350,000 tonnes for the second half of the year. This was sequel to depressed prices and the producers' unsuccessful attempt at the International Natural Rubber Council (INRC) Meeting to raise the reference price.³³ Among the biggest producers, Thailand and Indonesia were not as keen as Malaysia to embark on the withholding action. As prices improved by the end of the year, ANRPC members allowed their producers to halt any withholding steps.

INRA I of 1979 expired in October 1985. At the discussions for a new Agreement, divergent views from producing countries and from consuming

countries were visible. The producers expressed the view that the price ranges in the First Agreement were too low and did not provide sufficient incentives for further investment. Hence they proposed an increase of 27% in the reference price which ultimately determined the other price levels. The consuming countries expressed the view that the role of the Agreement was merely to reduce fluctuations around the trend in market prices and stated their satisfaction on the way it had functioned during the last five years. These differences led to protracted negotiations and consequently INRA I had to be extended by a further period of two years upto October 1987.

INRA II formally came into operation on January 1989. It had few major differences from its predecessor INRA I. The only price stabilisation mechanism continued to be the buffer stock operations with the maximum stockpile at 550,000 tonnes. The concepts of 7 tier price levels and Daily Market Indicator Price (DMIP) as the guideline to market prices also remained unchanged.

The modifications here from the original Agreement were in respect of review and revision of the price levels. This was necessitated due mostly to the consumer demand that the price levels should reflect market trends to a greater extent. One important step in this direction was the provision for review of the reference price, the determinant of other price levels once in every 15 months instead of once in 18 months under INRA I.

As INRA II closes to expiry the producer perception is that although INRA has stabilised prices of natural rubber this has been at levels which are not remunerative. The consumers have been relatively happy with the operations of INRA II and have not been very keen on early renegotiations for an INRA III. The situation resulted in a producer threat to have its own supply rationalisation scheme - similar to the 1976 ANRPC pact with never materialised. However, at the ANRPC Bangkok meeting in October 1993, the producers decided not to pull out of INRA, but to fight within it setting tough conditions on consumer countries.³⁴

The present consensus of producing countries is that the economic provisions of INRA II must be renegotiated to achieve price stabilisation along the market trend. This would mean the achievement of average price levels, which would have prevailed in the absence of INRA II while ironing out excess price fluctuations. For this purpose price renegotiation conferences have been held during 1994. The main producer demands have been a higher reference price and narrowing the distances between the 7 price bands. At the informal consultations between the producers and consumers during INRO Council Sessions in May 1994 the consumers have indicated that an increase in the reference price by around 3% may be acceptable, but should be compensated by widening the differences amongst the price bands. It is the consumer perception that INRA stabilisation should be based on market trend and must not be turned into a price support scheme. Negotiations between producers and consumers are continuing.

This article presented a historical evolution of Natural Rubber price intervention at the international level during a period of almost a century. The evolution clearly demonstrated how the perceptions of producers as well as of consumers changed over the period. The 'producer only' cartel policy

initiated by private sector of producing countries evolved into a similar attitude by their Governments and later on during the second half of the century changed to an attitude of cooperation with consumers. The producer target of long term price increase of Natural Rubber visible during the early part of the century clearly changed to a policy of price stabilisation especially after the events of 1970s. On their part, the consumers who were rather inactive during the first half of the century joined the price stabilisation scene in the 1970s with a clear objective that such an effort would be invariably beneficial to them in long term supply stability of Natural Rubber at fair prices without disruptions. However the present uncertainty on INRA III raises doubts whether such producer-consumer synthesis would continue in the only commodity agreement with interventionist measures operating with relative success.

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ECONOMIC REVIEW

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FOOD BELIEFS AND PRACTICES

by

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It is an anthropological axiom that "in order to work with a people it is essential to understand their culture". Such an understanding becomes all the more important when a conscious attempt is being made to change the habits and actions of a group, for its benefit.

It is seldom that a person eats all available edible material. Cultural patterns set by his parents and associates, both by observation and explicit instruction, classify for him food items as being appropriate or inappropriate in certain situations. General food beliefs of the community are deeply entrenched in his mind, and practised. Such beliefs can therefore significantly influence the nutritional status of the community and become a factor of importance in any nutrition programme. Health workers, whose duties include advising the public on the correct choice of foods, could profit from a study of food belief systems of the people among whom they work. Such a study will provide a clearer picture of the framework within which their advice will be followed.

The origins of food beliefs and prohibitions are obscure. Primitive man had no set food patterns. He was a creature of acquired food habits, not one of innate physiological urges or "instincts". He has remained exceedingly adaptable. For instance, about 20,000 years ago, a people of the steppes of Southern Russia trapped and killed large game, although, in season, they relied on a diversity of roots, seeds and fruits. The cave dwellers of Mexico of 12,000 to

9,000 years ago lived mainly on a large variety of food plants supplemented by small game such as rabbits, rats and turkeys. There is no evidence that man or any other primate species has acquired an immense propensity for flesh-eating. Nor is there an indication that he has any physiological urge to supplement his diet with foods that would meet a protein or any other deficiency. Yet, even without built-in "food instincts", he has been able to survive and spread over the whole face of the earth, depending solely on his wits. He did not adopt any practice or taboo that would be deleterious to the health of some members of the community. Primitive man did practise some food magic but this was directed towards ensuring an abundance of game and success in hunting.

