THE CEYLON JOURNAL OF HISTORICAL AND SOCIAL STUDIES

Vol. 6 January-June 1963 No. 1

CONTENTS

Annual Subscription Rs. 6-00. Single Copy Rs. 3-00.
Published twice a year by the Ceylon Historical
and Social Studies Publications Board.

UNIVERSITY OF CEYLON

PERADENIYA

The Ceylon Journal of Historical and Social Studies is published twice a year by The Ceylon Historical and Social Studies Publications Board which was constituted in 1958. The months of publication are usually June and December, and copies will be sent post-free to subscribers.

The Journal is intended to cover the entire range of the social sciences—economics, political science, law, archaeology, history, geography, sociology, social psychology and anthropology. The articles will relate mainly, but not exclusively, to Ceylon.

Articles, books for review, and editorial communications should be addressed to Ralph Pieris, Upper Hantane, University Park, Peradeniya, Ceylon, and business communications to H.A.I. Goonetileke at the same address. Past issues are available at publication prices (Vol. 1, Nos. 1 and 2 are out of print).

Remittances should be made payable to The Ceylon Journal of Historical and Social Studies. Rates of subscription (inclusive of postage): Annual—Rupees Six; Twelve shillings six pence; U.S. Two dollars. Single copies—Rupees Three; Six shillings three pence; U.S. One dollar. A trade discount of 20% is allowed to booksellers in Ceylon. All payments from foreign countries must be made by International money order, cheques payable in Ceylon currency, or with 1 sh., 6 d. or $ 0·25 cents added for collection charges.

THE CEYLON JOURNAL OF HISTORICAL AND SOCIAL STUDIES

Vol. 6 January-June 1963 No. 1

Editor
RALPH PIERIS

Managing Editor
H. A. I. GOONETILEKE

Printed at the Colombo Apothecaries' Co. Ltd., Colombo, for
The Ceylon Historical and Social Studies Publications Board, Peradeniya.

THE CEYLON
JOURNAL OF HISTORICAL AND SOCIAL STUDIES

Vol. 6 January-June 1963 No. 1

CONTENTS

BOOK REVIEW

CONTRIBUTORS

M.R.P. SALGADO, B.A. (Ceylon), M.A., Ph.D. (Cantab.), Senior Economist, Department of Economic Research, Central Bank of Ceylon.

HEINZ BECHERT, Indogermanisches Seminar, University of Mainz, Germany. Editor, *Culture of Ceylon in Mediaeval Times* by Wilhelm Geiger (Wiesbaden, 1960).

D.M. KANNANGARA, B.Com., Ph.D. (Melbourne), Department of Bank Supervision, Central Bank of Ceylon.

S. ARASARATNAM, B.A. (Ceylon), Ph.D. (London), Lecturer in Indian Studies, University of Malaya in Kuala Lumpur.

T. RANJIT RUBERU, B.Sc. (Ceylon), Ph.D. (London), Lecturer in Education, University of Ceylon.

S. KANESATHASAN, B.A. (Ceylon), Assistant Director of Economic Research, Central Bank of Ceylon, formerly Economist, Economic Research Department, International Monetary Fund, Washington D.C.

REFLECTIONS ON AN ECONOMIC POLICY FOR DEVELOPMENT†

M.R.P. SALGADO*

SECTION I — INTRODUCTORY

The scope of this paper is actually more limited than its title might suggest. It is not proposed, in this paper, to attempt a comprehensive discussion of the many issues involved in the formulation of an economic policy for development. That would be too ambitious an undertaking. What is proposed here is merely to discuss a few selected matters felt to be of immediate and urgent interest.

The Ceylon economy is passing at present through a troubled phase. In a sense hardly any economy is ever perfectly in balance; but the lack of balance of the Ceylon economy today is rather striking. In the attempt to restore some balance to the economy, drastic measures may have to be adopted. The danger is that in formulating corrective measures their implications for economic development may not be given the consideration they deserve. Even though the reasons which actually compel the choice of particular economic measures may have little to do directly with developmental problems, the choice of measures cannot fail in general to have a bearing on the prospects for development. It is a matter of urgency, therefore, to emphasise that when measures are taken to correct an immediate imbalance, they should as far as possible fit integrally into a framework of policy designed to encourage and promote economic development.

In conformity to this general theme, the present discussion will be concerned principally with the following issues. First, the question of the role of, and the limits to, deficit financing as an instrument of economic development will be considered. Secondly, there will be discussed the respective roles of import controls and import duties both as correctives of a balance of payments deficit and as means of protection for local industry. The relationship of import controls and import duties to each other and to government deficit financing will also be examined. Finally, the impact of budgetary and import policies

†This paper was written in December 1962. The treatment of certain matters was inevitably influenced by their topicality at the time of writing.

*The views expressed in this paper are personal and do not necessarily reflect the views of the Central Bank of Ceylon.

on domestic prices will be discussed, bearing in mind the over-riding importance for Ceylon of a development-oriented structure of prices.

The issues mentioned in the preceding paragraph do not, of course, exhaust the list of those which are of particular relevance to Ceylon in her efforts to achieve rapid economic development. The creation of an adequate statistical and planning apparatus is certainly an issue of the highest priority. For economic planning to be successful, much more statistical data are required than are now available. Economic planning itself will have to play a more central role in the economy. Methods will have to be devised for the participation of organisations and associations of all types both in the planning and in the implementation of detailed programmes. The central planning organisations will have to be built up to the point where they will be in a position to closely follow the implementation of programmes and to engage in continuous corrective action and, where necessary, in plan modification as implementation proceeds. The importance of administrative re-organisation for speedy and effective plan implementation has been well recognized, but a start in this field has barely been made. There is also the problem of how best to utilize the available human resources of the country. The exodus from Ceylon of technically qualified personnel in recent years has rendered urgent the problem of harnessing the services of those still available. This is an immediate problem. But there is also a long-term problem of increasing the supply of technicians to keep pace with the country's increasing needs. The solution of this long-term problem will call for changes in the educational field. It will also call for the evolution of a wage and salary structure[1] that will provide adequate incentives to persons to supply those forms of expertise which are most essential for economic development.

The issues just mentioned are sufficiently big and important to warrant separate treatment; so no attempt will be made to discuss them in the present paper. The discussion here will be focussed on the issues mentioned in an earlier paragraph, relating mainly to budgetary policy, import policy and prices. These will be discussed in general terms in Section II, while certain concrete problems will be discussed in Sections III and IV.

SECTION II — SOME GUIDE-LINES FOR POLICY

A. Deficit Financing as an Instrument of Development

Deficit financing by Government is often the principal source of expansionary finance in an economy; it has been so in Ceylon for a number of years. It is important, however, to bear in mind that deficit financing is not the only

1. Such a wage and salary structure would, of course, be the complement to the price structure (for goods) referred to at the end of the preceding paragraph.

possible source of expansionary finance. An increase in external assets, an increase in active bank credit to the private sector or a decrease in time and savings deposits with banks would also serve as sources of expansionary finance. Thus, whether a given quantum of government deficit finance from the so-called "inflationary sources" (which involve the creation of new money) will lead in practice to inflationary pressures, will depend partly on these other factors such as the change in external assets, in bank credit to the private sector and in time and savings deposits. Partly it will depend on the extent to which supplies of goods, including imports, can increase. Thus, when government deficit financing from inflationary sources is regarded as excessive, what is meant is that, given the level of the other potential expansionary factors, and given the possible increase in real supplies, the level of government deficit financing is so high as to lead to a general increase in prices.

It has sometimes been argued that a mild rise in prices can act as a stimulus to production. While the evidence is not conclusive, there may be some justification for this view. On the other hand, it is possible also to achieve similar or even better results in the absence of rising prices so long as other incentives are available to producers in adequate measure. In an inflation the stimulus to increased production is provided by a widening of profit margins. But even in a mild inflation, after a lapse of time, wage increases become unavoidable. With the rise in wages, costs of production rise; so the stimulus of the higher selling prices of goods tends to disappear unless the rise in selling prices is continued a step further. There is a danger, then, that even though the rise in prices was initially mild, a process of progressively rising prices will be generated. If such a process continues for some length of time, the public will come to fear that the value of money will continue to decline indefinitely in the future. When apprehensions on this score become widespread, people will adopt all practicable measures to convert money into goods as speedily as possible. Thus an increase in the velocity of circulation of money will be brought about. Unless action, necessarily drastic, is taken to remove the sources of inflationary pressure, prices will continue to rise at an accelerating rate until eventually normal economic activities become almost impossible.

In any country, the social costs of inflation are likely to be severe. Fixed income groups will suffer a decline in their real incomes as prices rise. Producers will be encouraged to devote their energies to speculative buying and selling in preference to more socially productive activities. The certainty that there will be a demand for whatever goods are produced will lead to carelessness regarding quality. Normal production priorities will lose their force and there will be, by any reasonable social standards, a general mis-allocation and misuse of resources.

A country like Ceylon is particularly vulnerable to the dangers of inflation because of her dependence on export markets. As wages and prices both tend to rise in an inflation, the costs of producing export goods may soon rise to the point where exports are priced out of world markets. In Ceylon, moreover, rising export costs will necessitate a reduction in export duties, thus adversely affecting government revenues.

It is true that an attempt could be made to retain export markets by replacing the present taxes on exports by subsidies. But, to the extent that this is done, there will have to be increased recourse to deficit financing, thereby strengthening all the more the expansionary forces acting on the economy. In the absence of measures of currency devaluation, export subsidies may well have to be increased progressively.

It will thus be seen that, although a mild inflationary policy could deliberately be adopted as a stimulus to domestic production, it is a policy that carries with it great dangers and that deserves, therefore, to be applied with the utmost caution. It is probably correct to say that the overall experience of most of the countries which have experimented with mild doses of inflationary financing has not been such as to encourage others to follow them. In those cases where inflationary financing has succeeded in stimulating production without at the same time generating a self-perpetuating wage-price inflation, the success has usually been due, in the main, to the presence of substantial surplus capacity in industry. Where such surplus capacity has existed, a rapid response in the volume of production to price increases has been possible. But in Ceylon today surplus capacity is not available to any substantial degree.

It is a point material to this discussion that, from a social or economic point of view, there are much more satisfactory ways of achieving the objective of economic development than by resort to inflationary financing. The main advantage of inflationary financing is that the relationship of government policy to the rise that takes place in the cost of living is not immediately apparent to the public. At the political level, therefore, reactions tend to be relatively mild, at least in the short term. On the other hand, it is also true that inflationary financing as a deliberate policy may not appeal to many political parties, because, to the extent that it succeeds in stimulating economic activity, it does so by increasing the profits of producers and traders.

B. Import Control and Tariff Policy

Quantitative import controls are often preferred to increased taxation of imports as a means for the correction of a balance of payments deficit. The preference for quantitative controls is probably due to the greater certainty of

their impact. Whereas the impact of higher import duties tends to be gradual, and the exact quantum of import restriction achieved by them to be uncertain, the impact of quantitative controls is immediate as well as determinate.

Nevertheless, there can be little doubt that restriction of imports by import duty adjustments is generally superior to quantitative controls from an economic and financial point of view. For the effect of quantitative controls is to create shortages in the supply of goods without any reductions in demand. As shortages develop, prices rise and traders obtain windfall profits. When these profits are spent they will have a secondary impact on consumer demand, part of which will constitute an increased demand for imports. Moreover, the reduction in the quantum of imports will lead to a loss of revenue to the government, thereby increasing the need for deficit financing. In contrast, restriction of imports by means of enhanced import duties has the effect of siphoning off to government revenue some of the consumer purchasing power that might otherwise have accrued to private traders in the form of increased profits. The relatively beneficial effect on government revenues of higher import duties thus enables a moderation of government inflationary financing that, in turn, serves to restrain consumer demand.

As a means also for the protection of local industry, tariff measures are usually preferable to quantitative restrictions. While high import duties confer protection on local industry, domestic consumers are not prevented from buying a higher priced imported product if the quality of the domestic article is unsatisfactory. In this way tariff measures offer not merely protection to the local producer, but also a degree of protection to the local consumer against shoddiness of quality.

There are certain situations, however, which may favour the use of quantitative restrictions. Where domestic industries find survival difficult, not because of any poorness of quality of the product, but due to an unjustifiable prejudice of consumers in favour of an imported product to which they have become accustomed, quantitative restrictions provide a direct corrective. As a check against excessive imports for purposes of smuggling abroad, too, quantitative controls have their usefulness. Further, the licensing apparatus that comes into being with comprehensive import controls not merely enables a record of imports to be kept, independent of the Customs and Exchange Control records, but also enables the authorities to know the intentions of importers much earlier than they otherwise would. The information thus derived will, of course, be very helpful in the formulation of economic policy.

Having discussed the relative merits of import controls and tariff measures for the correction of a balance of payments deficit in a context of deficit financing, it may now be added that the most effective course of action in a time of

emergency would be to use both import control and tariff measures in combination. Corresponding to a chosen level of quotas, there would be a certain level of import duties which would produce, per se, roughly the same impact as the quotas themselves. Generally speaking, this is the level of import duties that should be regarded as "appropriate" to the chosen level of quotas. When quotas are changed, they may be accompanied by appropriate variations in the level of import duties. The advantage of this procedure is that the increments in prices that are inevitable when quantitative restrictions are imposed would now be absorbed by the duty increases, with consequential benefit to the government revenues.

The protective aspect of quantitative restrictions and tariff increases also deserves further mention. As such measures generally result in a higher price for the imported product, an element of protection is conferred on the corresponding local industry. Unless it is deliberately decided that the particular local industry requires this measure of protection, or unless it is felt that there is sufficient competition within the local industry to prevent an undue increase in the price of the product, an appropriate excise duty should be levied on the local product. There is thus a strong case for linking policies for the indirect taxation of local goods with import control and tariff policy.

A policy of import restrictions—whether it takes the form of quantitative restrictions, import duty adjustments, or a combination of both—will have to take account of its probable impact both on the level of domestic prices and on employment.

Import restrictions will have an impact on the level of domestic prices via their impact on aggregate supply and demand. The position regarding aggregate supply is fairly clear. In so far as import restrictions reduce the supply of imported goods without at the same time evoking a compensating increase in the supply of domestic goods, aggregate supply will be reduced. As regards aggregate demand, the impact of the import restrictions may be analysed in monetary terms as follows. Firstly, to the extent that imports are reduced, there will be a favourable change in external assets; and a rise in external assets, it will be remembered, acts as a factor for monetary expansion. Secondly, to the extent that higher rates of import duty lead to increased revenues, this will reduce government inflationary financing and will thus act as a contractive factor; while, conversely, to the extent that quotas lead to a fall in import duty collections, this will act as an expansionary factor. The actual impact on aggregate demand will depend on the relative strengths of these different factors.

In general it can be said that the probable impact of import restrictions will be to reduce aggregate supply and increase aggregate demand and hence to raise the level of prices. As mentioned earlier in this paper, such a rise in

prices may carry the seeds of self-perpetuating inflation; on the other hand, in favourable circumstances, it may stimulate sharp increases in domestic production. If the latter happens, the overall effect on employment is likely to be favourable. But there may still be some hardship caused to persons employed by enterprises in the import sector, which may be forced to adopt measures of retrenchment, especially if the import restrictions have been sudden and drastic. However, if there is in fact an increase in production and in employment opportunities in other sectors of the economy, the hardship may only be temporary. Conversely, if the other sectors fail to expand sufficiently, the hardship may prove to be of long duration.

In any case, since import restrictions have an immediate impact on employment in the import sector that is wholly adverse, the restrictions should not be over-done. It sometimes happens that, after a prolonged period of hesitancy in taking measures to combat a balance of payments crisis, very abrupt and drastic measures are eventually taken which have the aim not merely of stemming the drain on external assets but of trying to rebuild them quickly to a "safe" level. But the more drastic the restrictive measures, the more severe the likely domestic repercussions. Thus, if a proper balance is not struck, it is possible that the first mistake, of failing to take timely measures to meet a developing balance of payments situation, may be followed by a second mistake, of taking measures which, while quickly rectifying the loss of external assets, have unnecessarily harsh effects on domestic employment and prices.

The foregoing remarks may serve to underline the need for careful thought in the formulation of policy, whether in regard to the form of import restrictions or in regard to their extent (or intensity). Not unusually the wood is not seen for the trees; and import policies are merely left to emerge from a series of ad hoc decisions taken in isolation in regard to individual cases. This is undesirable. Even in regard to the incidence of the restrictions (whether taking the form of quantitative controls or duty increases) on different items of imports, the decisions made will need to take into account their possible implications for economic development. For instance, due attention will have to be paid, in taking the decisions, to (*a*) the essentiality of particular categories of imports, whether from a development or a socio-political point of view; (*b*) the needs for protection of domestic industries; and (*c*) the probable elasticities of demand for different items of imports (since elasticities have a bearing on the likely impact of tariff adjustments on import duty collections).

The essential point of the present discussion is that the character of a country's import policy can vitally affect its economic progress. This fact limits to some extent the margin of freedom that is available for the choice of

an import policy appropriate to a particular situation. But, on the other hand, it also means that import policy itself can be used as an instrument of general economic control. For an amplification of this point, reference may be made to Appendix I where the relationship of import policy to overall budgetary policy in the control of a domestic monetary expansion is discussed in some detail.

C. Fiscal Policy and a Development Oriented Price Structure

To say that in formulating fiscal measures in the past their economic effects have been paid too little attention is probably fair comment. Consider, for example, the structure of personal taxation in Ceylon. One would expect that, in a development-oriented country, the system of personal taxes would be so designed as to provide strong incentives to people engaged in productive activities to put forth increased effort. But such incentives have barely been provided in the systems of personal taxation that have been in force. In fact, salaries and wages have sometimes received harsher treatment than other forms of personal income, a case in point being the National Development Tax.

Again, take the case of taxes like the Bank Debits Tax, the Tax on Company Share Capital or the Tax on Registered Businesses. All these taxes have in common the feature that they discriminate against the more organized forms of economic activity. The Bank Debits Tax discriminates against the banking habit, the tax on share-capital against corporate businesses, the tax on registered businesses against organized trade. In effect, therefore, these taxes tend to strengthen the incentives already present in the structure of the Ceylon income tax system for producers and traders to operate through primitive and illegal forms of organisation. Or take the case of the recent Land Tax, where the customary slab principle was ignored. During 1960/61, for instance, tax was payable on the entire acreage on holdings of 100 acres or more, whilst no tax at all was payable on holdings of less than 100 acres. A producer just liable to land tax was thus in a position to gain substantially if he could effect a slight diminution in the size of holding. Dis-incentives of this nature to large scale production would have been meaningful if they were part of an overall policy which envisaged, say, a gradual substitution of private sector enterprise by public sector enterprise. But this does not appear to have been the case. Thus, while it appeared to be part of official policy to stimulate and expand production in the private sector, tax measures were tending to have an opposite effect.

The implications of export duties also deserve some discussion. Ceylon is one of a minority of countries which levy discriminatory taxes on the export of goods, the more normal practice being for exports to be more favourably treated than goods for domestic consumption. In Ceylon, exports have been

able to maintain their viability mainly because Ceylon has been enjoying considerable comparative advantages in the production of tea, rubber and coconut. The world demand and supply position for these products usually resulted in a level of world prices significantly higher than domestic costs of production. Thus export duties could be levied without seriously restricting the quantum of exports. So long as Ceylon continues to enjoy a significant comparative advantage in these products, the levy of export duties could be continued. But care will have to be taken to ensure that the incidence of export duties does not inhibit the accumulation of funds within the industries for re-investment. Apprehensions have been voiced in recent times that the incidence of export duties, combined with the high levels of company taxation, has already in some cases adversely affected re-investment in the plantations. Perhaps these doubts and fears have been excessive. The tea industry in particular has been able to maintain a good record of growth of output for the past several years. However, this growth has been achieved not by measures of rehabilitation, but principally by the use of increased amounts of fertilizer. It is possible that the response of higher yields to increased fertilizer application may decline in due course. If this were to happen, the failure to rehabilitate the tea industry, by the use, for instance, of the technique of vegetative propagation, might at some future stage effect Ceylon's competitive position. This would be especially so if other countries were to go ahead with vegetative propagation and thereby achieve higher yields and, in consequence, lower costs of production.

While the above remarks are applicable only to the role of private sector investment in the development of the country, the impact on the pattern of prices of indirect taxation (e.g., import duties) and subsidies has relevance to investment both in the private and in the public sectors. A price structure that would favour development is one where investment goods are priced low, to encourage their increased utilisation in real terms, while most types of consumption goods are priced high, to discourage utilisation. These principles, which have been successfully used in most developing countries (a notable example being the Soviet Union), have not been consistently applied in Ceylon.[2] In Ceylon, in fact, investment goods and raw materials have often been subject to fairly substantial import duties. While many items of consumption goods have been heavily taxed, there have been exceptions and rice, for instance, has been heavily subsidised.

It could be stated as a broad principle that taxation of producers' goods — whether investment goods or raw materials — should in general be minimized. Taxation should be concentrated on final consumption goods, except that

2. In fairness it should be mentioned that there appears to have been an improvement in recent years in respect of the application of these principles in Ceylon.

essential requirements of food, clothing, shelter and education may be lightly taxed or be altogether exempted from taxation. If investment goods and raw materials, which have many different uses, are taxed, the consequent increases in costs will affect a number of final goods indiscriminately, whether they are essential to the country or not. If taxes are levied principally on final consumption goods, a discriminating system of differential rates of tax would be possible that does not overlook the requirements of economic development.

SECTION III—THE PROBLEM OF THE GOVERNMENT INFLATIONARY DEFICIT FOR 1962/63

The question of whether a mild rise in prices would act as a stimulus to economic development was discussed in Section II A above in general terms. The view was expressed that while a mild rise in prices might act in this way, the problem of maintaining an effective control over the inflationary pressures generated might become a formidable one.

If the question is now posed whether it is possible to quantify a safe limit for an annual increase in the price level, the reply will have to be that no general answer is possible. In one economy a 5 per cent rise may occur in the general price level in one or two years without the generation of a serious inflationary spiral. In another an attempt to maintain a 2 per cent annual increase in prices may end in disaster, with wages and prices chasing each other upwards with increasing velocity. The factors which are likely to determine the nature of the result are (*a*) the speed with which supplies can respond to price stimuli, this being largely a function of the excess capacity present in the economy; (*b*) the degree to which labour will tolerate a decrease in living standards without pressing for wage increases, this being related to the strength of Trade Unionism in the country; (*c*) the confidence with which the public views the future of the economy — if people believe that the price increases are once-for-all and that the situation will quickly be brought under control, they are unlikely to act in ways which make such control difficult to achieve.

For some years after World War II the view appeared to have been fairly widely held among economists that annual increases in the price level of up to 2 or 3 per cent could be tolerated in a developing economy for several years running, provided other circumstances were favourable. More recently the confidence of economists in the ability to judiciously use inflation as an instrument of development has been somewhat tempered by the economic experience, particularly of Western Europe, of the nineteen-fifties.

These remarks serve to underline the need for caution in any prescriptions made for the Ceylon economy regarding a reasonable annual increase in prices. A level of government deficit financing which allows for a 2 per cent annual increase in prices may work for a few years, if confidence is meanwhile maintained that prices will level off in the not too distant future. However, an annual increase in the price level of 2 per cent would leave too little margin of safety in the event of unexpected adverse developments. Hence, a policy which allows for such an annual increase in prices should not be adopted until all possible alternatives have been fully explored.

If price stability is to be achieved in Ceylon in 1962/63, the inflationary gap for the year will have to be of quite modest proportions. Even if a 2 per cent rise in the level of prices is to be allowed for, the magnitude of the inflationary gap will still have to be substantially below that anticipated at present for 1962/63. In any attempts that will be necessary, and that are likely to be made, to reduce the inflationary gap to a more tolerable level, the needs of economic development deserve to be kept carefully in view.

While it may be possible to reduce the magnitude of government inflationary financing by increasing revenues by means of tax adjustments, it is important that the taxes chosen should not be such as would lead to adverse effects on production. As forms of taxation, a differential sales tax or a system of excise duties has much to commend it. It is unfortunate, therefore, that the attempt to impose even a uniform sales tax has had to be abandoned for administrative reasons. Apart from sales taxes or excise duties, the most obvious, and the most easily manageable, instrument for increasing government revenue is import duties. As it is felt that the role of import duties, and of import policy generally, has not been adequately studied in relation to over-all economic policy, these subjects will be discussed at some length in Section IV and again in Appendix I. Meanwhile, in the rest of this Section, it is proposed to examine the scope for achieving a reduction in government inflationary financing by means of a reduction of expenditure.

The need for economic development dictates that, in any attempts to reduce expenditure, capital expenditure should not, in general, be curtailed. Even in regard to current expenditure, the selection of items to be subjected to cuts should be made very carefully so as not to affect development. It is true that genuine economies in government current expenditure may sometimes be achieved merely through administrative re-organisation. These might, for instance, enable the release of staff for capital works without any diminution of the current productive services rendered by government. Economies may also be realised if the government could be persuaded to abandon some of those activities which, though desirable on certain social grounds, nevertheless

tend by their very nature to be relatively fruitless, for example, prohibition and certain administrative controls on prices. Such activities may have political implications, however, which make their abandonment difficult.

Even to the extent that economies are possible by purely administrative measures of re-organisation, these will take time to work out and implement. Hurried attempts to achieve economy, without a sufficiently careful study to identify the existing defects of organisation, procedure or control,[3] may lead not to economy, but simply to confusion. It is evident too that attempts to restrain expenditure, for example, by withholding recruitment of stenographers, clerks, etc., or by postponing the purchase of needed equipment, can sometimes only lead to a loss of output which more than offsets the value of any economies achieved. Thus, although there should be no relaxation of the efforts to achieve economy, they should not be pursued to the point where there is loss of efficiency. Unfortunately, it is probably true that the scope for achieving economy without sacrifice of efficiency is rather limited in the short term.

While it is often the case that attempts to reduce current expenditures, unless planned ahead with sufficient care, tend to affect productive activities adversely, there is an important exception. This is the field of transfer payments. In Ceylon, there are two major items of transfer payments — the consumer subsidy on rice and the producer subsidy on paddy. Conceptually, the Guaranteed Price Scheme for paddy, as a form of incentive to producers, appears to have more economic justification than the subsidy to consumers. Nevertheless, a reduction of the Guaranteed Price to say Rs. 9 per bushel is unlikely in practice to act as a dis-incentive to paddy production, provided fertilizers, tools, seed paddy etc. are made available to producers at subsidised prices. In fact, part of the saving that would result from a reduction in the guaranteed price by, say, Rs. 3 per bushel could be used to provide additional services not merely to producers of paddy but to producers of other agricultural crops as well. Equipment, fertilizers, seed, etc. could be made available, say, at 40 to 60 per cent of cost price, while a network of tractor stations could be established by the government to provide the services of tractors and other mechanical equipment at nominal rates to producers. Agricultural extension activities too could be developed more rapidly. As incentives to increased agricultural

3. An example which illustrates the devious ways in which economy measures can affect Government activities may be of interest here. It was reported that when travelling allowances were reduced a couple of years ago the validity of the crop cutting sample surveys for paddy was seriously affected. It was said that the enthusiasm of the field officers who had been conducting the crop cutting experiments grew lukewarm when they were inadequately compensated for the expenditures they had to incur. It came to be believed at the time that, in the preparation of the statistical returns on paddy yields, field data were gradually giving way to armchair speculation.

production, these would be more effective ways of spending money than the present scale of cash subsidy.

The consumer subsidy on rice has still less economic justification. Perhaps the only economic justification is that, through its favourable impact on living costs, it serves to some extent to raise real incomes and ease pressures on money wages. But as a means for raising the real incomes of poor people, the consumer subsidy on rice is unduly wasteful. Outright income transfers would accomplish this purpose more effectively.[4]

The disadvantages of the present consumer subsidy are twofold. Firstly, some of the well-to-do receive the benefits as well as the poor. Secondly, the consumption of rice is unnecessarily encouraged, despite the lack of a case for increased rice consumption on nutritional grounds and despite the heavy foreign exchange expenditure involved. On economic grounds, therefore, there seems to be a case for completely removing the present consumer subsidy on rationed rice, and arranging instead for rice to be sold at a price equivalent to the full cost of imported rice. The savings thereby achieved could be utilized for a scheme of income supplements which would safeguard the living standards of poor families.[5]

The scheme of income supplements could be so designed that, while poorer families would receive the cash equivalent of the present rice subsidy, the government would effect some financial savings at the expense of the relatively well-to-do. Such a substitution of cash payments for the present subsidy on rice would also have the indirect consequence that the total amount of rice consumed in Ceylon would be somewhat reduced. This might have favourable repercussions on the foreign exchange situation (if not also on domestic nutritional standards). Furthermore, the likely diversion of consumer demand to food crops other than paddy — for example, manioc, sweet potatoes, kurakkan, etc. — would have an impact on domestic production that is wholly favourable.

The implementation of a scheme of income supplements may, however, lead to administrative difficulties. In formulating the details of a scheme the need to minimize these difficulties will have to be kept in view. In Appendix II, a proposal which takes account of the practical problems likely to arise in the Ceylon context is spelled out in some detail. The proposal is necessarily tentative.

---

4. It is widely accepted in economic theory that, as a means for increasing a person's economic welfare, a direct cash payment is superior to an equivalent subsidy on an article of consumption.

5. A report in the *Ceylon Daily News* of the 13th December, 1962 suggests that some similar scheme has been adopted successfully in recent times in Isreal.

Apart from administrative difficulties, a scheme of income supplements may also lead to certain political problems. As envisaged here, the income supplements would form an alternative to the rice subsidy. But it is possible that, once the principle of income supplements is accepted, political pressures may build up for the disbursement of income supplements side by side with consumer subsidies. If this happens the objective of easing the strain on the government finances will not be realised. In fact, it is not impossible that political pressures might build up to the point where the scheme of income supplements has to be enlarged to such an extent that, far from effecting savings, an increase in expenditures becomes necessary.

Thus, while the economic advantages of a scheme of income supplements conceived as an alternative to the rice subsidy are substantial, it is also important that the administrative and political problems inherent in a scheme of this nature be adequately recognised.

SECTION IV—FORMULATION OF A RATIONAL IMPORT POLICY

The bearing of import controls and import duties, not merely on the balance of payments, but also on the sources of expansionary finance and, hence, on the control of inflation, has been discussed in Section II B. However, a pre-requisite for the use of import quotas and import duties as instruments of economic control is a complete classification of imports on the basis of a rational order of priorities. While the priorities observed in import policy in the past have been on the correct lines to some extent, there has been a tendency to make quota and tariff changes in a random and haphazard manner. However, should there be available a complete classification of imports on the basis of a rational order of priorities, the urge to make haphazard changes would disappear. There would not, then, be variations in the classification without special reason, while any adjustments of import policy that are necessary would, in general, be related to the framework of this classification.

In the classification of imports into priority groups, due weight would be given to the essentiality of different items of imports from a development angle. This would mean that investment goods and raw materials would generally be given the highest priority, along with essential food imports. The needs of particular domestic industries for protection would also be given consideration. Attention would be paid, too, to the elasticities of demand for particular items of imports, in so far as they can be assessed; for it is relevant from a revenue point of view to have some idea as to whether a given increase in import duties will lead to a reduction in import duty collections. (If it is a matter of urgency that government revenues be increased, the import even

of relatively non-essential items having low demand elasticities may be permitted, subject to the payment of very high import duties).

A tentative classification of imports on a priority basis into six major groups is shown below. The classification is incomplete and is intended only for purposes of illustration.

Group A (High priority producers' goods)

(*a*) Industrial and agricultural machinery and spares
(*b*) Basic constructional materials—steel, cement, tar and pitch, etc.
(*c*) Feeding stuffs and fertilizer

Group B (Other high priority items)

(*a*) Essential food—rice, flour, sugar, milk foods etc.
(*b*) Books and publications; educational and scientific instruments and apparatus.
(*c*) Commercial vehicles and spares; typewriters; tabulating machines etc.
(*d*) Fuels and raw materials mostly used by priority industries—diesel oil, coal, raw cotton etc.

Group C (Medium priority items)

(*a*) Essential non-food consumer goods—utility textiles, drugs, etc.
(*b*) Raw materials mostly used by low priority industries—newsprint, etc.
(*c*) Spares for motor cars; tyres and tubes

Group D (Low priority items)

(*a*) Other consumption goods—quality textiles, sports goods, etc.
(*b*) Fitments for buildings

Group E (Luxuries)

Luxury consumption goods, including most consumer durables—refrigerators, washing machines, wrist watches, medium and small private cars, petrol for private transport, radios, cosmetics, etc.

Group F (Dispensable goods)

Goods that may be completely banned depending on the foreign exchange situation—large motor cars, most types of imported liquor, diamonds, etc.

In the above classification some of the major groups are shown divided into sub-groups. The division into sub-groups would, of course, have to be carried much further in a complete classification.

Once the order of priorities has been decided and the classification into groups and sub-groups is complete, the next step would be to assign a range of duties to each sub-group of items. Sub-groups in major group (A) would be subject to the lowest levels of duty and sub-groups in major group (F) would be subject to the highest levels of duty, while appropriate duty levels would be assigned to sub-groups in the intermediate major groups. The actual assignment of duty levels would be a major undertaking, to be accomplished with all possible care; but, once completed, it is essential that items should not be transferred from one group or sub-group to another without adequate reason. Such a reason may be forthcoming if, for instance, there is an emergence of a new domestic industry which deserves protection by levy of a high import duty on the corresponding imported product. Another reason may be that evidence comes to light that certain items imported into Ceylon are subsequently smuggled into India. In that case the import duties on these items may be adjusted to correspond to the levels of duties imposed by India. (If import of the items has been banned by India, high import duties may have to be combined with strict quantitative controls).

On a rough application of the essentiality criteria discussed earlier, broad ranges of import duties are assigned below, for illustrative purposes, to the different major groups of our classification:

Group A — No duty (some items may even be subsidised)
Group B — Nil or low duties (range 0 to 10%)
Group C — Moderate duties (range 10 to 30%)
Group D — High duties (range 30 to 75%)
Group E — Very high duties (range 75 to 200%)
Group F — Prohibitive duties (range 200 to 1000%)

Apart from serving as the basis for the assignment of levels of import duty, the classification of imports according to priority groups would also serve as the principal basis for the determination of quota levels. Moreover, the levy of excise duties, too, would be linked up with that of import duties, especially in the case of domestically produced counterparts of imported products.

The main advantage of a relatively stable classification of imports in terms of priority groups would be that the levy of import duties or the imposition of quotas would be based on sound and well-thought-out criteria and not

on ad hoc considerations. There would also be the advantage that traders as well as consumers would feel confident about the general lines of government policy and would, therefore, be less inclined to indulge in speculative stock-piling of goods. As fears of shortages would be minimized, there would be beneficial effects too on domestic prices.

From the government's point of view, a classification of this nature would enable the rational use of import controls and import duties for purposes of general economic control. Instead of experimenting with random duty increases on hastily selected items of imports, changes in government fiscal policy would take the form of operation on specific major groups or sub-groups. To give an example, a worsening of the government's financial position may lead to a decision to levy a surcharge, say of 20 per cent, on the duties applicable to the utility textiles sub-group, with corresponding duty increases on lower priority sub-groups (say, a 100 per cent surcharge on the duties on consumer durables etc.). Or it may happen that a favourable turn in the balance of payments situation or in the government financial position will permit a reduction of a certain percentage (say 10 per cent) in the duty levels applicable to specified sub-groups. Such adjustments may be accompanied, where necessary, by corresponding changes in import quotas and in the excise duties levied on domestically produced goods. In this manner, import policy could be used with promptitude and consistency — along with domestic fiscal policy — as an integral part of overall economic policy.