Origins of food beliefs and prohibitions probably occurred in a later period when the community was stable in its habitat. With the growth of urban centres, beliefs and observances emerged about properties of the foods that were consumed. Those in the primitive urban centres depended upon the cultivators of the soil for their food. The latter had to be persuaded by fear and reverence to deliver to the centre regular quotas of grain, meat and other produce. Priests and medicine men held sway by their apparent ability to appease the gods who controlled the growth or failure of crops. Rituals and sacrifices associated with food would have developed, along with unhealthy prohibitions, taboos and priorities. There also arose the belief that certain foods were appropriate at each level in the social hierarchy, thus giving rise to

the elements of a caste system. For example, the priests of ancient Egypt would not eat beans. In times of famine, the priesthood was assured of a full ration of wheat. During a severe, prolonged drought, when the rest of the population had to subsist on roots and seeds, there was rice in the palace of King Dutugemunu.

Folk knowledge and folk medicine is not peculiar to some ignorant segment of the world's population. In one form or another principles of this kind are found in all settled communities. Among the sophisticated, there would be a tendency to provide a semblance of reason, medical or scientific, for their beliefs. When such beliefs are left unchallenged for many generations, they tend to harden into elements of the total pattern of the dietary habits of the people.

There is no evidence that prolonged habituation to certain basic foods has ever generated a physiological resistance to change, although humans often resist changes to their accustomed dietary. The acceptance during the past 50 years of wheat flour and bread by Sri Lankans, a large majority of whom did not consume any before World War II, is an example. The connotation of the term "food habits" is a social one. It implies that a set of dietary assumptions, expectations and methods of preparation have become integrated over a period of time into the totality of the cultural beliefs and observances of the people. It is when such habits are enmeshed in domestic conservatism, religious ideas, in notions of social prestige or status, in

national self-identification or in a pattern of preferred states, that resistance to change may be very strong.

The use of the word "belief" denotes uncertainty. Where there is knowledge, certainly, there is no need for the word "believe". Only knowledge can dispel wrong beliefs. Hence the need for nutrition education. When a belief or practice is detrimental to health and well-being, when a scientific explanation can be given to account for observations on which beliefs are founded and when information is available that can disprove a belief, every effort should be made to correct the belief or practice. On the other hand one should guard against ridiculing what one does not understand, or ignoring what is not apparent at first sight.

Food Avoidances

Food avoidances, although adhered to by most people at sometime or other, mainly affect the nutritional status of patients and of females, being strictly observed at precisely the same periods during which the nutrient requirements of females are greatest. Women hold several culturally patterned folk beliefs concerning diet and their reproductive cycle even in the U.S.A., beliefs that are generally unknown to clinicians and therefore not discussed with patients.

The traditional ideas on food and nutrition in Sri Lanka is, as in India and other South Asian countries, organised around the Ayurvedic medical system, which is based on medical knowledge developed by the pre-Aryan civilisation, in the third millennium B.C. The relationship between food and health manifests itself mainly in the characterization of foods into "hot" or "heaty" and "cold" or "cooling" foods, which classification is related to the humoral theory of disease.

Non-Vegetarian Foods

Meat. In India the cow has been considered a sacred animal and the

eating of beef has been taboo for nearly 2000 years. Early domestication of cattle probably occurred during the period 6500-8000 B.C. somewhere between Hungary and Sahara Desert on the West, through near East, to Afghanistan in the East. The only clear evidence of religious associations of cattle during the period derives from Anatolian excavations, dated 6750-5650 B.C., where indications were found of a fertility cult in which the bull was associated with a male god. Similar regard was paid to bulls in the Mediterranean and Near East. The bull, a symbol of masculine virility, continued to be associated with male deities and the cow with female deities. Such fertility cults appear to have moved eastwards. In the Indus Valley civilisation (2500-1700 B.C.) and in Vedic accounts (1500-500 B.C.) bulls were prominent in cult activities. Despite this, cattle were sacrificed and eaten freely. The cow was not sacred even to the Brahmins. The sanctity of the cow appears to have been recorded close to the beginnings of the Christian era. After that time it became firmly established. The Brahmins not only banned cow slaughter and beef eating, but became leading protagonists of the view that society in general abandon the practice. To modern Hindus, as well as to certain Sikhs and Jains, the cow is a sacred, gentle, innocent and beautiful animal, to be cared for and protected, and not slaughtered. Buddhists inherited the same tradition. However, the basic concept of ahimsa prohibits the taking of life, and strict Hindus and Buddhists abstain from eating all flesh. Beef eating has always been considered a pollution "that brought down one to the *rodhiya* (the lowest caste)".

The protection given to the cow has not been extended to other animals. Elk, deer, wild boar, iguana and horn were eaten in Sri Lanka, even at the festival of admission of bhikkhus to holy orders.