Before concluding, a few remarks may be ventured regarding the need for judgment and discretion in the application of import controls. Sometimes, measures are adopted administratively, which have little economic justification. As an example may be cited the extension of import licensing recently to cover spares for motor vehicles. For a certain length of time licences were not issued for imports of motor spares, with the result that shortages occurred (whether due to supplies being sent underground or not) and prices rose considerably.[6] The economic dislocation thus caused, minor though it was, was surely unnecessary. There had been no evidence that motor spares were imported into the island for purposes of smuggling abroad; so there was no reason to believe that imports of motor spares were larger than were really required for the maintenance and repair of the island's stock of motor vehicles. Also, there was nothing to be gained by allowing vehicles already available within the island to deteriorate through lack of spares. Thus, while import licensing of motor spares may conceivably have been adopted for purposes of maintaining records,

6. There was a similar pattern of events in the case of a number of other items of imports which were simultaneously brought under import licensing e.g., tyres and tubes, radio spares, slates and slate pencils, etc. In the case of many of these items, it was fairly clear that available supplies had gone underground, partly due to the lack of clarity as to government policy and consequent general uncertainty.

the decision to suspend imports for any period was obviously unnecessary and injurious. This example is mentioned not because it is important in itself, but because it typifies the unnecessary use of administrative controls where no economic good but only harm can result.

Appendix I—The Relationship of Import Policy to Overall Budgetary Policy.

The object of this Appendix is to clarify the relationship of restrictive policies on imports to overall budgetary policy in an expansionary context.

A preliminary word about terminology. In the present discussion, the term "import restrictions" will be used to refer not merely to quantitative restrictions or quotas but also to restrictions effected through adjustments of import duty. And the term "inflationary deficit" will be used as shorthand for "deficit financing from inflationary sources".

An increase of import restrictions achieved by a reduction in quota allocations (import duties remaining unchanged) has two results of relevance to this discussion. Firstly, total import values will decline so that the balance of payments will benefit. Thus an increase in quantitative restrictions tends to increase external assets. The greater the reduction in quotas the higher the likely increment in external assets (or the lower the decline). Secondly, a reduction in quotas, with an unchanged level of import duties, will involve a reduction in total import duties. Thus a reduction of quotas tends to increase the inflationary deficit. To summarise the position: the greater the reduction in quotas, the greater the benefit to external assets, but also the greater the inflationary deficit.

Now, an inflationary deficit and a positive change in external assets have both an expansionary impact on the domestic monetary situation. Corresponding to different levels of quantitative restrictions, there will be different levels of the inflationary deficit and of the net change in external assets for the time period considered (say one year). Therefore, if it is assumed that other material factors (the level of bank credit to the private sector etc.) remain constant, the expansionary impact of a given level of quotas will be measured by the sum of the corresponding inflationary deficit and net change in external assets for the year. The position may be illustrated graphically as in Diagram I.

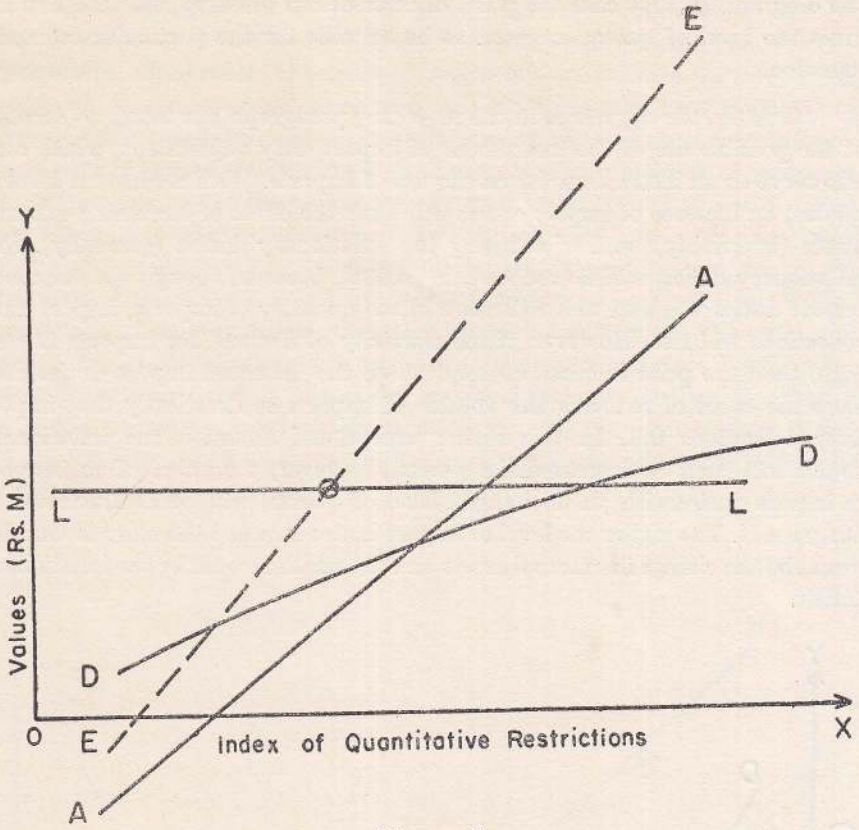

Diagram I

In this diagram the level of quantitative restrictions is measured along the X axis, while the net change in external assets (curve AA) and the inflationary deficit (curve DD) are both measured along the Y axis. The sum of the net change in external assets and the inflationary deficit is shown by the broken curve EE, which thus represents the combined expansionary impact.

The size of the expansionary impact that is regarded as appropriate for the economy at any given time will, of course, have to be determined by reference to the overall economic situation. The greater the confidence in the capacity of the economy to expand production rapidly, the greater the size of the expansionary impact that would be regarded as appropriate. Assuming that a decision regarding the overall expansionary impact has been taken, a second decision could be made regarding the total expansionary impact that could be generated by the two sources of the net change in external assets and the inflationary deficit. Let us suppose that the level that is thus determined for the expansionary impact from these two sources is given by the line LL of

the diagram. In that case the point of intersection of curve EE with line LL gives the level of quotas assessed to be suitable for the particular economic situation.

However, the argument in the preceding paragraph has taken no account of the possible use of the instrument of import duty adjustment, which may also serve as an instrument for restriction of imports. With a constant level of quotas, an increase of import duties will have the effect of increasing external assets (invariably)[7] and of reducing the inflationary deficit (generally). The inflationary deficit will be reduced, in general, because, though the enhanced import duties will lead to a reduction in the quantity of imports, import duty collections will rise. However, if the elasticity of demand for imports is very high, then the price increase consequent on the increased import duties may have the effect of reducing the volume of imports so drastically that import duty collections fall. In this rather exceptional situation the inflationary deficit will itself be increased. In general, however, the effect of an increase in import duties,with an unchanged level of quotas, will be as illustrated in Diagram II. The higher the level of import duties imposed the more favourable would be the change in external assets and the smaller would be the inflationary deficit.

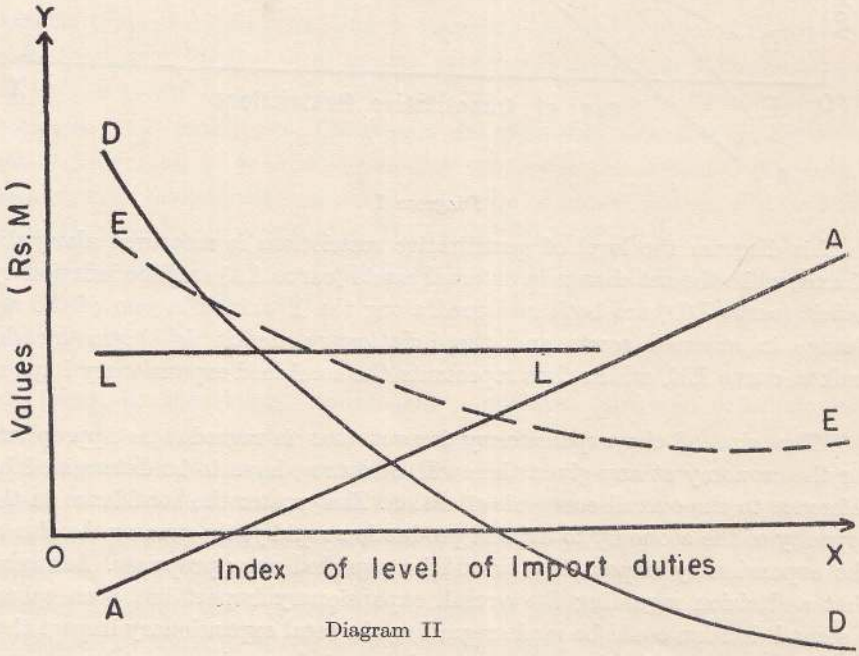

Diagram II

7. The argument takes no account, of course, of the possibility of an increase in imports for speculative reasons due to changes in people's expectations about the future that may result from the very increase in import duties itself.

Thus far the effects of changes in quantitative restrictions and of changes in import duties have been discussed in isolation one from the other. If, however, simultaneous adjustments of import quotas and import duties are considered, there would result a number of combinations of import quota and import duty levels that are consistent with the required measure of expansionary impact. Thus a certain degree of flexibility is possible in the determination of an import policy. However, it has been argued above, in Section II B of this paper, that given a certain level of quotas, there is an "appropriate" level of import duties which would produce, per se, roughly the same restrictive impact as the quotas themselves. If each level of import quotas is now combined with its "appropriate" level of import duties, then to each such combination of quotas and duties there would correspond a certain net change in external assets and a certain inflationary deficit. Generally speaking, the net change in external assets will rise as import restrictions increase, while the inflationary deficit will fall (at least up to a point). In graphical terms, the relationships may be illustrated as in Diagram III.

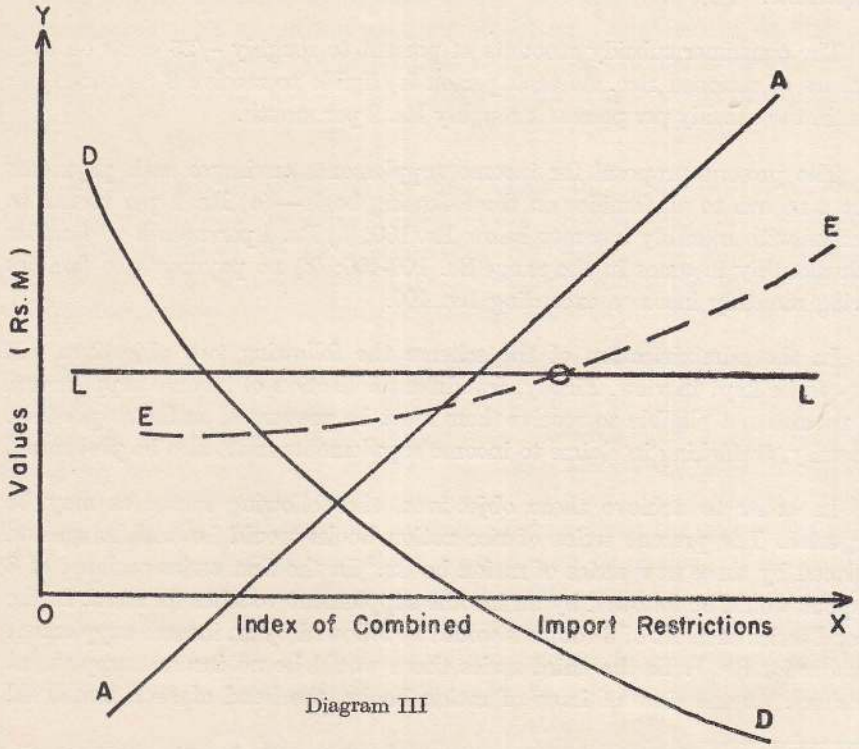

Diagram III

The optimal level of import restrictions in the given economic situation is determined as before by the intersection of the curves EE and LL.

It is fair to observe that the practical usefulness of graphical exercises on the lines shown will be limited by the difficulties of determining the actual form of the curves AA and DD. But it should not be altogether impossible to obtain some rough idea of their form for working purposes. Apart from questions of direct practical usefulness, however, the exercises serve to illustrate the underlying theoretical relationship of import restrictions to overall budgetary policy.

Appendix II—Proposed Scheme of Income Supplements

A scheme for the grant of income supplements as a substitute for the present consumer subsidy on rice is set out below. The details of the proposal as presented here do not possess any sanctity and a more careful study of the problem might suggest better alternatives. The present proposal is advanced, however, in the hope of stimulating discussion on the subject and also of showing that the problems of working out a scheme may not be altogether insuperable.

The consumer subsidy amounts at present to roughly –/25 cents on each measure of rationed rice. As each person is eligible to receive 8 measures per month, the subsidy per person is roughly Rs. 2 per month.

The present proposal for income supplements envisages cash payments once a month to all families on the following basis — (*a*) Rs. 2 per month to families with monthly incomes below Rs. 100; (*b*) Rs. 1 per month to families with monthly incomes in the range Rs. 100-400; (*c*) no payments to families having monthly incomes exceeding Rs. 400.

In the administration of the scheme the following two objectives will have to be kept in view. Firstly, fraudulent collection of income supplements by persons not eligible to receive them must be prevented as far as possible. Secondly, trafficking in claims to income supplements must also be prevented.

In order to achieve these objectives, the following measures may be suggested. The present series of rice ration books would be withdrawn and replaced by three new series of ration books.[8] In the first series each set of 8 coupons would be followed by an income supplement voucher for Rs. 2. In the second series each set of 8 coupons would be followed by an income supplement voucher for Re. 1. In the third series there would be no income supplement vouchers. At the time of issue of ration books, the head of each household

8. It would be advantageous to continue the system of rice rationing so long as the producers' subsidy on local paddy is retained. Rice would then be sold on the ration to consumers at a price equivalent to the full cost of imported rice i.e., at a price well below the cost of GPS rice.

would make a declaration as to the total family income during the preceding year, the sources of this income, the occupations of the different members of the family, etc. Every ration book allotted to members of his household would be signed by the head of the household at the time of issue, besides being signed in due course by the members concerned. At the time of issue of the ration books the head of each household would also sign a separate form, to be retained for official use, to facilitate identification. (People who are unable to sign would, of course, have to set down their thumb impressions).

The disbursement of the income supplements would take place through the local Post Office. Every month the head of each household would have to present himself personally at the Post Office and would be granted the total income supplements due to his family on signing a form kept at the Post Office for this purpose. A system of checks would be instituted to see that the signatures on these forms correspond to the signatures at the time of issue of the ration books. There would be penalties for incorrect declarations of income and other particulars. The rules regarding personal collection of income supplements by heads of households would be relaxed only in very special circumstances such as proven grounds of old age, disablement, etc. If any head of a household does not present his vouchers in the month in which they are due, his claims to that month's income supplements would automatically lapse.

The procedure for collecting income supplements, as outlined here, would be sufficiently tiresome to make it unattractive for some proportion of persons in the income bracket Rs. 100-400 to claim their share of the money. National appeals could also be organized to try to persuade people not in special need to voluntarily desist from claiming the income supplements due to them.

Notwithstanding all this, it is very likely that the total amounts disbursed as income supplements would be somewhat in excess of what would be legitimately due for payment if people correctly declared their family incomes. In other words, a certain amount of false declaration and fraudulent collection of income supplements would inevitably take place. But this would not greatly matter. Perhaps the chief gain would be that the cost to the State of the disbursement of income supplements would be obvious to the general public. Moreover, the level of income supplements would no longer be tied, as happens in the case of the consumer subsidy on rice, to the ruling price of rice in world markets. Thus, on this scheme, the burden on government revenues would not increase automatically with an increase in the world price of rice.

The total cost of the consumer subsidy on rice is estimated to have been in the region of Rs. 230–240 million during the financial year 1961/62. The gross savings resulting from the adoption of the scheme of income supplements

may be reckoned, on the basis of certain broad assumptions, at Rs. 40–50 million. As the implementation of the new scheme may involve the recruitment of much new staff, allowance will have to be made for a rise in administrative costs, amounting perhaps to a few million rupees. Nevertheless, the net saving to government will be considerable.

Moreover, the rise in the cost of rationed rice will make it inevitable that most persons who receive the income supplements will not spend the full amounts received on the purchase of rice (assuming, of course, that eligibility to receive the full income supplements is not made conditional on drawing the full monthly ration of 8 measures per head). It is very likely that some proportion — perhaps as much as a third — of the total amount disbursed as income supplements may be diverted to the purchase of commodities other than rice. This would result in a substantial reduction in the total quantity of rice consumed in Ceylon, even if well-to-do people (who are not eligible to receive income supplements) do not also reduce rice consumption. Thus a considerable saving in rice imports and, hence, of foreign exchange, may result. Expenditure on locally grown foodstuffs other than rice may also increase substantially. It is possible too that there may be some increase in total household savings as a result of saving out of the income supplements disbursed.

MOTHER RIGHT AND SUCCESSION TO THE THRONE IN MALABAR AND CEYLON

HEINZ BECHERT*

I

While from time immemorial a relatively uniform father-right family system exists in the highly civilised regions of North India, in the civilised regions of South India one finds a large number of communities which to this day follow a different family and inheritance law.[1] Of greatest importance in this connection are the customs of a number of castes in Kerala, on the Malabar coast. Here one finds in the Hindu regions a mother-right legal system known as *marumakkattāyam*. It has been preserved in its purest form, and is most widespread, in the Nāyar (Nair) caste.[2]

In this caste the husband was originally considered as a "casual visitor" of his wife and in no way responsible for the maintenance of his children. This marriage—*sambandham*—can as a general rule be dissolved by any one of the two marriage partners, although in course of time various restrictions have developed in this connection.[3] The Brahmins do not consider this type of union as marriage at all, in the orthodox Hindu sense. In fact in many instances the husband never moves into the household of his wife, but continues to live in the household of his mother, and only visits the house of his wife from time to time. In the family, which is accordingly organized in a purely matrilineal form, the oldest woman rules, and that through her eldest daughter, who sees to it that her orders are carried out. In recent times however the post of family chief has been taken over to a large extent by the oldest member of the matrilineal family.[4] Inheritance is of course entirely according to mother-right,

---

*The original article which appeared in *Paideuma: mitteilungen zur kulturkunde*, Band VII, Heft 4/6 July 1960, pp. 179-192 was revised by the author and translated from the German by K. Kanapathipillai, B.A. (Ceylon), Department of History, University of Ceylon. This translation has been edited for publication by the Editor, in consultation with the author.

1. Since 1956 the Indian laws of inheritance have been unified by the Hindu Succession Act. But certain special regulations are foreseen in the Act for those sections of the population which hitherto followed the mother-right system.
2. cf. Anantha Krishna Iyer (1909-12) II, 22ff; Thurston & Rangachari (1909) V, 301 ff.
3. Anantha Krishna Iyer (1909-12) II, 42 ff.
4. ibid., II, 47-51.

i.e. the property remains in the family of the mother, and the father who is not admitted into the family of the wife, does not bequeath anything to his children. Instead he bequeaths his property to his mother's family, i.e. in general to the descendants of his sisters.

Another special characteristic of the Nayar caste is the fact that their women very often contract marriages in the above form with members of the Nambūtri- (Nambūri-) brahmin caste, the group of brahmins who had made Kerala their home from relatively early times, originating naturally from the Aryan immigrants of North India. It is also to be observed that the Kṣatriyas of Kerala (the noble caste in a restricted sense) also follow the same legal system as the Nāyars and also contract unions with Kerala brahmins, whose descendants belong to the maternal family, i.e. the kṣatriya-families.[5]

Also a few of the high caste of the region follow *marumakkattāyam*, fully or partly. In the area of the former state of Cochin Ambalvāsi (Nambidi, Adikal, Pishārati), even a particular sub-group of the Nambūtiri Brahmins (the Thazhakkat Ammoman), a whole series of lower castes (Valuṭṭēdan, Mukkuvan partly, Īlavan partly, Kūdan, Pulayan partly, Parayan), a Mohammedan sect (the Jōnakan Māppila), as well as a few primitive tribes (Ullādan, Nāttu Mālayan), belong to this group.[6] Although a number of other tribes and castes, particularly those who immigrated later, did follow father-right (*makkattāyam*), the above mentioned wide distribution of the *marumakkattāyam* right, proves its antiquity. In other parts of Kerala the situation is wholly similar to that in Cochin.

The mother right family organization of the *marumakkattāyam* is completely opposed to the social system of Hindu civilization which, coming from the North, has in the course of many centuries spread more and more intensively all over India. It speaks for the strength of the local civilization of the people of Kerala that, in spite of the strong Hinduisation of their religion and the great importance that Sanskrit and Hindu literature achieved there, the old social system was modified only to a very insignificant extent.[7]

The Law of Throne Succession in the ruling houses at Kerala was also in accordance with *marumakkattāyam*. In the Royal House of Cochin the eldest male member of the family succeeded the ruler according to mother right, i.e.

---

5. ibid., II, 151ff; Karve (1953) 258ff; cf. also Padmanabha Menon (1924-9) III, 143; Thurston & Rangachari (1909-12) IV, 79ff.
6. Anantha Krishna Iyer (1909-12) II, 124, 125, 143, 195, 115; I, 273, 301, 136, 111, 76; II, 465; I, 63, 32. A section of the Ilavan caste follow a hybrid between mother- and father-right; cf. Ananda Krishna Iyer (1909-12) I, 320ff; cf. further Thurston & Rangachari (1909) I, 31; II, 410; IV, 94f., 490ff.; V, 107ff., 151, 177; VI, 201; VII, 391; cf. also IV, 453 (Mannān).
7. Regarding the area of distribution of mother-right in Kerala, cf. also Ehrenfels (1941) 43ff.

in general the younger brothers of the ruler succeeded one another, and thereafter the sons of the sisters, etc.[8] The ruling families which came to Kerala from outside, very often adopted the law of throne succession customary in the land.[9]

But it is by no means true that the mother-right family of Kerala is a completely isolated phenomenon in India. Apart from the existence of wholly or partly mother-right societies in the Northern and North-eastern border areas of Indian civilization, one finds solitary remnants of such social organizations in many parts of actually Hinduised regions, especially all along the West coast of India up to Gujerat.[10] Even in the family of the Buddha, a North Indian Ksatriya family, one can observe the influence of the mother-right family organization and the custom of "cross-cousin marriage", which in India is almost always connected with mother-right, or at least with the remnants of a mother-right social structure.[11] It is however uncertain whether there exists a historical connection between the various mother-right systems and the original mother-right people and tribes of the different parts of India. In spite of many striking similarities we must, to begin with, consider each individual group as such, and this permits us to restrict ourselves, for our present purpose, to the south-west Indian group.

The boundary between the mother-right region of Kerala and the father-right region east of it corresponds today with the language boundary between Malayalam and Tamil but this, as a language boundary, is not old. Even in early mediaeval times the differentiation between these languages had hardly set in and even today the differences between them is relatively small. But this should not surprise us very much because in an area of so many migrations of peoples one should not always count on the identity of language and cultural boundaries. Further a number of clues point to the fact that we have to recognise a certain influence of sections of mother-right peoples on the actually Tamilised regions further east (East Tamilian). This is most marked in the southernmost part of the Indian peninsula—in the regions of Tinnevely, Madurai, Ramnad and Tanjore ; but even among a few castes in the Telugu-speaking regions lying further north such clues are found.[12] In this connection it may be mentioned that Chattopadhyaya, in an analysis of the conditions of throne succession of the Śātakarni Dynasty founded circa 240 B.C.

8. Karve (1953) 264; Padmanabha Menon (1924-9) II, 30, 86ff.
9. Padmanabha Menon (1924-9) II, 30, 86ff.
10. Ehrenfels (1941) 75ff.,135ff. cf. also e.g., Plinius: *Natural History*, 6, 76 — gens Pandae, sola Indorum regnata feminis . . . This could in all probability refer to Southern Pandya. One can also point to the mythological and cult connection which most mother-right and polyandrous castes and tribes of India show with the Pāndavas of the *Mahabharata*.
11. Geiger (1960) 168; Przyluski (1927) 177; Mitra (1924) 125; cf. also Hocart (1923); Breloer (1940) 268ff.
12. See the material cited by Ehrenfels (1941) concerning different Tamil castes.

showed that it was plausible that this was regulated by mother-right. This however is for superficial observers partly obscured by the fact that according to the system of cross-cousin marriage the fathers of the reigning kings also always belonged to the same family, and because the compilers of the Purana traditions available to us start out from the father-right system known to them.[13] The Śātakarni Dynasty originated without doubt from Andhra, a Dravidian region.[14]

After these brief remarks about southwest Indian mother-right one must also consider another peculiarity of this civilization—namely polyandry. This is found, usually as a common marriage of several brothers with one woman, up to very recent times in Kerala among the following castes : Ilavan, Kammālan, Kaṇiyan, Pāṇan, Mannān, Vilkuruppu.[15] It was very common among the Nayars earlier, although it has become obsolete now.[16] Here too one could say the same as was said of mother-right; this custom is found also in other regions of India, especially in the Northern and North-eastern border regions. Remnants of it are also proved by the evidence of ancient literature—we need only recall the Draupadi story in the *Mahabarata*—and also in the most varied parts of the Hinduistic cultural regions.[17]

How far polyandry and matriarchy are necessarily interconnected need not be discussed here. Their connection in the Southwest Indian cultural regions is unmistakable. Just as matriarchy has survived longer than the custom of polyandry among the Nayar, we may surmise that the peoples and tribes of Southwest India which certainly know polyandry but in connection with a patriarchal family organization, either adopted from the ruling Nayar caste only polyandry, and not matriarchy, or originally possessed both, but have thereafter given up only matriarchy under Hindu influence. Such castes in Malabar are the Kammālan (to whom the Asāri belong), Pāṇān, and Tiyan.[18]

A peculiar form of compromise between both family-right systems which the shepherd tribe of Todas in the Nilgiris has developed may also be mentioned. The origin of the tribe is controversial. It is made up of two sub-groups known as Teivaliol and Tartharol. "Legal" marriages are always contracted only within each of these groups. In both groups a family arising from such a marriage is organised according to father-right. Besides, there are socially

13. Chattopadhyaya (1927) 503ff; also Chattopadhyaya (1939) 317ff.
14. Nilakanta Sastri (1958) 88ff.
15. Anantha Krishna Iyer (1909-12) I, 301, 346, 173, 161, 182; Thurston & Rangachari (1909) III, 132f., 139, 195f. VI, 31; VII, 348; also occasionally among the Parayan, *ibid.*, VI, 135.
16. Anantha Krishna Iyer (1909-12) II, 38ff., Kapadia (1958) 76ff; Thurston & Rangachari (1909) V, 307ff.
17. cf. Kapadia (1958) 52ff.; Ehrenfels (1941) 91ff., 109ff; Jolly (1896).
18. Kapadia (1958) 87ff.; Karve (1953) 270; Thurston & Rangachari (1909) III, 139f.; VI, 31; VII, 98; but VII, 36 (Tiyan follow the *marumakkattayam* only in North Malabar).

recognised marriage-like contracts between members of different groups. In this case however the children always belong to the family of the mother. If the man belongs to the socially privileged Tartharol group, he may not bring his Teivaliol wife to his village because of a taboo according to which Teivaliol women may not step into Tartharol villages, but he can either move into her house or visit her only occasionally. In the reverse case however a Teivaliol man can bring his Tartharol wife into his house. From this, one can perhaps rightly conclude that in the Toda tribe two groups have united, one which was organised according to mother-right being the group of original inhabitants, and another which was organised according to father-right, being the conquering group. The Todas also know the form of polyandry in which all brothers of a man are simultaneously recognised as husbands of his wife.[19]

II

The northern part and the eastern coastal strip of the Island of Ceylon is inhabited today mainly by Tamils. They were governed by a number of legal systems of which the most important is the Thesawalamai Code which is valid even today. It is the customary law of the region of Jaffna and was codified on the orders of the Dutch Governor Simons in 1707. However one can with certainty trace the validity of its principles to the times of the earliest European accounts of Ceylon.[20] Among the legal systems existing among the Tamils of Ceylon the Mukkuva Law is the most important, apart from the Thesawalamai. While the Mukkuva Law represents a mother-right legal system, the Thesawalamai proves to be a hybrid of both legal systems.[21]

To understand this we must briefly sketch the history of the population of North Ceylon. It is true, that at present very little study has been made in it, but one can at least recognize its main features with some certainty. The oldest recognizable layer of this population is a people, named in the sources as Nāgas, who were also widespread in the southernmost part of India.[22] Without doubt, they were not a primitive tribe, but a cultured people among whom Buddhism found acceptance rather early.[23] The Nagas seem to have preserved their identity as a people longer in North Ceylon than in other parts of the Island, where the Sinhalese language and heritage made headway soon. But even in Nāgadipa (Nāga Island)—i.e. the old name of the Jaffna Peninsula

19. Karve (1953) 52ff.; Kapadia (1958) 87ff.; Ehrenfels (1941) 47f.; Thurston & Rangachari (1909) VII, 146.

20. Tambiah (1954) 23ff; Tambiah (1950) 27ff.

21. On *Thesawalamai* (*Tesavalamai*) see Tambiah (1950) & (1954) 22ff.; The Dutch text was published by S. van Ronkel (1919) 240-280; cf. van Kan (1943) 441ff; Jurrianse (1954) 393ff.

22. Rasanayagam (1926), 1ff. How far there exists a connection with the Nagas of Ancient Central India, should remain open.

23. cf. Geiger (1960) 155; *Mahavamsa*, I, 44ff.; Manimekalai, 8·43ff.

in the very north of Ceylon—the Nagas became Sinhalese in the course of time, and we know that right up to the sixteenth century there were important Sinhalese-speaking sections of the population in North Ceylon who were Buddhists.[24]

A new colonizing wave set forth from the Malabar coast and must have settled down before the 11th century. This group of people are in the main the Mukkuvas. They are even to this day found widespread on the Northwestern and Eastern coast of Ceylon. However the Tamil kings of Jaffna are said to have banished them from the coastal regions of Jaffna, because they polluted the holy shores of Kankasanturai by laying out their fishing nets. Their origin from the west coast of India is undoubted—there one finds the caste of the Mukkuva in Malabar and the related caste of the Mookvana in Western Gujerat. Among the Dravidian peoples of Ceylon, it was this caste which followed the mother-right system named by them as "Mukkuva Law". This conforms to a great extent with *marumakkattāyam*. Descent and inheritance claims are wholly regulated in the female line. The property of the "joint family" is administered by the oldest male member of the family—the formal chief of the family was the eldest woman. The differences between *marumakkattāyam* and Mukkuva Law are insignificant. H.W. Tambiah even claims that the Mukkuva Law has in some respects preserved an older form of the Malabar law, namely the form it had before it was changed under the influence of Nambutri-brahmins in Kerala itself.[25]

The second migratory wave—perhaps in the 13th and 14th centuries—brought mainly families of the Tamilian Vellala- (Vellāla-) caste, the high caste peasants (the so-called "high caste sudras") from the east Tamilian region, to North Ceylon.[26] From now on these immigrants who introduced the father-right type of family organization, had social precedence. But in some conspicuous details—in particular through the rule that the so-called dowry (really the maternal inheritance) is always inherited by the female descendants—their system was changed so that the rules of Thesawalamai which thus resulted, represent a mixture of the mother-right legal principles of the earlier Malabar immigrants and also perhaps those of the pre-Tamilian inhabitants of the land, with the father-right principles of the later East Tamilian immigrants.[27]

---

24. Under the rule of the Tamil kings the rest of the Sinhalese peasant population whose Sinhalese name is Go(yi)vamsa, were made into a subordinate caste of the Vellalas. But they continued to retain their Sinhalese name in their caste name Koviyar. Similarly the caste of Elephant mahouts in Jaffna, the Tanakara, even today preserve their Sinhalese name. cf. Tambiah (1954) 59.
25. Tambiah (1954) 75ff., 89f,. 132ff.; Thurston & Rangachari (1909) V, 107ff.
26. Rasanayagam (1926) 335f., Tambiah (1954) 9f.
27. Tambiah (1950) 12ff. See further Raghavan (1956) 114ff.

We now turn to the Sinhalese who lived in the Central, Western and Southern parts of Ceylon. This area is divided (in modern times) into two juridical regions, one the strongly Europeanised coastal region, and the other the conservative Kingdom of Kandy which was independent up to 1815. In the latter considerable remnants of the mother-right family organisation have been preserved up to the present day. Among the Sinhalese of the Highlands (the Kandyan Sinhalese) there exists side by side two marital and inheritance systems which one can describe as the matriarchal and patriarchal systems, whereby it is open to the contracting parties to choose the form they prefer.

If among the Sinhalese of the Highlands a matriarchal marriage (known as *binna*) was contracted, then the man moved into the house of the parents of his wife. He, as well as his wife, had the right to dissolve this marriage at any time; the children belong to the family of the mother and can even take the mother's family name. A daughter who has contracted a *binna* marriage had the right of inheritance to the parent's property (or to the property of her mother in case the latter has herself contracted a *binna* marriage). Common among the Sinhalese was also the so-called "cross-cousin marriage" which we also find widespread in other mother-right regions of India like Kerala, according to which the head of a family administering the family properties, saved it from getting dispersed by giving his daughter in marriage to the son of his sister.[28]

Polyandry which is associated with matriarchy was also widespread in Ceylon, i.e. very often many brothers had a common wife (very seldom also many common wives[29]).

Besides there also existed the patriarchal system. A marriage contracted under this system (the so-called *dīga* marriage) was by its nature more permanent. The wife moved into the household of her husband. Children of such a marriage belonged to the family of the husband. Inheritance was regulated according to the father-right system.[30]

These co-existing systems were originally prevalent among all Sinhalese. The custom of polyandry which in later times was proved to exist only in the interior, can also be proved to have existed for example in Galle on the South Western Coast even in the 17th century.[31] The general tendency to be observed in recent times is—as in similar areas in India—a growing supremacy of father-right. Since we have to regard the mother-right structure of the Sinhalese as something indigenous, one could be tempted to ascribe the spreading of father-right system to the strong East Tamilian cultural influence of the

---

28. Hayley (1923) 155, 167ff., 193ff., 370ff; Tambiah (1954) 141f.
29. Pieris (1956) 204ff. Hayley; (1923) 170ff.
30. Hayley (1923) 193ff; Tambiah (1954) 143f.
31. Baldeus (1762) 417. cf. also Pieris (1956) 204f.

mediaeval period. Indeed this influence could have facilitated the spread of father-right, but its origin in Ceylon must undoubtedly be traced to the Aryan immigrants, who also brought with them the Sinhalese language and were said to have come to Ceylon from North India in the 5th century B.C., led by a conqueror named Vijaya.[32]

The conquerors however did not find Ceylon an uninhabited land. Other than forest tribes, whose last descendants the Vaddas live to this day, there lived in this Island as already mentioned Nagas who very soon mixed to a great extent with the immigrants and adopted their language. Most probably the Nagas were one of the oldest inhabitants of Kerala, and related to a group of people in Southernmost India. We may mention here in passing the widespread tradition among a few castes in Kerala that they originally descended from Ceylon.[33]

Apart from the Aryan immigrants and the older inhabitants, one can observe another group of immigrants who got mixed with the Sinhalese nation as a whole mainly from South India, in particular the wives and relatives of castes of handicraftsmen brought to Ceylon by Vijaya from Madhura (Madurai) in the Pandyan Kingdom, which is a Tamilian region according to old tradition.[34] But also several other castes, as for example the Fisher caste of Karāvās (Karayān) are definitely of South Indian origin[35]. The process of transition of the Tamil-speaking group of this caste to Sinhalese nationhood, particularly on the West Coast of Ceylon, north of Chilaw, is taking place even today.[36]

So it is not surprising that the caste structure of the Sinhalese is very similar to that of South India; so one finds for example the very characteristic grouping of the five castes of handicraftsmen.[37] Particularly striking is also the characteristically superior position of the Goyigama or Vellāla, which corresponds to the position of the Nayar-caste in Malabar and the Vellāla, above all in the southern Tamil speaking regions. It is the last mentioned peasant or farmer

---

32. Geiger (1960) 13; Codrington (1939) 6ff.

33. In particular among the Ilavan and Tiyan; cf. Baines (1912) 71; Thurston & Rangachari (1909) II, 392f.; VII, 37ff.

34. *Mahavamsa*, 7·48ff.; see Geiger (1960) 14, 43. In this connection a tradition among the Malabari Kammalan that they had emigrated to Ceylon in early times, and then returned from there to Malabar; deserves notice (Thurston & Rangachari, III, 136f).

35. cf. Raghavan (1961).

36. About Sinhalese castes cf. Geiger (1960) 26; Ryan (1953), as well as Pieris (1956) 169ff.; about the Karayan in South India, cf. Thurston & Rangachari (1909) VI, 177.