In modern Sri Lanka, more than 75% of non-vegetarian girls avoid beef and mutton at puberty. Flesh is believed to arouse passion. It is avoided

during periods of pollution - puberty, menstruation and the puerperium. It is believed to be harmful during the first few months of pregnancy. For some, the smell or sight of meat would cause vomiting. In the latter half of pregnancy meat is said to make the foetus too big and might produce skin eruptions in the baby. More than 40% of women (meat eaters) avoid meat and fish during menstruation, and about 66% become vegetarian for a month or more after partus, or until the lochia stops. Meat is considered "heaty", capable of imparting a foul smell to menstrual fluid.

Fish

Fish appears to have been a forbidden food in ancient India, as in some parts of Africa. Evidence indicates that fishing was a regular activity in the Indus Valley civilisation and, presumably, fish formed an important item of their diet. There is also evidence to show that the Indo-European Aryans who invaded north-west India (c 1500 B.C.), like the Greeks, had an aversion to fish. It may be that a pastoral people, with plenty of cattle and other foods, would not eat fish. But most fish avoidance in modern India probably stems from the concept of ahimsa. Bengalis consider sea fish as "dirty" but do not avoid river fish.

Fish formed a regular item of the diet of ancient Sri Lankans and fish was included in offerings to the bhikkhu community during festivals. However, certain tanks and streams were prohibited. "Those who have caught fish at a place where creatures living in the water are protected" were arrested and their catch confiscated.

Catching of marine fish probably commenced in the middle ages. The Chronicles mention a fisherman at Bentota.

Three factors may have influenced people to avoid fish. They were looked upon as dirty creatures (especially sea fish), eating dirt, and fishing was a

low-caste activity. This is especially common in areas with a nomadic tradition. There is also the belief in sacred water and sacred fish in connection with the worship of certain dieties. The third factor is the commitment to *ahimsa* and vegetarianism.

Fish, especially crabs, skipjack and tuna, and catfish are considered *heaty*, and are avoided during pregnancy by about 65% of fish-eaters, by 43% at menarche and by about 66% in the puerperium, until the lochia stops. On the other hand, dried fish may be eaten after the third day post-partum as it is believed to increase the flow of milk. Dried fish also forms an item on the menu of the meal served at a funeral house, after the funeral, at which meal other fish and meats may not be served.

Fried fish is considered *heaty* and is avoided for several months after partus, even by Muslim women. Fish is believed to cause diarrhoea and fits in the baby.

Chicken

Poultry and other birds (snipe, parrot, peacock) were eaten in ancient Sri Lanka. The flesh of the peacock was considered a delicacy.

Chicken is considered *heaty* and is avoided during pregnancy. It is believed to induce abortion or cause deformity in the baby.

Eggs are fed at menarche and subsequent menstruation. They are believed to have a favourable effect on the girl, preparing her for pregnancy. Raw eggs are believed to be specially potent: they make the breasts grow. One or two eggs a day, usually with gingili oil and other "strengthening" foods like black gram (*undu*, *Phaseolus mungo*) are prescribed to the young adolescent. More than 66% of Sri Lankan women questioned believed in the fertility - increasing power of eggs at puberty.

Only a small percentage of egg-eaters avoid eggs during pregnancy. The main reason was the fear of the baby becoming too big. A few complained that it brought about vomit-

ing. Others thought that eggs would produce baldness in the baby.

About half of the egg-eaters avoid eggs during the first few months after delivery, some during the entire of lactation. Among the reasons given are that eggs cause *vayu* (gas formation), breathlessness, asphyxia, renders the mother's milk indigestible, or makes the baby bald.

Milk and Milk Products

Only a few women avoid milk (especially buffalo milk and curd) during pregnancy and about half during the puerperium. Milk is believed to be cooling. On the other hand, fat is *heaty*, and may cause abortion. The main reason for milk avoidance is the fear that the baby will become too big.

During lactation some avoid milk through fear that it will produce fits in the baby. Some avoid it only during the period of pollution, until the lochia stops.

Vegetarian Foods

Yams Of the yams the most feared is the sweet potato (*Ipomea batatas*) then manioc (*Manihot utilissima*) and the Irish potato (*Solanum tuberosum*). Sweet potato is also avoided by about 96% Brahmin women in Tamilnadu during the puerperium, along with other yams. Most women avoid it for at least one month, some for the whole of the lactation period. Yams are said to produce *vayu*; some feared fits in the baby, cramps, diarrhoea or constipation, or that the milk will become too thick. The elephant foot yam (*Amorphophyllus campanulatus*), colocasia and the ordinary yam (*Typhonium trilobatum*) are not avoided, although some avoid these too during the puerperium.

Pineapple is avoided by more than 96% of women in Sri Lanka and Tamilnadu during pregnancy, through fear of abortion. Avoidance of pineapple has not been found in other parts of India. Such avoidance is also found in Malaysia and parts of Indonesia, but not in Central America where the

pineapple is known to have been cultivated 4000 years ago.

When abortion is desired Tamilnadu women recommend that the fruit be kept outside during the night "to be imbued with humidity" and eaten early in the morning.

It is possible that the sweetness of the fruit which hides its acidity might have put some people on guard.

Papaya. The papaw like the pineapple, was brought from Central America by the Spaniards to the Philippines and later introduced to Malaysia and India towards the end of the 10th century. Avoidance of papaw is typical of the Dravidians. Few reports of avoidance are available from Andhra Pradesh and Sri Lanka, none from North India. About 80% of Tamilnadu women but only 22% of the Sinhalese avoid papaw during pregnancy and post-partum, until the lochia ceases. About 20% avoid papaw at puberty and during subsequent menstruation.

Papaya is considered "heaty" and a laxative and therefore an abortifacient. In Tamilnadu it is considered to be the cheapest and the strongest non-mechanical means of emptying the uterus, and is used to cure delayed menstruation. Many eat it during lactation, believing it to be a lactagogue.

Temporary abstention from papaya is more common in the South than in North India.

The association of the papaya with danger for women suggests that the fruit could be an unconscious female symbol. Its shape and its property of exuding milk makes the papaya resemble the female breast. Puerto Ricans call it "lechosa", the milky one, and the Portuguese, "mamao", suckling. Ferro-Luzzi points out that the statue of Artemis of Ephesus is one of a multi-breasted woman, resembling a papaya tree.

Mango (*Mangifera indica*) and jack fruit (*Artocarpus heterophyllus*) are considered *heaty* and not eaten during early pregnancy.

Custard apple is considered too cooling to be taken during pregnancy. The jambu (*Syzigium cumini*) and the egg plant or brinjal (*Solanum melongena*) are avoided during pregnancy, as they are believed to transmit a dark colour to the baby. The jambu could also about blueness (*asphyxia*) and venereal disease and induce abortion. The egg plant is not eaten during the puerperium until the baby's stump falls off. It is also said to impart a foul colour to menstrual fluid and cause indelible stains on the menstrual cloth and therefore is avoided during menstruation. Double bananas (*Musa sapientum*) are avoided during pregnancy both in India and Sri Lanka, as in most other countries, to prevent the birth of twins. In Sri Lanka there is also the belief that one would be born with a twin in the next birth.

Gourds and squashes are among the most cooling of vegetables, especially the ash pumpkin (*Benincasa hispida*). The ash pumpkin is said to produce abdominal pain during pregnancy and the bottle gourd (*Lagaria siceraria*) produces headache and itching.

Among the green leafy vegetables, spinach (*Basella alba*, *B. rubra*) and mukunawenna (*Alternanthera versatilis*) and kohila (*Lasia spinosa*) are the most cooling, while manioc leaves are considered heaty.

Pulses Green gram (*Vigna radiata*) is cooling, cowpea (*Vigna unguiculata*) and soya (*Glycine max*) neutral and the lentil (*Lens esculenta*) mildly hot.

Sesame or glogili (*Sesamum indicum*) was probably introduced into India from the Sunda Islands before the arrival of the Aryans. Its oil has been widely used in ancient Sri Lanka for a variety of purposes. It is recommended in Ayurveda as "the best of seed oils. It is violent, penetrating, removes skin diseases, is suitable for nourishing the lean and thinning the fat". It was recommended among food for the winter, the other items being "rich broths, fat, meat, rum, arrack, deli-

cious products made of wheat, rice, flour, gurd, beans, sugar cane and milk. Passionate and lovely woman, with exuberant thighs, breasts and buttocks take away cold, their bodies being hot with incense, saffron and youth".

A thick paste of arsenic in sesame oil was laid on the sheet of silver, seven inches thick, which formed the base of Kuvavoliseya dagoba in Anuradhapura.

The seed, mixed with jaggery is commonly eaten as a snack. The seeds are believed to act as an emmenagogue and are therefore avoided during pregnancy. The oil is massaged on the abdomen to promote uterine contractions.

Sesame seeds have a significant place in ritual. In the Navagraha (nine planet) ceremony, heavenly bodies such as Mercury, Venus, Mars, Jupiter, Saturn, Sun, Moon and Moon's ascending and descending nodes, are invoked as deities. If their position is inauspicious at the time of a wedding, etc., they are propitiated by offerings. Nine grains are offered - wheat, paddy, salt, sesame, Bengal gram (*Cicer arulinum*), green gram, horse gram (*Dolichos biflorus*), black gram and bamboo seeds.

Sesame seeds, said to be more potent than other seeds, are believed to have power of life and fertility. They are said to stimulate the ovaries and hasten maturity. *Ullurundu*, a mixture of sesame seeds, jaggery and palm sap, is eaten at puberty.

Of the condiments, ginger (*Zingiber officinale*) is believed to cause bleeding and abortion and is therefore avoided during pregnancy. Ginger is hot in two ways, first by its burning and spicy properties, and second, heaty in the ayurvedic sense. Ginger is also used as an antidote against the harmful effects of mango and ground nuts eaten during the puerperium. Chillies (*Capicum annum*) may be forbidden at puberty as it may raise passion, and during pregnancy because it may cause

sore eyes. Pepper, on the other hand, may be eaten with impunity.

Pulses, in general are avoided in the puerperium. Cashew nuts (*Apocynum occidentale*) and ground nuts (*Arachis Hypogaea*) may be avoided during the puerperium, in some cases throughout lactation. The fat in them may not agree with the child and cause gastric irritation, vayu, pitta, asthma and fits, and griddiness in the mother.