37. Geiger (1960) 26, 83; Thurston & Rangachari (1909) III, 106ff, 125ff; Baines (1912). 58f. For the development of this caste in the Kingdom of Kandy see Codrington (1909) 221ff.; Pieris (1956) 181ff. In the account of Knox (1681) 107ff, the group of "artificers" has been definitely upgraded. The craftsman who traditionally belonged to this group are the goldsmith, coppersmith, blacksmith, carpenter and bricklayer (mason); in the course of history the group changed. The designation Ācāri for the smith corresponds naturally and exactly to the Malabar sub-group Asari of the Kammalan; compare footnote 18 above.

caste, in which the old indigenous peasant population and the immigrant Aryans have amalgamated into a unit in Ceylon. This peasant group, though theoretically, according to the Aryan four-fold division of caste, is Śūdra, has become the highest caste among the Sinhalese.[38] This caste system has nothing to do with the Brahmanical caste system of the Aryans of North India. It had protected itself so well from being influenced by the Hindu social system developed by the Aryans, in that the Sinhalese remained Buddhists, and Buddhism, as against Hinduism, views all details of the social order as purely worldly and from the standpoint of religion mainly irrelevant.

The co-existence of both right-systems among the Sinhalese can therefore be connected with the fact that Sinhalese culture was the product of the process of living together of varied groups of people, which is also shown by a glance at their caste structure, and is also true of the Sinhalese folk religion. Aryan immigrants brought the patriarchal family system, while the older inhabitants, whom we described as the Nagas, were the bearers of the mother-right system.[39]

III

For the throne succession of Sinhalese kings in mediaeval Ceylon, Wilhelm Geiger has deduced from historical facts the following rule :

> In Ceylon the succession (to the throne) was in the paternal line with the particular rule that first the whole generation must have died out, before the next generation came to the throne. When a king who had brothers died, not his sons, but the younger brother succeeded him one by one according to age. Only when the last of them had died, the eldest son of the eldest brother of the preceding generation ascended the throne.[40]

This view found general acceptance until M. B. Ariyapala[41] undertook to show that the practice was completely different. He says : "There is a mass of evidence to support the (other) view, that the succession was from father to son . . .", although he admits that during a definite period—from Mahinda III to Mahinda IV it was the case that the younger brother took the throne.[42] But later he says that the inheritance from father to son was the universal rule in the history of Ceylon.[43]

---

38. Geiger (1960) 26; Hayley (1923) 148. The designation Vellala — today replaced mostly by the word goyigama or goyivamsa — became common among the Sinhalese perhaps due to the Tamil cultural influence of the late mediaeval period.
39. When we speak of Nāga people in Ceylon as the oldest inhabitants we mean thereby only that they were older than the Sinhalese immigrants. It is possible, and even likely, that they have themselves emigrated from India to Ceylon not long before the Sinhalese.
40. Geiger (1960) 106; Geiger: translation of *Culavamsa*, I, XXff.
41. Ariyapala (1954) 195ff.
42. *ibid.*, 214.
43. *ibid.*, 215f.

In his essay Ariyapala interprets the whole line of Sinhalese kings according to the principle postulated by him. Thereby he assumes in many cases that the King was childless. But this is perhaps too rash an assumption to make for example in the case of four brothers (Uttiya, Mahāsiva, Sūratissa, Asela) who reigned consecutively[44]. One does not understand how, from the fact that no sons are mentioned, one could come to the conclusion that there were none, considering the fact that the chronicles give very scanty information. Ariyapala also cites the account of the usurpation of Dāthāpabhuti in favour of his view. Dāthāpabhuti usurped the rule, which should have been his elder brother's but had to commit suicide later. Ariyapala says : "If the succession was from brother to brother, Dāthāpabhuti would have had his chance to rule after Moggallāna. Why then did he usurp the throne? Probably because he would not have become king when Moggallāna had his own sons to succeed him".[45]

But the conclusion is not justified; the events prove if anything rather the opposite. Brothers are mostly close to each other in age; thus each younger brother even if he was in the line of succession had to wait very long, that is till his immediately elder brother died. He could even reckon with a certain probability that he himself could die while another elder brother was alive, so that he would never be able to exercise his right of throne succession. It is exactly this circumstance that led to rather frequent fratricides in Sinhalese Royal houses ; whereas on the other hand if only the son of a King could inherit the throne it was not possible for a younger brother to seize the throne by murdering the elder brother.[46]

IV

A principle of throne succession must be briefly mentioned here which could break the general rules, namely the possibility that a ruler could be elected by his people or their representatives. Such an election could take place on the wishes of an abdicating king or if peculiar conditions warranted it. This principle of throne succession was known to exist in Ceylon till the beginning of the 19th century,[47] so that legal historians have long recognised it.[48] The *Mahavamsa* in addition contains references to it, e.g. King Parakramabāhu II arranging for the election of Vijayabāhu IV.[49] We wish to draw attention here to the fact that the King put up for election not only his own sons, but also his sister's sons; perhaps his younger brother was not living any more.

44. *ibid.*, 196.
45. *ibid.*, 200.
46. For Ariyapala's view see also Ariyapala (1956) 53f.
47. Davy (1821) 159.
48. Hayley (1923) 41f.
49. *Mahavamsa*, 87.39.

One comes across the election of Kings in South India too. In the *Keralotpatti*, a work on the history of Kerala which is on the whole, it is true, of doubtful source value, but containing some genuine traditions, one finds the account that the Brahmins first got the sanction of a people's assembly before they invited a ruler from outside.[50] The idea that installation of a king had to be legitimated by the people, seems to have been known to the authors who made up this history, even though in this case no historical facts support this assumption. But we do know of a well proved historical example of the election of a king, namely the election of King Nandivarman II Pallavamalla by the people circa 730 B.C.[51]

For a judgment on throne succession in Ceylon, it is very important that there are some indications that the Sinhalese Royal House, at least for some periods, was under the influence of legal conditions based on mother-right, although basically exhibiting a patriarchal family organization. We have already touched in passing on the fact that Parakramabāhu II proposed for election to the throne his sister's sons and his own sons on an equal footing. The marriage of a king's daughter with the son of the ruler's sister is common.[52] This accords exactly with the mother-right "cross-cousin marriage" system of the Highland Sinhalese.[53] Geiger points out that the ruler's sister's son had a privileged position.[54] In some cases he even succeeded to the throne.[55] Already the legendary account of the fourth Sinhalese King Pandukābhaya points in this direction. The King Panduvāsudeva had ten sons and one daughter; his eldest son Abhaya became his successor. His daughter Ummādacitta, had from Dīghagāmanī, the son of a mother's brother, i.e. the person whom she had to marry according to the system of cross-cousin marriage, a son Pandukābhaya, who killed his ten uncles and succeeded to the throne.[56] In fact only according to the mother-right system was Pandukābhaya entitled to the throne after his uncles, and not according to the father-right system. Symbolic interpretation of legends is generally hazardous; but in this case one is practically forced to do so. The Princess was locked up on account of a prophesy. In spite of all precautionary measures she was able to contract an alliance with her cousin, and her son succeeded in securing for himself the right of succession according to the mother-right law. Could one imagine a more appropriate symbolization of this development? The weak minority which represented the father-right system did not succeed—even by locking up the Princess—in preventing the successful upholding of at least a few of the customs of the

50. Padmanabha Menon (1924) I (Notes) 38.
51. Minakshi (1938) 38; Majumdar (1954) III. 262.
52. Geiger (1960) 31.
53. Hayley (1923) 155.
54. Geiger (1960) 43, 142.
55. *ibid.*, 106.
56. *ibid.*, 21; *Mahavamsa*, Chaps. 9–10.

legal system of the indigenous mother-right population, the success of which was symbolised by Pandukābhaya.

Furthermore, Paranavitana has put together a number of instances where the descent of the Sinhalese Royal Family has been judged according to the maternal line.[57] Only, in passing, one should mention that in Ceylon on a few occasions even women enjoyed Royal dignity without any restrictions. We would also like to mention that the assumption of the throne by Srīvijayarājasiṃha, a brother of the Queen, in 1739.[58] We would like to place more importance on the testimony of polyandry in the Royal houses. It is mentioned in the Sinhalese chronicle *Rājāvaliya* that both the brother of the King Dharmaparākramabāhu (1509-1528), Vijayabahu and Rājasimha lived with a common wife.[59] From a reference in another part of the same work where mention is made of an illegal relationship of this type, one may not draw the conclusion that polyandry was forbidden on principle in the royal houses.[60] Certainly it could not have been as widespread among them as among the peasant folk.

Finally even the terminology of relationship in the Ceylonese chronicles points—naturally they concern only the tradition of the ruling families—to a mother-right and polyandrous family system. The brothers of the father were called "fathers" and the sons of two brothers are referred to as "brothers" and not as cousins. The elder of the father's brothers is "big father", and the younger "small father".[61] This terminology is common among the Sinhalese even today. One and the same term is used—at most modified by additional adjectives—namely *appā*, for the father, the brother of the father, and the brother of the mother of the wife. The term *ammā*, refers to the mother, the sister of the mother, the wife of the brother of the father, and the sister of the father of the wife; and the term *māma* for the father of the wife, the brother of the mother, and so forth. For the brothers only the term *ayiyā* for the elder, and *malli* for the younger is in use. The common term *sahōdarayā* is borrowed from Sanskrit, and is only in literary usage. But the words *ayiya* and *malli* is used also for the sons of the brother of the father, the sons of the sisters of the mother, and the husband of the sister of the wife. The same applies to the words for sister, etc.

It is unmistakable that this whole terminological system is only to be understood in relation to the old social system of the Sinhalese, which was characterised by mother-right and cross-cousin marriage. That this system—we may be permitted this digression here — was derived from the culture of the old layer of inhabitants from which it developed through different language

57. Paranavitana (1933) 235ff.
58. Codrington (1939) 139; *Mahavamsa*, 98·1.
59. *Rajavaliya*, 50; Pieris (1956) 205.
60. *Rajavaliya*, 18f; Pieris (1956), 204 note 45.
61. Geiger (1960) 31.

regroupings of the Dravidian and Sinhalese peoples, is proved by the almost complete conformity in the system of kinship terminology with the Dravidian languages, even though the language material is different. The Sinhalese words already mentioned— *appā*, *ammā*, *māma*, *ayiyā*, *malli*, thus correspond with the Tamil words *appan* (*appā*), *amman* (*amma*; respectively *citti* for the younger sister of the mother and the father's younger brother's wife), *māman*, *annan*, *tampi*, in exactly the same usage. One may therefore draw the conclusion that the Sinhalese terminology of relationship has been proved in all clearness as belonging to the South Indian. But the South Indian system of kinship terminology is completely different from the North Indian.[62]

This observation also confirms that we have no right to conclude the absence of the mother-right system in ancient Ceylon on the basis of the silence of the ancient Sinhalese literary sources. In any case we cannot expect to find evidence for it in the sources of ancient time, because the chronicles tell us not about the life of the common people, but only about that of the kings and monks and even then, only from the standpoint of the destiny of the State and the Buddhist religious orders, and the narrative literature of the Sinhalese in ancient time is so strongly influenced by Indian models (so far as they are not simple imitations of Indian works) that even there we cannot expect such information.[63]

But we have on the other hand already referred to the indubitable evidence of the influence on the ruling family, basically organized according to father-right, by mother-right. In view of the above considerations we believe now that it would no longer be rash to see in the principle of seniority of Sinhalese throne succession, a form of compromise between both "right" systems. Instead of the son of the eldest sister succeeding a row of brothers—which is the case in a matrilineal family—here the son of the eldest brother succeeds. Thus a principle of succession native to the matriarchal system is transplanted in a modified form on to the partriarchal noble families of the Sinhalese. The later prevalence of the normal Hindu right of throne succession of the eldest son, particularly in mediaeval times is a gradual development, which was naturally encouraged by the kings for personal reasons, and which is also connected with the Hinduisation of the South Indian and Ceylonese region, which also the Sinhalese in their many aspects of life were exposed to even though they retained the Buddhist religion. Finally the growing influence of

---

62. The Sinhalese kinship terminology is given by Hayley (1923) 156ff.; Pieris (1956) 212ff.; the Dravidian and North Indian, one finds in Karve (1953).

63. Changes which point to the law of primogeniture, such as Ariyapala (1954) 196 cites, are based on such Indian literary influences.

foreign elements in the Sinhalese Royal House through marriage with Indian dynasties, also contributed to this development.[64]

In concluding, we wish to cite some non-Ceylonese parallels of this type of throne succession law. It is true that the throne succession of old Tamilian dynasties of the Sangam period is disputed,[65] and of the older Pallavas for example completely unknown,[66] but there can be no doubt that in a great number of cases in ancient South India the brother of the ruling prince, and not the son, succeeded to the throne.[67] Not all these cases are to be explained by the kings being childless or by the minority of their crown princes. For the early Cola-line of Vijayālaya, Nilakanta Sastri and Venkataramaya have also surmised that throne succession was regulated by the principle of seniority and not by that of primogeniture, or that at least both principles stood in conflict.[68] Apart from Kerala the general tendency was certainly for the throne right of the eldest son to gain supremacy.[69]

It is also not uninteresting to note, how a forest tribe of Cochin, the Kādar, have modified their father-right under the influence of the ruling Nāyar-caste : among the Kadars it was the son who inherited the property but in the case of their chiefs it was the eldest nephew.[70] Sections of the Ilavan caste of Kerala have also developed a combination of both systems.[71]

Without any suspicion of historical dependence, there exists on the Fiji Islands in the Pacific Ocean, as Hocart has ascertained, a similar law of throne succession as in ancient Ceylon.[72] We mention this parallel only because it shows a common line of development with Ceylon, which we already mentioned briefly, namely that in spite of the existing right of the younger brother and then the elder nephew, often de facto, the throne succession of the eldest son was successful without thereby basically calling into question the right of seniority. The parallel of the Fiji Islands shows better than many words

64. Therewith the demand of Ariyapala (1954) 215 & (1956) 54, to give a definite point of time as to when the principle of primogeniture replaced the principle of seniority in Ceylon, has been met. Strong ruling personalities could break the customary law (there were hardly laws in the modern sense then) but in fact a new practice which was in vogue for some time could naturally evolve into customary law.

65. On this dispute cf. Ramachandra Dikshitar (1933-4).

66. cf. Minakshi (1938) 38.

67. cf. e.g., Dommara-Nandyala Plates of Punyakumara, *Ep. Ind.*, XXVII, No. 44, 274, 276 and a number of similar examples.

68. *Ep. Ind.*, XVII, No. 5, 224. Compare also the examples of female succession in the House of Ramnad; Sewell (1884) 232.

69. In Travancore itself circa 1730 Sri Padmanabhan Tampi, the eldest son of the dead ruler, tried to claim the throne for himself against the law, naturally without a successor (Raja, 1953) 198.

70. Anantha Krishna Iyer (1909-12) I, 10.

71. *ibid.*, I, 301ff.

72. Hocart (1933) 61ff.

that the use of the statistical principle, as Ariyapala has attempted to do, is unwarranted in this question.

We therefore come to the conclusion that the law of throne succession in ancient Ceylon discovered by Geiger can be explained, and is also confirmed by the cultural-historical conditions of the country. That this rule was often broken in favour of the eldest son, is to be explained on the one hand by the tendency to Hinduisation, and by human nature generally and on the other hand by the conditions of power in each particular period, but these factors do not in any way change the basic principles of the customary law on which throne succession was based.

REFERENCES

ANANTHA KRISHNA IYER, L.K. (1909-12) *The Cochin tribes and castes* (Madras).

ARIYAPALA, M.B. (1954) Succession to the throne in ancient Ceylon (*University of Ceylon Review*, XII/4).

ARIYAPALA, M.B. (1956) *Society in mediaeval Ceylon* (Colombo).

BAINES, Sir A. (1912) Ethnography (*Grundriss der Indo-Arschen Philologie*, 11, 5).

BALDEUS, Philip (1672) *Beschreibung der küsten Malabar und Coromandel als auch der insel Ceylon* (Amsterdam).

BRELOER, B. (1940) Die Sākyas (*Zeitschrift der Deutschen Morgenländischen Gesellschaft*, 94).

CHATTOPADHYAYA, K.P. (1927) Social organization of the Sātakarnis and Sungas (*Journal & Procs. of the Asiatic Soc. of Bengal*, New Ser., XXIII).

CHATTOPADHYAYA, K.P. (1939) Sātakarni succession and marriage rules (*J. Asiatic Society of Bengal*, Letters, V.).

CODRINGTON, H.W. (1909) The Kandyan navandanno (*J. Royal Asiatic Soc., Ceylon Branch*, 62).

CODRINGTON, H.W. (1939) *A short history of Ceylon* (London, rev. ed.).

CŪLAVAMSA, being the more recent part of the *MAHAVAMSA* ed. Wilhelm Geiger (London, 2 vol. 1929-30).

DAVY, John (1821) *An account of the interior of Ceylon and its inhabitants* (London).

EHRENFELS, Baron Omar Rolf (1941) *Mother right in India* (Oxford Univ. Press).

EPIGRAPHIA INDICA (abbr. Ep. Ind.).

GEIGER, Wilhelm (1960) *Culture of Ceylon in Mediaeval times* (Wiesbaden).

HAYLEY, F.A. (1923) *A treatise on the laws and customs of the Sinhalese* (Colombo).

HOCART, A.M. (1923) Buddha and Devadatta (*Indian Antiquary*).

HOCART, A.M. (1933) India and the Pacific (*Ceylon J. Science*, G, I.).

JOLLY, J. (1896) Recht und sitte (*Grundriss der Indo-Arischen Philologie Und Alter-tunskunde*, 11/8).

JURRIANSE, M.W. (1954) The compilation of the customary law of Jaffna (Thesawalamai in 1707) (*Bijdragen tot de Taal-Landen volkenkunde van N-Indie*).

KAPADIA, K.M. (1958) *Marriage and family in India* (Oxford Univ. Press) 2nd ed.

KARVE, Iravati (1953) *Kinship organization in India* (Poona).

KNOX, Robert (1681) *An historical relation of the island of Ceylon* (London).

MAHAVAMSA, ed. Wilhelm Geiger (London: Oxford Univ. Press, 1934).

MAJUMDAR, R.C. (1954) *The history and culture of the Indian people. III: The Classical Age* (Bombay).

MANIMEKALAI.

MINAKSHI, C. (1938) *Administration and social life under the Pallavas* (Madras).

MITRA, Kalipada (1924) Cross cousin relation between Buddha and Devadatta (*Indian Antiquary*, LIII).

NILAKANTA SASTRI, K.A. (1958) *A history of South India* (Oxford Univ. Press, 2nd ed.).

PADMANABHA MENON, K.P. (1924-9) *History of Kerala* (Erakulum, Cochin).

PARANAVITANA, S. (1933) Matrilineal descent in the Sinhalese Royal family (*Ceylon J.* Science, G, II).

PIERIS, Ralph (1956) *Sinhalese social organisation* (Colombo).

PLINY, *Natural History.*

PRZYLUSKI, J. (1927) La place de Mara dans la mythologie Bouddhique (*Journal Asiatique*, CCX).

RAGHAVAN, M.D. (1956) The Malabar inhabitants of Ceylon (*Sir Paul Pieris Felicitation Volume*, Colombo).

RAGHAVAN, M.D. (1961) *The Karava of Ceylon* (Colombo).

RAJA, P.K.S. (1953) *Mediaeval Kerala* (Annamalai).

RAJAVALIYA, ed. B. Gunasekera (Colombo 1953).

RAMACHANDRA DIKSHITAR, V.R. (1933-4) The marumakkattāyai and the Sangam literature (*Zeitschrift fur Indologie und Iranistik*, IX).

RASANAYAGAM, C. (1926) *Ancient Jaffna* (Madras).

RYAN, Bryce (1953) *Caste in modern Ceylon* (New Jersey).

SEWELL, R. (1884) *Archaeological survey of Southern India II* (Madras).

TAMBIAH, H.W. (1950) *Laws and customs of the Tamils of Jaffna* (Colombo).

TAMBIAH, H.W. (1954) *Laws and customs of the Tamils of Ceylon* (Colombo).

THURSTON, Edgar & K. RANGACHARI (1909) *Castes and tribes of Southern India* (Madras).

VAN KAN, J. (1943) Uit de Ceilonsche rechtgeschiedenes (*Bijdragen tot de Taal-, Land-en volkerkunde van N-Indie*).

VAN RONKEL, S. (1919) Ceilonsch volksrecht, opgetcekend in 1707 (*Bijdragen tot de Taal-*)

THE ROLE OF EXPORTS IN CEYLON'S SHORT-RUN INCOME FLUCTUATIONS

D. M. KANNANGARA

The simplest type of theory of short-run economic fluctuations that emerges from the Keynesian analysis of the developed, closed-economy model is based on two fundamental ideas—viz: (i) the demand for consumer goods bears a stable relationship to national income, and (ii) the autonomous demand for investment goods is highly volatile. Given the parameters of the system, autonomous fluctuations in investment, coupled with the stable consumption function, determine short-run economic fluctuations. This may be regarded as the irreducible core of the Keynesian theory of fluctuations. A similar simple theory of fluctuations can also be stated for an underdeveloped export-economy model such as Ceylon in terms of the following—i.e. (i) the demand for consumer goods, and the demand for imports, bear a stable relationship to national income, (ii) the investment function is an autonomous variable of minor significance, and (iii) the level of export receipts fluctuates by great amounts due to events in world markets. Given the structural properties of the system, large changes in export receipts plus small changes in investment, superimposed on the stable saving and import schedules, determine short-run oscillations.

This theory of course is deceptively simple. The relationships involved are in fact much more complex. For instance, in recent years, the annual volume of income-generating government expenditure in Ceylon has been nearly as large as the volume of exports. Again, not all investment is autonomous. Externally-generated changes in import prices may be superimposed on export fluctuations: and so on. But such considerations should not blind us to the fact that all such refinement must be built round the central theme. The simple theory is important because it focusses attention sharply on the crucial role of exports as the moving force behind cyclical fluctuations in Ceylon just as the rudimentary Keynesian model underlines the key role of investment.

The simple theory is also important because it suggests that the problem of short-run stabilization in Ceylon is largely the problem of controlling fluctuations set up by externally-determined changes in export prices. If only the terms of trade could be stabilized, the problem of cyclical instability would largely disappear. Of course, minor fluctuations in income would still

occur due to factors such as climatic conditions, autonomous changes in consumption or investment etc. The magnitude of income fluctuations caused by the volatility of the investment variable will no doubt assume increasing importance as the economic system moves on to higher plateaus of economic development. Indeed a high rate of economic growth, if achieved, may involve irregularities and "bunchings" which may exert strong destabilizing pressures. A slow rate of economic growth on the other hand, may make it impossible to prevent inflation as low-income groups exert strong pressures for a rapid redistribution of income. But these are possibilities for the future. If we recognise the great limitations inherent in policy formulation as well as in economic analysis and prediction, it is evident that the need is to focus monetary-fiscal stabilization measures on moderating wide fluctuations caused by changes in export receipts rather than to aim at ironing out every minor fluctuation caused by domestic variables.

Ceylon is truly an export economy with about 35 per cent of her gross national output being exported. It is well known that tea, rubber and coconut products account for about 95 per cent of her total export receipts. Further, while no reliable statistical estimates appear to be available, it is generally accepted that the short-run supply elasticity[1] of tea, rubber and coconut products—both for Ceylon and other producing countries—is relatively low. It follows, therefore, that abstracting from factors such as crop variations resulting from climatic changes, Ceylon's export receipts are mainly price determined in the short run. It also follows that export prices are mainly demand-determined in the short run. The level of demand will depend on the level of income in Ceylon's chief export markets. The most important market is the United Kingdom. The level of income in Ceylon will therefore depend mainly on the level of income in the United Kingdom and in Ceylon's other major export markets including the United States. The level of income in the United States, of course, will also be an important indirect factor because of its impact on United Kingdom income and on world income generally.

If export prices are mainly determined in the short run by the level of income in Ceylon's chief export markets, it follows that the short run stability of export prices—and, therefore, of domestic income—will depend partly on the degrees of stability of income in the importing countries, partly on the income elasticity of demand for the particular products in those countries and partly on the sensitivity of the domestic economic system to a given change in her level of export receipts. It is generally believed that the income elasticity

1. The relevant elasticity is the export supply elasticity which is not necessarily identical with output elasticity. The former will depend partly on the latter, partly on the size of stocks in the exporting countries, and partly on domestic price and income elasticities of demand for the particular product in the exporting countries.

of demand is significantly lower for tea than for rubber and coconut products—while it is higher for rubber than for coconut products. It would then follow that the fact that tea exports alone normally account for as much as 60 per cent or so of Ceylon's total export receipts is a factor making for greater domestic income stability[2]. On the other hand, a given change in the export price of tea will cause greater domestic income instability than an identical change in the export price of rubber or coconut, assuming that the sensitivity of the domestic system to a given change in export receipts does not vary markedly with the type of export commodity causing the change.

It was noted earlier that Ceylon's export industries are likely to be characterised by relatively low short-run supply elasticities. The argument here adduced is that export supply elasticity is likely to be low in ordinary times. At the bottom of a severe depression, of course, the elasticity may be considerable because of the existence of stocks and idle capacity. Similarly, if export prices rise abnormally, producers may expand output considerably by methods such as "overcropping". In any case, even in ordinary times, some change in the physical volume of exports can be expected as a result of the existence of a price elasticity of output greater than zero. In general, the elasticity of output will be the greater the longer the period over which a particular export-price change persists, the larger the price change, and the larger the extent of unused capacity in existence in the export industries. The size of the induced change in the output of export commodities may be somewhat smaller for a given percentage increase in price than for an identical decrease in price in so far as a rise in export prices is likely to cause a lagged change (via income) in the prices of factor inputs in the same direction to a much greater extent than a fall in export prices. But in so far as changes in export output are induced by changes in export prices, they will add to the instability of income, on the

---

2. The force of this argument may be reduced to some extent by the fact that the price elasticity of demand is also likely to be lower for tea than for rubber and coconut products, depending on the way in which relative price change in the importing countries. (Available studies suggest that the price elasticity of demand for tea in the United States is below 0·3).

In the tea-drinking countries, the cross elasticity of demand between tea and other beverages is likely to be small. In so far as income fluctuations in the importing countries are accompanied by relative-price changes as between different teas, substitution may also occur between different teas. To some extent, Ceylon tea which enjoys a high reputation, can be treated as a technologically and psychologically differentiated product. Nevertheless, the cross elasticity of demand between Ceylon tea and other tea is likely to be significantly larger than the cross elasticity of demand between tea and other beverages.

The price elasticity of demand for coconut products is likely to be high in view of the wide array of close substitutes which are readily available such as various synthetic detergents, soya bean, ground nut, cotton seed and palm oil as well as other oils and fats.

For an attempt to estimate income and price elasticities of demand for tea and rubber, see *Demand for Certain Exports of Ceylon*, K. Tharmaratnam, Monograph No. 4, Department of Census and Statistics.

realistic assumption that such supply variations by Ceylon are unlikely to be of such magnitude as to exert any appreciable effect on export prices in the short run.

Changes in the physical volume of exports may also occur from other causes. As already noted in passing, changes may be caused by output variations resulting from factors such as climatic conditions. Such changes do not represent "economic responses" and must be treated as exogenous factors. In any given year, the magnitude of such changes may be substantial and they may either increase or decrease domestic income instability generated by export-price changes. Second, export-supply changes may occur from variations in the size of domestic stocks. Admittedly, such changes do constitute "economic responses" and depend largely on expectations about future export prices. But no one can predict whether a given export-price change will influence price expectations in the one direction or the other. In the absence of a theory of how expectations are formed and revised in the export sector, it is an unsolved problem to incorporate expectations in export behaviour.

Changes in export supply may occur from short-run variations in the domestic consumption of export products induced by changes in domestic income and relative prices associated with export-price fluctuations. When export prices increase, on the one hand the domestic prices of "export products" will increase in relation to other domestic prices. On the other hand, domestic consumer incomes will also increase. Thus the relative-price effect and the income effect on the volume of exports will operate in opposite directions. But even if we ignore the offsetting effect of relative-price changes on the home consumption of export products there can be no doubt that as far as Ceylon is concerned, the domestic marginal propensity to consume such products is not significant[3]. For instance, reference to time-series data show that aggregate private consumption expenditure on tea has not been much above one per cent of total private consumer expenditure while the corresponding figure for coconut products has been about 4.5 per cent. Cross-section data, in addition to confirming these conclusions, reveal that they apply broadly to all the major income-groups as well as the economy as a whole.[4] To put it differently, it is not necessary to include domestic income and domestic relative prices even as minor variables in the export function.

If the usual short-run assumption of constant capital stock is relaxed, the physical volume of exports may expand as a result of the secular growth of output in the export industries. For instance, during the period 1948-60,

3. The domestic marginal propensity to consume export products, calculated from time-series data, is below 0·04.

4. For instance, see *Survey of Ceylon's Consumer Finances*, Central Bank of Ceylon (Colombo—1954), Table 26.

tea production in Ceylon appears to have grown at an annual average rate of nearly 4 per cent and the total volume of all exports at a rate of about 1.7 per cent[5]. The effect of such a secular growth trend in exports on short-run income fluctuations would be stabilizing in periods of falling export prices and destabilizing in times of rising export prices. The supply of exports may also depend significantly on the ability to import—that is to say, on the availability of foreign exchange reserves. As far as Ceylon is concerned, available evidence appears to be conclusive. For instance according to national income data, the "import content" of exports has only been about 5 per cent. At the aggregative level of analysis this means that, in the short run, the ability to export is not much dependent on the ability to import.

It is now widely recognised that the export trade—but not export production—is significantly dependent on the availability of short-term bank accommodation. When export prices increase, if the supply of credit does not increase or decreases, this will probably operate as a brake on the expansion of export receipts by dislocating the export trade[6], although if the credit shortage persists, export traders are almost certain to overcome this bottleneck by the adoption of various money substitutes. Moreover it should be noted that since "export products" enter into domestic consumption directly (or even indirectly—i.e. embodied in imports) only on a very minor scale, export-price fluctuations will have only a limited direct impact on the domestic price level. For instance, in the Colombo Consumers' Price Index, "export products" account only for 5 per cent of the total weights which means that export-product prices must change by as much as 20 per cent to cause a one per cent change in the overall index. The effect of export-price fluctuations on the domestic price level—being mainly an indirect one operating through income change—will be subject to various time lags.

To summarize, if we abstract from fiscal operations, changes in export receipts are the dominant moving force behind short-run income fluctuations in Ceylon. Export prices are determined externally and are largely a function of the level of income in Ceylon's major export markets. The level of export receipts will depend on export prices and domestic export supply. Short-run changes in export supply will be partly autonomous and partly induced by other variables in the system. Abstracting from autonomous changes, the magnitude of induced changes is unlikely to be large in ordinary times. When export prices increase, export receipts will usually increase provided sufficient bank credit is available to finance the movement of exports. The converse process will operate when export prices fall except that an insufficiency of credit

5. *Economic Progress of Ceylon* 1948-60, Dr. W. Rasaputram, Paper presented before Section F, Ceylon Association for the Advancement of Science—May 1961.
6. Such a shortage of credit is unlikely to occur normally during an export boom.

—if it occurs—will merely intensify the contraction of export receipts. But how will the various strategic variables in the domestic economy react to short-run fluctuations in exports if there is no state intervention aiming at stabilization? The remainder of this article is devoted to this problem.

Two situations will be considered here—one of rising export prices and one of falling export prices. In order to make the problem manageable, we make the following simplifying assumptions:—

1. The rise or fall in export price is assumed to occur from an initial position which satisfies the following conditions—viz.
   (*a*) exports = imports; government expenditure = government revenue; investment = saving; and
   (*b*) the supply of money = the demand for money at existing interest rates.
2. Tax rates and the level of government expenditure are fixed;
3. All taxes are in the form of a progressive income tax;
4. There is no time lag between the receipt of income and the payment of taxes;
5. The exchange rate is fixed, and
6. No autonomous changes occur in any of the strategic variables in the system other than in export prices.

Let us now assume a period rising export prices. How will the key variables in the domestic economic system behave? A general and tentative answer to this question is provided below in a series of steps.

(1) As export prices increase, the aggregate level of export receipts will expand mainly because of the rise in prices and partly because of some induced and (and lagged) expansion in the physical volume of exports. Even a relatively modest increase in export price could be expected to cause a relatively significant primary increase in national income, because exports are large in relation to national income. With the increase in their disposable income, export producers will expand their consumption and this will set off a multiple expansion of national income. Given the size of the primary increase in income, the ultimate increase in income will depend on the size of the multiplier. In economic systems such as Ceylon, even though the marginal propensity to consume is high,[7] the real-income multiplier[8] and the employment

7. For most economic systems for which reliable data are available, the marginal propensity to consume is between 0·6 and 0·8. For Ceylon appears to be in the region of 0·8—0·9.
8. The money-income multiplier in Ceylon will of course, be much higher than the real-income multiplier.

multiplier are likely to be quite low not merely because of the high marginal propensity to import, but also because of the exceptionally low short-run output elasticity of home industries.

(2) Subject to various time lags, the rising level of national income can be expected to cause an expansion of investment. Depending on the size of the income-investment lag and the duration of the export boom, this may cause income to increase still further. That is to say, an accelarator effect may be superimposed on the multiplier effect. However, because of the small size of investment expenditure in relation to national income—a basic structural property of underdeveloped systems—the degree of instability generated by induced investment will be quantitatively small.[9]

(3) Since the tax rates and the level of government expenditure are assumed to be fixed, part of the increased income will leak into taxes. A budgetary surplus will develop. The magnitude of the "built in" compensatory effect of fiscal policy, on our assumptions, will depend on the rupee change in tax revenue resulting from a given change in national income—that is to say, upon the marginal tax rate.

(4) A part of the profits of corporations engaged in export production and export trade is paid to—or temporarily accumulated on behalf of—foreign shareholders. The outflow of such dividends can be expected to increase (subject to time lags) when income is rising and conversely. This is one of the structural properties of the system which helps to (*a*) damp down domestic oscillations set up by export price fluctuations, and (*b*) bring about a more rapid adjustment in the balance of payments. It should be noted that the quantitative significance of this "built-in" stabilizer has diminished over time with the progressive expansion of Ceylonese ownership of the export industries.

(5) Part of the increased income will leak into corporate and personal savings. If the consumption function remains stable during the export boom, then only a small proportion of the increase in disposable income accruing to residents is likely to be saved in this system. This, of course, does not imply that over each unit of time during the export boom, consumption will bear the same relationship to income as indicated by the statistical value of the consumption function. The presence of lags will ensure that consumption will trail some steps behind income. Consumption is likely to move rather tardily in the initial stages of the boom and to gather momentum as the boom progresses. The lags are likely to be most in evidence at the turning points of the cycle.

---

9. In a system where uncertainty is high, where private gross investment amounts to only about 10 per cent of the gross national product, where the supply of entrepreneurship is notoriously scare and where only about 2·3 per cent of income earners are engaged in the building and constructional industries, it is virtually certain that the extent of income instability generated by induced investment is likely to be small.

But it seems certain that the income of the wealthier classes—particularly of those connected with the export industries—will fluctuate over the cycle much more widely than those of wage earners and other low-income groups. As the upper-income groups possess lower marginal propensities to consume[10], cyclical changes in income distribution will cause shifts in the consumption function favourable to consumption when increase is falling and favourable to saving when income is rising.

Of course, the greater cyclical instability of non-wage income is a property common to most economic systems. But if we compare Ceylon with more developed systems, we are likely to find two significant differences. First, in developed economies where workers are strongly organized and where the capital equipment is adequate to provide employment for the entire work force during the boom, the ability of workers to raise wage rates during the boom is certain to be greater than is an underdeveloped, over populated system such as Ceylon. That is to say, the relative share of profits in national income is likely to increase much more sharply in Ceylon than in developed systems. Second, income disparities are probably much wider in Ceylon that in more advanced countries[11] and consequently, there is reason for supposing that the marginal propensity of different income groups to consume may decrease much more steeply in Ceylon as we move up the income array. We may, therefore, regard cyclical shifts in income distribution as an important structural property which reduces the sensitivity of the economic system to export-price fluctuations.