These food avoidances are observed mainly during pregnancy, puerperium and lactation, and may affect the women's nutritional status adversely. High protein foods - those of animal origin and pulses and nuts are taboo. Foods considered very "heaty" are the tomato, breadfruit, bilin (*Averrhoa bilimbi*), drumstick (*Moringa oleifera*), yams, mango, manioc, pineapple, kurakkan (*Eleusine coracana*), and among the most "cooling" are spinach, ash pumpkin, ladies finger (*Abelmoschus esculentus*), green gram, sweet potato and kohila leaves. All energy giving foods are restricted as they may cause exaggerated growth of the child. Fluids are also restricted because of the risk of "washing away" the child.

The Hot - Cold Theory

The hot-cold theory of foods underlies most of the temporary avoidances of foods in most communities. This system is built on a cognitive structuring for classification of many cultural substances particularly foods, medicines and states of the body. It provides a simple way of organizing undeniable experience and knowledge. The principles of nutrition as known to primitive societies could be integrated into such a system. Religion, social status, politics and economy have an impact on people's attitudes towards food and may have been instrumental in the evolution of the hot-cold system.

The distinction between "heaty" and "cooling" foods is global, including most of South America, the Mediterranean countries, Africa, South Asia, Malaysia and the Philippines. In China the concept corresponds to the opposition between two fundamental principles,

yang-hot, active, masculine, and yin-cold, passive, feminine. The latter contrast is repeated in numerous cults and food crazes now flourishing in the USA, derived from oriental philosophies.

In South-Asia, the humoral theory predominates in all forms of medicine, probably derived from the teachings of Susruta (c. 600-500 B.C.) and Caraka (c. 200 B.C.). According to this theory, all matter is composed of the fine mahabutas, namely akasa (vacuum or ether), vayu (gas or air), tejas (radiant energy), ap (liquid or water) and prthivi (solid or earth substance). The created world is composed of two distinct classes, the mobile (animal) and the immobile (vegetable), each subdivided into two orders, hot and cold. The body is composed of three principles or humours: wind in the form of breath (vayu), fire in the form of bile (pitta), and water in the form of phlegm (kapha). Health and sickness depend upon the harmony or disharmony of the three humours. The activity of these elements can be modified by "heating" or "cooling" the body. Diet is one of four factors employed to cope successfully with disease, the others being pacification of the deranged humours, external and internal cleansing, and conduct of body, speech and mind. Food should have a composition of the mahabutas which is favourable towards maintaining the body's equilibrium. If the balance is disturbed, it can be corrected by taking foods or medicines of composition needed to restore equilibrium for that particular patient under that particular set of circumstances.

Food is therefore classified as "hot" or "cold", with some in between, neutral. A hot food can be balanced by a cold food. Foods are also gas producing, bile-causing or phlegm-causing. The main use of the latter labels is in reference to disease.

There are close parallels between the humoral system of India and that of Greece, as taught by Hippocrates (c. 400 B.C.), indicating an exchange of philosophy between the East and the West even in the remote past. There

are also beliefs in the "hot-cold" nature of foods among American Indians as well as in Malaysia, Philippines and Vietnam. Were these ideas conceived by different peoples independent of each other?

Some Characteristics of the Hot-Cold Theory

An examination of list of heaty, cooling and neutral foods point to certain sensorial characteristics which differentiate one group from the other:

1. *Water Content:* Water is considered a cooling agent. Foods with a high water content would be very "cooling", e.g. gourds, spinach.
2. *Taste:* Dryness would be interpreted a "heat"; also, a burning sensation produced by spices, e.g. ginger. Sweetness is also considered "hot". So is the sour taste.
3. *Colour:* Humans have always distinguished between warm and cold hues. Red, orange and yellow are "warm", black neutral, green, blue and violet are "cold". Such grading corresponds with the physical reality, red being at the "hot" end of the spectrum and blue and violet at the opposite end.
4. *The calorific value of the food.* Foods with a high carbohydrate content (sugar, honey, bread fruit, yams), foods high in fat (oils, butter) and some high-protein foods (animal foods, pulses) are "heaty".

If foods are judged by the above criteria, all cultures and all peoples of one culture should be able to agree on which foods are "hot" and which "cold". But such agreement does not exist, probably because of varying importance given to contradictory qualities in the same food. For instance, Tamils in South India consider sweet fruits to be "heaty" (due to their sugar content?), whereas for Tamils in Malaysia all fruits (with the exception of the durian) are "cooling", probably on account of their water content. In Tamilnadu,

acidity, because of its association with unripeness (lack of sweetness) will denote "coldness", while Sri Lankans interpret the burning sensation in the mouth left by acids food as "heat". Pineapple, passion fruit, unripe mango, bilin, tomato are "heaty". Curd is more heaty than milk.

Green leaves are regarded as "cold" by many. The tomato, being red and sour, would be "hot" in Sri Lanka and Pakistan, while to others (as in Andhra Pradesh) it would be among "cold" vegetables, probably due to its water content.