While the increase in the inequality of income distribution will no doubt raise the proportion of resident household disposable income that is saved during the boom, the larger proportion of any addition to disposable income will still be spent on consumption. Data obtained from questions to consumers in the *Survey of Ceylon's Consumer Finance* (1954)[12] suggest that other things (such as relative prices, expectations, etc.) remaining unchanged consumers will wish to allocate about 35 per cent of any increase in consumer expenditure associated with any addition to their disposable income on imports and about

---

10. The hypothesis that the marginal propensity to save increases in Ceylon as we move up the income scale is consistent with cross-section relationships estimated from the adjusted consumer-survey data of 1952-53. If we take away one rupee from a member of the top income brackets and give it to someone in the bottom income layer, consumption will increase at least by about 15—20 cts. and conversely. That consumption is not invariant with respect to changes in income distribution is also supported by data for other countries. For instance see L.R. Klein: *Economic Fluctuations in the United States*, 1921-1941 (Wiley, N.Y. 1950), pp. 68-75; T.M. Brown, Habit Persistence and Lags in Consumer Behaviour, *Econometrica*, Vol. 20, 1952, pp. 355-71.
11. Myrdal stresses the fact that the distribution of income is much more unequal in the poorer countries than in the richer countries. *An International Economy, Problems and Prospects* (Routledge & Kegan Paul Ltd., London, 1956), pp. 133-34.
12. *op. cit.*

65 per cent on home goods. Not much significance can be attached to these particular figures because of serious limitations inherent in this part of the survey. But in so far as they provide any indication at all, they suggest that while the demand for both imports and home goods will increase when income rises, the major immediate impact of the increase in demand is likely to be on home goods.

(6) On the assumption that the import function is not subject to cyclical shifts, we can expect a lagged increase in imports along a stable import schedule whenever resident disposable income increases. But a quick and complete adjustment in the balance of payments cannot be expected to occur in this way if only because of the lagged adjustment of imports to income, and of income to exports. It was argued earlier that the inequality of income distribution is likely to increase sharply at higher levels of the gross national product. Whether this in turn will shift the import function depends on whether different income classes have significantly different marginal propensities to import. Cross-section estimates[13] derived from consumer-survey data for 1952-53 suggest that the proportion of total marginal consumer expenditure on imports (*a*) declines as we move up the income scale, and (*b*) is twice as great for the lowest income group as for the highest income class. These findings, taken in conjunction with the fact that the marginal propensities to consume for different income classes fall markedly as income increases, hold out disturbing possibilities. It appears that the import function is even more dependent on income distribution than the consumption function. Sharp shifts in the import function caused by cyclical changes in the distribution of income may seriously interfere with the adjustment of the balance of payments. This would not matter during an export boom but may drive the economy to exchange crises when export prices slump. In any case it will seriously limit the scope for domestic income stabilization via monetary-fiscal measures during the slump. The issues involved are of an importance that cannot be exaggerated and deserve more searching investigation than they have hitherto received.

It is true that, to some extent, there will be a tendency for the income-effect on the balance of payments adjustment to receive some co-operation from the relative-price effect which will work in the opposite direction from the income-distribution effect. For, the price level of home goods will increase during the boom while changes in the domestic level of aggregate demand will have no significant effect on import prices because the supply of imports to Ceylon must be regarded as being extremely–if not infinitely–elastic. Consumers will now try to substitute imports for home goods during the boom, and home goods for imports during the slump. Even though it is true that consumers in

13. Peter Newman: *Studies in Import Structure of Ceylon* (Planning Secretariat, Colombo, 1958), pp. 66-88.

underdeveloped economies can ill afford to ignore even small differences in relative prices, nevertheless the relatively-price effect in such systems is unlikely to be very significant because of the limited physical possibilities of substitution. Moreover, home-goods prices are certain to be much more flexible upwards than downwards. If home-goods prices do not fall significantly during the slump, the relative price effect may be much less important during the slump than during the boom. During the slump, the relative-price effect offers little solace to Ceylon's balance of payments problems.

(7) It was argued above that the larger proportion of any addition to disposable income during the boom will be spent on consumption, and that the larger proportion of any increase in consumer expenditure will be spent on home goods. In view of the short-run output inelasticity of home (non-export) industries—home production is mainly peasant production on tiny overcrowded plots of land—we can expect a sharp rise in the price level of home goods. This increase in the level of domestic prices will also receive some direct assistance from the increase in export prices, in so far as export products enter into domestic consumption. But this direct effect will usually be small because only about 5 per cent of home consumer expenditure is spent on export products. Further, even this limited direct effect will not operate unless the prices of coconut products are affected. The increase in the domestic price level, in turn, will have certain other consequences.

First, as already noted, there will be a relative-price effect on imports which, however limited in size, will be in the direction of hastening the balance of payments adjustment. It will also operate as a limited restraint on the upward movement of home-goods prices. Second, when domestic prices rise, the real-wage rate will fall if money wages remain constant. It is certain that wage-earners will attempt to prevent a fall in their real income at a time when export incomes are increasing. They will make higher money-wage claims. It is important to note that claims for higher wages are likely to be made even if the cost of living were to remain perfectly stable because (*a*) with the increased demand for labour, the bargaining power of labour will increase, (*b*) on grounds of distributional justice, labour will be in a stronger position to demand higher wages at a time when the income of the wealthier sector of the economy is increasing, and (*c*) workers will probably attempt, in any case, to secure for themselves some part of the gain in real income resulting from the change in the terms of trade. But in addition if there is a rise in the cost of living, there will be a further case for higher money-wage claims.

(8) In so far as wage rates increase, it would mean on the one hand, an increase in the cost of production, and on the other hand, a rise in the level of domestic aggregate monetary demand. As a result, the domestic price level will be pushed upwards on two counts. In this way, there is the possibility

of the emergence of a spiral of prices and wages. The speed of the spiral will depend on the length of the price-wage lag and the wage-price lag. The extent to which the spiral will tend to be widened or narrowed down will depend on (*a*) the ratio of the increase in the wage rate to the preceding increase in the price level causing it, and (*b*) the ratio of the increase in the price level to the preceding increase in the wage rate causing it. While statistical estimates of these relationships are not yet available for Ceylon, certain facts clearly stand out. First, the ability of workers in any system to raise wage rates will probably depend on the degree of political power possessed by labour. In Ceylon, the fact that the bulk of the hired labour force—as distinct from self-employed workers—is of alien (Indian) origin is probably a factor which tends to reduce the bargaining power of labour. Second, workers' bargaining power in any system will depend on the prevailing level of employment. When unemployment is decreasing, the bargaining power—and, therefore, the rate at which wages can be raised—will be increasing and conversely. The fact that the proportion of the work force involuntarily unemployed in Ceylon is undoubtedly large even when the capital stock is more or less fully employed suggests that the ability of workers to raise wage rates is likely to be much less than in developed systems. This is a consequence of demographic factors and limited plant capacity. The fact that workers are less organized than in advanced economies points to the same conclusion.

Third, while the export industries are organized on capitalist lines, production for the home market is undertaken to a large extent by peasant farmers, few of whom are employers of wage labour. This remains true even though the extent to which hired labour is employed in peasant cultivation appears to have increased significantly in recent years. In such a system, a rise in the money-wage rate means for the most part a rise in the wage rates of the export industries. Now, in the export industries, wage cost is probably the most important element of marginal cost. But export prices are determined externally. It follows that the maximum rate at which wages can be raised in the export sector without causing unemployment will be limited by the rate of increase in export prices. For instance, if the increase in export price is confined to tea, the ability of workers in the rubber and coconut industries to increase their money-wage rates without causing unemployment will be small.

Fourth, since money-wage costs are not an important element of marginal cost in peasant production, an increase in the money-wage rate will not greatly influence the cost of production of home produced consumer goods in the short run. Fifth, the prices of an important group of consumer goods entering into the cost of living—viz. the prices of imports—will not be appreciably affected by changes in the domestic economic situation in the absence of import restrictions. Sixth, the ability of consumers in an open system to substitute (within limits) imports for home goods will operate as a limitation

on the ability and willingness of home producers to raise the prices of their products. Finally, in any economic system, over any short period of time, some prices and wages are likely to remain fixed by contract, custom, convenience, etc. These considerations suggest that the price-wage spiral in this system is likely to be damped down quickly—and much more quickly than in advanced economies—unless inflationary pressure is being continuously renewed from outside. In a period of rapidly rising export prices, of course, such pressure will be continuously renewed.

(9) In the absence of reliable statistical data, we can only arrive at some tentative conclusions on cyclical variations of employment and unemployment. First, in view of the limited size of the capital stock in relation to the labour force, it is quite safe to assume that given existing technology and the existing degree of substitutability between factors of production, a large proportion—a much larger proportion than in developed systems—of the workforce is likely to be unemployed (or underemployed) even when the capital stock is working at full capacity. It is also virtually certain that the bulk of such unemployment is concentrated in the extremely overcrowded peasant sector. The system can never expect to achieve full employment of the work force even at the peak of an export boom in the present stage of the country's economic development.

Second, as export prices increase, we can expect two types of employment effects. The direct effect is that output and employment may increase in the export industries as marginal plantations come into operation and as intramarginal plantations are worked more intensively. The indirect effect is that output and employment may increase in the non-export industries in response to the increase in domestic aggregate demand induced by the rise in export income. In Ceylon, the direct effect will be reflected in a decrease in the volume of unemployment and underemployment (*a*) in the resident labour force of the plantations, and (*b*) among the peasant labour which finds supplementary employment on the plantations. The indirect effect is likely to be confined in the main to the thin layer of secondary and tertiary industries catering to the home market. The non-export output of the peasant sector is certain to be highly insensitive to changes in the level of aggregate home demand. If the "median size of (land) holding for agricultural families is only 0.82 acres for all purposes"[14] it is clear that these holdings will be more or less fully worked irrespective of the level of aggregate demand. The alternative would be starvation. In view of the large volume of surplus labour concentrated in the peasant sector, the argument that cyclical variations in the volume of supplementary employment available to the peasant work force on the plantations are likely to have important effects on its output for the home market

14. *Six Year Programme of Investment*, 1954/55 to 1959/60, Planning Secretariat, p. 200.

appears to be of doubtful validity. If cyclical changes in employment are largely (though by no means solely) confined to the export industries,[15] it is clear that the size of the increase in employment will be primarily determined by the existing volume of surplus capacity in the export sector at the commencement of the boom. Since such surplus capacity is likely to be small in ordinary times, only a limited increase in aggregate employment can be expected during the boom. In a word, in normal periods, the export boom is likely to be primarily a boom in real and money income than in real output and employment.

(10) The behaviour of the monetary and banking mechanism during the boom will be relatively simple. When exports are increasing, imports will lag behind exports and the resulting surplus in the balance of payments will increase the country's foreign exchange reserves, the quantity of money, and the liquidity of the banking system. The budgetary surplus that will emerge on our assumptions will offset part of the increase in the quantity of money, but it will have no direct effect on the liquidity of the banking system if the budget surplus is used to increase government cash balances with commercial banks. The demand for currency is a positive function of income, and as income rises, currency circulation will expand. This will operate as a limited check on banking liquidity. The effective demand for bank credit in this system is limited in amount and confined largely to the export and import trades. As the value of foreign trade increases, this will automatically cause a limited increase in the demand for bank accommodation, which will be easily met by the banks which are now burdened with excess liquidity.

If we abstract from government operations, the net result is clear. Because of the highly open crachater of the economy, and the limited role played by the banks, the direct balance of payments effect will swamp all other effects. Exchange reserves will increase by the full amount of the balance of payments surplus. The quantity of money will increase sharply in absolute terms. It will also probably increase in relation to national income. At least some interest rates are likely to fall, although a general decline is unlikely because of institutional rigidities and the low mobility of funds between different loan markets. These indirect changes in internal liquidity and interest rates may exert some independent expansionary influence on domestic consumption and investment. But the expansionary effect generated in this way is likely to be quantitatively small. The money factor in the Ceylon economy is more income-determined that income-determining.

So far, the analysis has been confined to the export boom. Given the identical initial position of equilibrium, the analysis of the export slump is

15. It may be noted in passing that in a modern industrial society, cyclical fluctuations in employment are always much larger in the investment-goods industries than in the consumer-industries group.

simple. The slump is, for the most part, the opposite of the boom. But certain qualifications must be made. First, while the downward flexibility of money wage rates (and prices) is probably greater in Ceylon than in developed systems, it is extremely unlikely that money-wage rates will fall very far during the export slump. It will certainly be a mistake to assume that there would be a downward spiral of prices and wages analogous to the upward spiral characteristic of inflationary periods. Further, if the slump is a severe one, there is a real danger that the Ceylon economy may run into two special types of difficulties.

The first is the danger, already referred to above, that exchange reserves may get rapidly depleted. Given the level of reserves at the commencement of the slump, the slower and the more incomplete the adjustment of domestic income to the fall in exports, and of imports to the fall in income, the more rapidly will the system run into an exchange crisis. The larger the compensatory effect of fiscal policy, the smaller will be the adjustment of domestic income to the fall in exports. Given the fall in income, the sharper the shift in income distribution in favour of low income classes, and the smaller the fall in home-goods price in relation to import prices, the slower will be the adjustment of imports to the fall in income.

The second danger is that the decline in bank liquidity and the deepening climate of business pessimism that accompanies the slump may jolt bankers out of their customary passivity into an actively deflationary role. Banks may raise interest rates sharply, resort to credit rationing, and recall their advances well before repayment dates. At the very least, this may aggravate deflationary pressure. At the very worst, it may lead to (*a*) a general and serious decline in capital values, causing a general flight from other assets into money, and (*b*) a flight from bank money into currency, causing bank failures and business bankruptcies. Of course, in normal periods, the possibility of banks in Ceylon playing such a deflationary role is very small because (i) banks usually have adequate liquid resources even at the bottom of a slump, (ii) expatriate banks can borrow from their head offices abroad, and all banks can borrow from the Central Bank of Ceylon, and (iii) all banks usually have large portfolios of "governments" which could easily be shifted to the Central Bank.

Nevertheless, the possibility of banks playing an actively deflationary role during the slump is greater than the possibility of their playing an actively inflationary one during the boom. At least three arguments can be adduced in support of this view. First, given the high conservatism of the banks, there may be no short-run increase in their liquidity which will tempt them to a deliberate credit expansion if that process requires the lowering of their customary security cannons. But there is some minimum beyond which they will

not allow their liquidity ratios to fall. For banks working on the British model, this minimum limit is relatively high. Second, while there are a large number of legal, structural and conventional obstacles[16] which severely limit possibilities of short-run banking expansion, these factors will not be an obstacle to a reduction of outstanding advances in a situation of general panic. Third, the very spirit of caution which insulates banks in Ceylon from the boom climate of business optimism may render them all the more vulnerable to an attack of nerves during the slump.

In a relatively closed and developed system, the monetary mechanism tends to become over-extended during the boom so that there is some possibility of the boom being broken by a monetary contraction. Even if we abstract from this possibility (which occupies a central place in the trade-cycle theories of R.G. Hawtrey), there is a strong possibility that monetary deflation may reinforce real forces during the downturn when banking illiquidity combines with a collapse of confidence. But in our system, the boom is a period of increasing monetary ease. The downturn in export prices may fill bankers with gloom. But it is still a period of exceptionally high bank liquidity. However as the slump deepens, increasing pessimism merges with decreasing liquidity. We have an explanation why deliberate monetary deflation is likely to occur—if it occurs at all—during the latter part of the slump rather than at any other stage of the cycle.

So far, we have described in a general way the response of the income and monetary mechanism to a changing level of export prices. The analysis suggests that if we abstract from the possibility of an exchange crisis and a banking crisis—in practice an exchange crisis is a much less remote possibility than a banking crisis—towards the bottom of the slump, the response of the domestic economy to a movement of export prices is likely to be far from explosive because of the presence of important structural properties which will damp down oscillations set up by external shocks. That is to say, if export prices stop changing (or reserve direction) the fluctuations in domestic economic variables will probably tail off (or reverse direction) over a short period of time. Of course, in the extreme case of a high rate of change in export prices extending over a considerable period, the system may not achieve a new equilibrium if export prices cease to change. If the market, on the basis of recent price behaviour, expect prices to change in the near future, the expected change is likely to be realized at once. This may lead to further revision of expectations and so on. The process may quickly get out of hand. The boom may generate a flight from the currency. Similarly the slump may explode into social revolutions. These are conceivable but unlikely. But some expec-

16. e.g. The low branch density of the banking system, the dearth of local assets which can serve as collateral security acceptable to bankers, etc.

tational elements are bound to be present during any export boom or slump. However, it is a major point made in this article that once a change in export prices sets up a rise in domestic prices and/or wages, the possibility of this giving birth to a significant price-wage spiral unaided by further increases in export prices is small. This is one of the most important stabilizing properties of the Ceylon economy.

Finally, it is necessary to point out that the preceding analysis suffers from a number of limitations. First, it is based on the assumption that no autonomous change will occur in the strategic variables of the system other than in export prices. In practice, some autonomous changes in other variables may be superimposed on the cyclical process here described. But they can be easily allowed for within the basic framework of this analysis. Their effect will be either to intensify or to moderate the cyclical savings. Second, we have drawn attention to the role played by some of the more important lags which are likely to be present in the system. Nor is it correct to assume that the lags will remain constant over the cycle. Theoretically, there is reason to suppose that they will shorten themselves as the boom progresses. A comprehensive analysis must not only take account of all significant lags, but also establish their length in each phase of the cycle. Third, our aggregative approach may be somewhat misleading because the intensity and the rapidity with which the domestic economy responds to a given change in export receipts may differ markedly with the particular export price that is causing it because of the existence of important inter- (export) industry differences.[17] Fourth, many of the hypotheses presented here require careful statistical appraisal and measurement. Briefly, even in the field of short run fluctuations, the area or our ignorance is still very large.