Rice, maize and wheat should be "heaty". Due to its colour, brown or red rice should be more "heaty" than white rice. In some Sinhala areas, red rice is neutral and the imported, white rice "heaty". All pulses should be "heaty". However, most pulses are neutral or mildly heaty, while green gram (due to its colour) is "cold", cooler than the lentil, while black gram is hot, even as hot as meat. Ayurvedic doctors consider brown sugar and jaggery to be heaty, and white sugar cold. Cold water is cooling but ice heaty, probably because of the burning sensation it leaves on the skin.

In a Mexican community what appears to be a systematic coding for differentiating foods as being hot or cold has been reported. This hypothesis has been tested among two Sinhala communities. The labels given to many foods appeared to indicate a systematic coding. However, the system may be sunk so deeply in the common knowledge that the people themselves are unaware of it. As in the Mexican community, a system appears to be based on the growth history and preparation history.

For instance, cow milk is moderately cooling, while curd from it is very heaty. Buffalo milk is more cooling than cow milk, but its curd is less cooling. There is a difference in the growth history of the two animals. The buffalo likes to be in water whereas the cow lives on land. Water is cooling. When making curd, milk is boiled (heat added) and fermented. The sweet milk becomes a

sour curd. Buffalo milk is more cooling and hence gives a less hearty, which is preferred.

Purity and Pollution

Another explanation that could be given for many temporary avoidances of food is the belief in the purity and impurity of a food and the concept of pollution, of an individual or of a household. It is fundamental to Indian and Sri Lankan culture, and affects many aspects of life, including food habits. The concept of *śuddhi* (purity or *śuddhi*) is associated in particular with bodily dirt but may be used in a general sense as well. Most *rites de passage*: birth, puberty, menstruation and death, spread *śuddhi*. On all these occasions "dirty" or decayed matter is ejected from the body. Blood lost is very polluting. Blood lost during menstruation and blood and placenta ejected during delivery are polluting and the female is *śuddhi* till the flow has stopped. At death, although no blood is lost, the viscera begin to rot and smell, forces cannot be expelled and pollution spreads. *Śuddhi* involves only those who live in the *śuddhi* *gṛha* (the associated household). They have certain disabilities. They are in a negative state and must avoid auspicious objects and acts, such as *puṣṭi* (Buddhist chanting) and *śuddhi* (preaching).

Food may be intrinsically pure, like the five products of the cow (*panchagavya*), or intrinsically impure, like pork and toddy. Foods may also be defiled by contamination with impurity (e.g., food left on the plate, contaminated by saliva), with death and decay, with animals, or persons at a lower ritual level than the eater.

All meat is impure, being contaminated by death. Meat is also passion-raising, which must be avoided during pollution periods. Because non-vegetarians also abstain from animal food when ritual purity is required, the avoidance of such food cannot be explained on the ethical principle of ahimsa alone. The pollution concept seems to be more fundamental for such

abstinence. Pork, buffalo meat and beef are the most defiling meats. The pig is discredited in many cultures by its habit of eating dirt. In Thailand, pigs are reared in special sheds on raised platforms, washed daily with a hose and fed on mash and other prepared clean food, making pork a more acceptable food there than in other predominantly Hindu and Buddhist countries.

Fish occupy an uncertain position on the purity scale. It is normally considered defiling. Fisherwomen and those living by the sea and regularly eating fish abstain from fish at puberty but not during subsequent menstruation or during lactation.

Chicken, duck and eggs are impure due to the birds' eating habits. However, temporary avoidance during the puerperium and egg-eating at puberty are probably due to a belief in the magical powers of the egg. Further, the egg breakfast of the European has abolished purity scruples in many, converting many vegetarians to "eggarians", a term used in India in place of ovo-lacto-vegetarian.

Vegetables that recall meat in colour or texture may be considered impure. Examples are the avoidance of lentil (red masha dhal) by some North Indians because of its colour, and jack fruit because of its stringy, meatlike structure. Among the Tamils, pulses, sesame grains, chilli and pepper may be temporarily avoided. They are considered "passion-raising".

Cow's colostrum is avoided because it is believed to be contaminated, having being formed when the cow was calving. Human colostrum is not fed to babies because it has become stale, having been stored during several months of gestation.

Though purity concepts are obviously important, they are seldom mentioned by the women. The reasons for the food avoidance given are usually physiologically, e.g. nausea when eat-

ing animal foods during menstruation or pregnancy, or the fear of disease that might befall the mother or baby.

Folk Medicine

A third explanation that has been given for temporary food avoidances is the influence of domestic or folk medicine.

Folk medicine or domestic medicine is a kind of preventive common among ordinary people in many cultures. The principles may be based on traditional medicine. In addition, folk medicine is thought to be confirmed by personal observations or by experience of other people in the immediate surroundings.

Simple communities have become aware of herbs and preparations that are specific against deficiencies and have incorporated them into their food habits. Hunters and trappers in the far North drink infusions of fir and pine needles to prevent scurvy. American Indians treat maize with lime water and thus avoid pellagra. A variety of plants were included in their diets - rose hips, pine needles, fern shoots, lily bulbs, wild garlic, and also a variety of worms, insects, fish roes and insect eggs. The habit of rubbing oil on a painful joint was practised universally. Fish oil thus applied was found to be effective in preventing rickets. It was sometimes swallowed. Thus, humans have been experimentalists with edible substances and have become acquainted with a wide range of their virtues as well as of their toxic qualities. Left to a free choice, members of any primitive tribe would have, in course of time, established a dietary pattern that was in all respects adequate.

Domestic medicine applies primarily to pregnancy and the puerperium. Whenever there is a complication during pregnancy, or the baby suffers from an ailment, it is natural for a person to reason "post hoc, ergo, propter hoc" and to look for a fault in her actions, and the first responsible agent that comes to her mind is the diet. The avoidance of the incriminated food can

therefore be looked upon as a kind of preventive medicine.

Scientific considerations

Considering the confusing and contradictory nature of the classification of foods into "hot" and "cold" categories, the absence of a scientific basis for such beliefs is not surprising.

A property of food that could lend support to the hot-cold theory is the thermic effect of feeding (TEF), sometimes referred to as the specific dynamic action (SDA). Less than 40% of the energy in foods is trapped as useful energy for synthetic reactions, for pumping substances in and out of cells and for muscular contraction. Most of the energy is therefore lost as waste heat and helps in maintaining body temperature constant in a changing environment. TEF, the heat generated after a meal, has been the subject of much research. TEF probably arises from the increased energy expenditure in converting dietary components into body constituents. It could also arise from the activation of specific heat-generating metabolic cycles. The TEF response depends on the composition of the meal, being high for high-protein diets. A high-protein diet in cold climates helps one to keep warm. Such a diet in warm climate will make one feel warm and uncomfortable. Therefore, foods rich in protein may, for this reason, be considered "heaty". It is however difficult to understand why some high-protein foods (e.g. green gram) are considered "cooling".

When fed "heaty" foods, subjects on an experiment complained of a burning sensation during micturition and in the eyes. These symptoms in no way interfered with their normal activities. Urine was more acid than during the period when "cooling" foods were fed, and excretion of sulphur was also higher. The high sulphur content of the urine may be the cause of the high acidity. Nitrogen retention was lower on "heaty foods" than on "cooling" foods, although the total nitrogen and energy content of both diets were similar.

Foods may contain small peptides that may be absorbed before hydrolysis to their constituent amino acids, and these foreign proteins may induce, in some individuals, allergic reactions such as asthma or urticaria. Others might not be so affected. Some foods are known to produce allergic reactions in certain sensitive persons, the effect being attributed to the "heaty" nature of the food.

A food may contain a chemical that may dilate capillaries in the skin. The resulting increase in blood flow to the skin could give rise to a sense of warmth, and such foods may be classified as being "heaty". Foods containing chemicals that have the opposite effect may be considered "cooling".

The observation that tuberculosis patients developed some unusual symptoms when on a hospital diet, that did not develop in other (non-tuberculosis) patients on the same diet led to the discovery that a high histamine content may be the cause of "heatiness" of some varieties of fish. Among the symptoms observed were headache, palpitation, erythema, wheezing, redness of the eyes and diarrhoea. The symptoms produced by histamine are more or less the same. Isoniazid, a drug given to tuberculosis patients, inhibits diamine oxidase, an enzyme that plays a significant role in the inactivation of histamine. Skip jack (*Katsuwonus pelamis*, S. bala) has the highest concentration of histamine recorded for any food. Tuberculosis patients fed skip jack, Kumbalava (*Restrelliger Kanagurara*), hurulla (*sardinella sardinella*) and kelavella (Tuna, *Neothunnus macropterus*) develop untoward symptoms and even cerebrovascular accidents. The skip jack protein contains a high concentration of the amino acid, histidine. On the death of cells lysosomal enzymes liberate amino acids from cellular proteins. Bacteria are capable of converting the histidine to histamine, and a temperature of about 20°C that obtains in fish transported inland assists in the maximum conversion of histidine to histamine. A person who might experi-

ence no "heaty" symptoms on eating skip jack in an area where the fish is caught, might react unfavourably to the same fish sold inland, say, in Kandy.

Removal of the intestines of fish before packing in ice for transport would reduce its toxicity. Persons suffering from atopic diseases like eczema and bronchial asthma also react unfavourably to skip jack. All four varieties of fish mentioned above are popularly classified as "heaty", so that any food with a high histamine content may be classified as "hot".

A large number of persons eating these fish do not complain of any undesirable symptoms. There is therefore no reason for avoidance of such food by all members of the population. Those who are sensitive could avoid them.

The most common symptom of fish allergy is urticaria, and about two-thirds of such patients are allergic to almost all species of fish. Urticaria is also a common symptom of allergy to crustaceans and molluscs.

Among bananas, the sour plantain (ambul) is considered "heaty" whereas anamalu is "cooling" and kolikuttu is neutral. Ambul and anamalu have high concentrations of serotonin (5-hydroxy tryptamine) and are avoided when one has a diarrhoea. Serotonin hastens peristalsis. Serotonin as well as other vaso-active amines such as tyramine and tryptamine occur in banana, avocado and pineapple. Some cheeses and pickled fish contain as much as 1 to 3 mg tyramine. Some forms of diet-induced migraine may be due to these amines.

No reasons can be given why all foods listed as being "heaty" should be considered "hot", if by that term one refers to one or the other of the specific effects listed above. Neither can one demonstrate a "cooling" effect of all foods listed as being "cold".

It has been suggested that analogical thinking lies at the root of the "hot-cold" theory. Through association of ideas the papaw becomes a female symbol. The fruits is therefore con-

nected with fertility and menstrual blood and hence is 'hot'. Through association of idiosyncrasy buffalo milk is 'cold' and is believed to cause swollen feet and rheumatism, the buffalo being a water loving animal.

Analogical thinking may enter into considerations of purity and pollution. Animals are equated with the food they eat. By eating impure feeders, the eater is polluted. The quality of that which is eaten is believed to be transmitted to the eater. 'Der Mensch ist was er isst'. The purity of the products of the cow, however, is a corollary of the animal's aspenity, without recourse to analogy. The avoidance of beef eating is not due to magical contamination, but to the morally reprehensible act of killing a god. The impurity of the eater may also be able to pollute food from a distance. In these examples, analogical thinking may constitute a second level of explanation. The thermal qualities and purity/impurity beliefs may be at the first level, explanations in their own right.

But analogical thinking may also present itself in a primary form. Eating the jamba fruit (*Syzygium cumini*) transmits colour to the baby. Eating eggplant (*Solanum melongena, brinjal*) prevents the umbilical stump from healing. Another example is the correspondence between the dormant life-force of eggs and seeds, and fertility.

Changing Attitudes and Practices

Beliefs and reasonings about food, though not necessarily confirmed by science, seem to be a part and parcel of human nature, binding together all races, cultures and levels of education, from the lowest to the most sophisticated. Attempts to change practices must be undertaken with caution.

The change agent must be certain that what is advocated is definitely an improvement on current practice, and not encouraged merely because it is the practice in the more developed countries. For instance, 30 to 50 years ago it was considered the best practice to feed infants on a regular schedule, once every 3 to 4 hours. This schedule,

initiated by paediatricians in the west, became a part of public health teaching and practice. Mothers were urged to change their habit of suckling the child whenever it cried. Today the teaching has changed to feeding on demand. Had mothers been permitted to follow their natural inclination, they would have done essentially the right thing and a better rapport would have been maintained between the public health workers and mothers under their charge.

It is not surprising that mothers are reluctant to eat additional food during pregnancy through fear of difficulty during delivery. Even obstetricians advocated dietary restriction a few decades ago, until the need for adequate weight gain during pregnancy became apparent. Mothers should be told that additional food makes the baby heavier but has no effect on the size of the head. If some foods are avoided, they could be encouraged to eat more of what is considered neutral, including ghee or oil, lentil and dried fish, to make the meal both energy and protein dense. A 'leafy' or 'smoking' leaf could be substituted by leaves that are considered neutral.

Feeding during illness of the child (or adult) is another area that need be stressed. Foods that are considered harmless could be recommended.

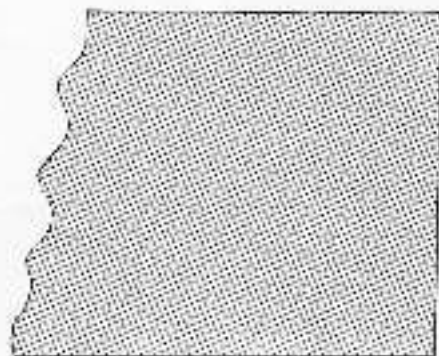
Mothers have to accommodate their feeding and child rearing practices to major social and technological changes which seriously disturb their lives. Particularly vulnerable are those must work outside the house, and those who migrate to towns and cities, leaving their children with caring relatives. Despite stress and poverty, these women act rationally about child feeding. A few decide not to breastfeed and others breastfeed for a few months. Most adopt a mixed feeding pattern, offering the child breast milk and whatever other foods they can afford. Unfortunately many clinicians (and health workers) continue to denigrate maternal wisdom, describing the mothers as 'illiterate' as 'ignorant', many scientifically unsupportable claims about decisions made by mothers during the weaning period con-

tinued to be repeated to be public meetings.

For instance, a six month, exclusive breast feeding period (now widely advocated) is valid especially for the more affluent levels of society. In the less affluent strata, a delay in supplementation, even to the fourth month, may put the child in danger. Studies in the Gambia and Cambridge, U.K., revealed that, by three months, the milk supply in most women reached a peak, which was maintained for a few months and then decreased slowly. It was observed that, without complementary feeding after the milk supply reached a maximum, the exclusively breast fed child did not attain the expected weight for age. Most rural women do breastfeed for long periods, even for 2 years, but not exclusively. Many women combine breast- and bottle-feeding from early on, moving from bottle to solid foods while continuing to breast feed.

The success or failure of public health programmes depends on persuading a majority of the people in a given area to change certain habits, to give up old practices and adopt new ones. There is no easy way of achieving this goal. The one important approach lies in recognizing the prevailing concepts of folk medicine and separating the good and the useful ones from ones that are definitely harmful.

Health, sanitation and nutrition are related to education, social security, economic productivity and income distribution, among other factors. Changes in these aspects of culture will bring about changes in food practices. This is a slow process, not one that can be rushed.



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