In spite of these limitations, our analysis does reveal some significant features of the cyclical process in Ceylon which have important implications

17. For instance, foreign ownership is extensive in the tea industry, substantial in rubber and negligible in coconut. Consequently, a given increase in aggregate export income caused by a change in tea prices may lead to a larger outflow of dividends from Ceylon than one caused by a rise in coconut prices. Moreover, the bulk of the tea industry is owned by people from high income classes while much of the coconut industry is owned by small holders. Coconut producers probably possess higher marginal propensities to consume than tea producers. Hence the multiplier effect resulting from a given aggregate increase in export income may be significantly greater during a coconut boom than during a boom in tea prices. Indeed the length of the income-consumption lag (and, therefore, the speed of the inflation or deflation) may also differ markedly in the different cases. For instance, the time lag between the earning of profits and their distribution may be significantly shorter during a coconut boom because, unlike in tea and rubber, corporate organization is virtually unknown in the coconut industry. Again, will a given increase in domestic aggregate demand, generated by a change in coconut product prices, be distributed between different home goods—and between home-goods and imports—in the same way as one generated by an increase in rubber or tea prices? If the increase in aggregate demand is distributed differently, and if different home-goods industries have different elasticities of output and employment, the results may differ markedly.

for the formulation of stabilization policies. It appears that the domestic mechanism of the Ceylon economy is basically a stable one largely devoid of any intrinsic cyclical pattern. But an oscillatory outside force of periodic and powerful character is impressed deeply upon it in the form of a fluctuating external demand for its exports. Even so, there are important structural properties in our economy, which greatly reduces its sensitivity to these external shocks. From another angle, inflation in this system is seen as a reflection of the struggle of different economic classes to maximize the increase (or to minimize the decrease) in their share of real income or real consumption made possible by changes in the terms of trade. More specifically, it is the struggle by peasants and wage earners to secure for themselves some part of the windfall increase in real income accruing to export producers. But the struggle is rarely a very intense one. The groups who are most likely to suffer in this process are the fixed income groups such as salary earners and pensioners.

Interestingly, our analysis also sheds some light on the theoretical definitions of inflation in this type of economic system. In a closed system, when the elasticity of output has been reduced to zero, any further increases in aggregate demand merely inflate money income without adding to real income. In our system, when the elasticity of domestic output is reduced to zero, any further increases in domestic aggregate demand generated by a rise in export prices spend themselves partly in raising the domestic price level and partly in increasing imports. That is to say, there is no critical point " . . . at which we can draw a definite line and declare that the conditions of inflation have set in"[18], at least as long as imports are not rising faster than exports. Since the price level in our economy is unlikely, in the absence of import restrictions, to rise in proportion to the increase in domestic aggregate demand in most practical situation (unless assisted by our exogenous increase in import prices) during the export boom even if the domestic output elasticity is zero, what degree of price increase constitutes inflation must necessarily be a matter of practical judgement.

In the preceding discussion of cyclical fluctuations it was necessary, for analytical purposes, to abstract from certain secular changes that appear to be taking place in the Ceylon economy. There seems to be some evidence that under the pressure of changing social *mores*, demographic factors, consumer aspirations and forces making for a redistribution of income, the relationship between aggregate income and aggregate consumption is itself changing in a way unfavourable to saving. The pressing need for stepping up the growth rate of the economy and the expanding demand for a variety of social, relief and welfare services are introducing new rigidities into government expenditure

18. J.M. Keynes: *General Theory of Employment, Interest and Money*, Macmillan & Co., London, 1951), p. 303.

which are eroding away the contra-cyclical potentialities of fiscal policy. In addition to the temptation, ever-present in the underdeveloped economies, to push up investment levels beyond the limits imposed by their capacity to save, we may also have to contend with new sources of instability in the future. Workers may demand increases in wage rates in excess of gains in productivity. Moreover, as bottlenecks emerge in the process of growth, it may become necessary, in the absence of a regime of direct resource allocation, to offer sectional price (or wage) increases in order to attract scarce resources from less to more urgent sectors of production, and it is too much to hope that it would be possible in practice to introduce compensating sectional price decreases so as to neutralize their effect on the general level of prices. Hoarders of imported articles and other monopolistic elements may take advantage of exchange difficulties to create new artificial scarcities. Briefly, domestic sources of inflationary pressure are assuming greater importance. While this uncharted territory lies outside the ambit of this article, it would no doubt prove a challenging field of exploration for future research.

VIMALA DHARMA SURYA II (1687-1707) and HIS RELATIONS WITH THE DUTCH

S. ARASARATNAM

Vimala Dharma Surya II had inherited a number of problems from his father, but he did not inherit the drive and energy needed to attempt a solution of them. Having been brought up in seclusion for a greater part of his life for reasons of security, probably in a monastery, he was handicapped by being out of touch with affairs of state and the ways of the world in which he now found himself. Evidence is almost unanimous to suggest that he was of a deeply religious temperament, and he was credited with other such qualities as gentleness and good nature that went with it. The most independent confirmation of this comes from an English fugitive from Kandy, William Hubbard, one of those who had been taken in captivity along with Robert Knox and fled to Colombo in 1703.[1] This mild disposition and lack of experience in state craft would certainly have resulted in making him a much less forceful personality at court than his father Raja Sinha. It is reasonable to assume that both the court nobles and dignitaries of the Buddhist hierarchy had opportunities for a greater display of influence and power than they did under his predecessor.

The actions of his predecessor Raja Sinha in the twilight of his reign had cleared considerably the atmosphere of ill-will and mutual fear that had pervaded relations between the Dutch and Kandy in the past twenty years. These acts, together with Governor Pyl's tactical policy, had re-established contact on a superficially friendly basis between the two and this was no doubt a happy position from which the new king could begin. But this new camaraderie was essentially skin deep and there were many outstanding problems awaiting solution. The challenge posed by the second phase of territorial expansion of the Dutch and the threatened encirclement of the Kandyan Kingdom had not been met as yet. All that Raja Sinha had done had been to halt their advance but the gains made were to a large extent still in their hands. They had, no doubt, evacuated the more remote lands of Panama and the Lewayas in the South East and the Attakalan, Kuruvita and Kukule

1. William Hubbard, fellow prisoner of Knox in Kandy, by S. Arasaratnam, *University of Ceylon Review*, April 1961, p. 34.

Korles in the highlands. But there was still a considerable extent of territory in their hands in the South and the South-west.

The trade blockade and the control of all points of entry into and exit from the kingdom, was what hurt the Kandyans most. Increasingly, this became the real concern of Kandyan policy in the succeeding years. Pyl had raised some of the more drastic restrictions imposed by Van Goens, but the authorities were not very enthusiastic about this and he had to proceed very cautiously. All the Eastern ports were in Dutch hands and Puttalam, the only port in the King's possession, was guarded by armed sloops. All arecanut had to leave through Dutch ports and it was only here that cloth could be brought in. Cloth was in any case a Dutch monopoly. This denial of free trade and the absence of ready outlets for their produce, caused a great loss of revenue which was felt by the royal administration, the chiefs of the court and the province, and the people. The Dutch stopped the process of liberalisation of trade because, with the accession of a new King and the consequent uncertainty of policy, they did not want to lose the advantages they held.

If the King was to break through this chain, he had to take the initiative. Whatever benefits could have been achieved as a result of Raja Simha's policy ended with him. Now the Dutch were content with marking time and watching the situation. The urgency of some years ago, to come to terms with Kandy at whatever cost, was not there. They had a lot to bargain with. Dutch policy in South Asia was now controlled by Adrian van Rheede, ennobled as Heer van Meydrecht and appointed Commissioner for the Company's affairs west of Malacca. As a subordinate Officer in Ceylon in the time of Van Goens he had been an opponent of the latter's policy and had favoured a settlement with Raja Sinha. Now his line had changed considerably and under his influence Pyl too changed. They were now of the opinion that the only security of the Dutch lay in their strength and not in any accommodation entered into with the King. A settlement was desirable but it was not to be achieved at the cost of conceding too much to the King.[2]

On the occasion of the investiture of the new King, it was found that a number of Sinhalese from the low-country proceeded to Kandy to pay homage to him. The Dutch were greatly alarmed at this. An even more singular incident occurred immediately after. Some chiefs arrived with an *ola* from the King conferring the village of Weligame on the sea coast between Galle and Matara on the Basnayake, a Sinhalese officer of the Governor's gate.[3] The Dutch considered it high handed that the king should present to one of their subordinate servants a village which they had been in possession for about half a century. It was the King's way of asserting his rights over the lowlands and was an ill omen for the future. A further request was made to exercise

2. S. Arasaratnam, *Dutch Power in Ceylon* 1658-1686, (Amsterdam, 1958), pp. 105-107.
3. Minutes of Political Council of Ceylon, 1 November 1699. Dutch Records No. 37, (Ceylon Government Archives, Nuwara Eliya), p. 366.

control over the major Buddhist shrines and places of pilgrimage in the low country, with a view to rehabilitate them and recover them from decline. The King was keen to assume and act upon his role as the protector of Buddhism throughout the island, and herein is seen the religious aspect of his policy towards the Dutch occupied parts of the island. He was particularly keen on rebuilding the neglected temple of Kelaniya, a few miles from Colombo, where a few years later he sent his Maha Nayake with a large following to attend to this work.[4] This activity too was no less annoying to the Dutch than the earlier one. They did not want to see the existence of a popular and flourishing centre of Buddhist worship so near to their centre of power, which would attract not only the Buddhists of the area but also, and this was what they feared most, make the newly converted Sinhalese Christians falter in their loyalty to the church and take them back to their traditional faith. From now on the King's concern for Buddhism throughout the island is reflected in various acts that he committed in his reign and becomes an important facet of Kandyan policy.

Of more immediate practical concern to both parties was the question of the harbours and policy towards trade. From the outset, the King's envoys made it very clear to the Dutch, that the Kandyans desired to participate fully in the trade of the island and share in its fruits.[5] They demanded the right to export the produce of their territories from South Indian ports in their own or hired vessels, and to bring in all the cloth their subjects needed. For this purpose it was necessary that the two ports, Puttalam in the West, and Kottiyar in the East, should remain open and free and, indeed, in the full possession of the King. The extent to which Kandyan interest in trade had grown may be gauged from the fact that now they demanded the right to export cinnamon to the Netherlands in the company's vessels on the King's own account. There was a great awareness of the possibilities of trade and a greater knowledge of what the Dutch were reaping as a result of their trade monopoly. There is also another aspect to this growing desire to keep open Kandy's outlets to the world round it. There had been continuous contacts with the Buddhist world of East Asia for centuries. These contacts had been cut off for some time after the predominance of the Portuguese in Ceylon and throughout the 17th Century because of the unrest and political uncertainty in the island. Sinhalese Buddhism was now anxious to revitalise itself by renewing these contacts and for this purpose it was necessary that the harbours be open. This was then a persistent demand made by all Kandyan envoys to Colombo.

---

4. Minutes of Political Council of Ceylon 27 October 1699. Dutch Records No. 37.
5. Minutes of the Political Council of Ceylon, July 1688. Dutch Records No. 30, f. 113.

In the face of this Kandyan diplomatic offensive, a policy had to be evolved by the Dutch. The contract of 1638, renewed in 1649, had been signed with Raja Sinha and on its clauses hung precariously the legal justification for Dutch dominion in Ceylon. In was necessary to enter into a treaty with the present King which would define their rights less ambiguously and would serve as a document to which they could appeal with confidence while protesting their rights to other European rivals. The existing position was that the Dutch were keeping the conquered lands as trust till the King paid off his debts to them incurred in this conquest. If the new treaty could put things on a surer footing, so much the better. It had to leave sovereignty in the lowlands unmistakably in the hands of the Dutch. Secondly, it would have to do something about the relation of the King and another European power. At present, there was nothing to prevent the King, legally from inviting another power into his land. There had to be some clause, agreed to by the King, which the Dutch may appeal to if any other European power tried to set foot in the island. If they could get the King to agree to these, the rest would be mere matters of detail.

A draft, along these lines, was drawn up in the Political Council in July 1688 to be presented to the King.[6] The first two articles made the Dutch the protectors of the Kandyan Kingdom against all enemies and pledged their assistance against external attack. The third article, one of the two key ones, said that the company would hold the present lands till the debts incurred by Raja Sinha were paid off according to the 8th article of the contract of 1638, or in the alternative that these lands would be given over in absolute possession to wipe off the debts. These lands were mentioned as the Korles along the sea coast from the Walawe Gange to the Kalu Ganga, the island of Pulianthivu on which the Batticaloa fort was situated and the fort and inner Bay of Trincomalee. The fourth article gave the King's subjects free entry into all the Dutch lands for purchase and sale of goods, but cinnamon, pepper, wax and elephants could only be sold to the company. The fifth article, the other important one, forbade the King and the chiefs of his Kingdom from having commercial dealings with any European or oriental nation or permitting any of their ships from coming to the coast of Ceylon. All the goods found in their kingdom could only be sold to the Company. An exception was made with regard to sailing to and from the Kingdom of Tanjore with food provisions. Article six bound the king only to permit the Company to peel cinnamon in his lands. Articles 7 to 10 contained the customary provision regarding treatment of criminals and fugitives, and security against non-fulfilment of trade agreements. By Articles 11 and 12 the King again promised not to have anything to do with the enemies of the Dutch and not to admit Roman Catholic priests and monks into his lands.

6. *Ibid.*, ff 107-112.

An embassy was to be sent to Kandy with this draft contract and it was to be authorised to discuss it and seek the approval of the King. Opperkoopman Alebos was selected as ambassador. It was realised that the third and the fifth clauses would cause the greatest difficulty in the negotiations. If the King and court were adamant about the opening of the port and the freeing of trade, Alebos was instructed to offer an increase of two to three larines per annum in the price paid to the Kandyan arecanut, and that a tax of 7% would be paid to the King on cloth taken into Kandy. Under no circumstances was he to agree to the opening of the ports. He must try to impress strongly on the court that the opening of the ports would be harmful to the interests of the King and of the Company, and would only benefit the Moors of the Indian Coast. The Company had done and was continuing to do the King great service and if the ports were opened it would deprive the Company of its profit and it would not be able to subsist on the island. The Company would be prepared to grant passes for an occasional vessel to be sent out in the name of the King, with goods. By these arguments and concessions, Alebos was instructed to achieve the end of getting the King's approval for this contract. The embassy left in July 1688 with presents for the King and the chiefs at court.[7]

Alebos was received well by the King and submitted to him the draft treaty. The King appointed Gane Bandare, the chief priest, and some other chiefs to confer with the Dutch ambassador. From the report of the ambassador, it appears that he ran into serious difficulties. The Kandyan deputation was not in a mood to rubber stamp the terms proposed and, as was expected, they seriously challenged the validity of clauses 3 and 5. The old argument over the alleged debts of the King was again raked up and the Kandyans took up the position taken by Raja Sinha years ago that the King did not owe the Dutch anything. They further asserted that it was the Dutch who first broke the first treaty and gave several instances of their violation. Alebos retaliated with his own arguments of Kandyan violations of this treaty and it was obvious that there was no common ground between the two parties. The Kandyans neither agreed to clause 3 which would give over to the Dutch full possession of the coastal lands nor to clause 5 which shut the ports to them. The ambassador bravely stuck to his brief and repeated all the arguments against opening the trade of Ceylon to all but failed to create an impression on the courtiers. He was dismissed from court in September and returned without having achieved his primary aim. He took with him the impression that the Kandyans were full of pride and thought that everything depended on their favour.[8] He had certainly met his match in diplomacy and negotiation.

---

7. *Ibid.*, ff 114-115.

8. Beknopte Historie, *JRASCB*, XI, pp. 99 ff.

The cold war over the ports increased in intensity. The Kandyans encouraged by the private Muslim traders of the coast, kept pegging away on this issue. They sent vessels from Puttalam in the name of the King with goods to South Indian ports to test Dutch reaction. The Dutch were ever vigilant. They siezed the vessels, released only those goods which were the King's own and confiscated the other articles of trade.[9] The Dutch were convinced that the court was being set up on this issue by the private traders who were deprived of their profits by the Dutch monopoly. But it does seem as though the interests of the Court and those of private traders coincided here. Because the more goods came into the Kingdom, the more was royal revenue on customs duties; and if more of the country's produce was sold, there was increasing prosperity in the country. Whereas if all this were channelled through Dutch ports and their vessels there would be a great reduction in the volume of trade besides the disadvantage of being dependent on one power for the entire trade of the country. The nagging desire of the Kandyans to have the ports opened left the Dutch desperate. They wanted to settle it amicably and at the same time not give up their basic position. They were at one stage driven to use the threat of the Southward expansion of the Moghuls in India as an argument on their side. They wrote to the chiefs that the Moghul was threatening to come up to Rameshvaram and thence to Ceylon and that the Muslim traders of the coast would betray this land to their co-religionists.[10]

If they could have come to a new settlement with the King, it was Dutch intention to withdraw many of the forts they had both in the interior and along the coast; thus economising on soldiers necessary to man them. With the failure of this attempt, the attitude of the Ceylon Government hardened. There were to be no withdrawals and no concessions. There was a deterioration of relations leading in 1690 to a war scare, so much so that the Dutch were constrained to bring across about 1300 Indian mercenaries from Madura to be in a state of preparedness.[11] This scare was only temporary for the Court was not inclined to plunge the country in strife again. Good relations were restored with the help given by the Dutch to send ambassadors to Arakkan for the purpose of bringing Buddhist priests to Kandy. On the Dutch side there was the realisation that cinnamon had to be peeled, to a large extent, from the King's lands. Permission was granted every year by the court when an embassy and a gift was sent to Kandy for this purpose.

The Kandyans were not giving up their attempts to get the harbours opened to free trade. Repeated messages were sent by the chiefs to the Governor

---

9. Minutes of Political Council of Ceylon, 17 February 1690, Dutch Records No. 31, ff. 50-52.
10. *Ibid.*, f. 53.
11. Beknopte Historie, *JRASCB*, XI, pp. 99 ff.

requesting this. Occasionally, they would try to send out a vessel with the King's flag loaded with some goods to the Coromandel coast. But the Dutch were always on the alert. They would intercept the vessel, seize its contents, pay for them at local prices and confiscate the goods such as cinnamon and pepper. No action was taken by the Kandyans, as they may well have by stopping the peeling of cinnamon. So far they were content with protests and messages and a superficial friendship was maintained. This was partly due to the confidence that Pyl had created in the Court. After a long tenure of office he was succeeded in February 1692 by Thomas van Rhee.

This persistence on the part of the Kandyans, together with some purely economic factors, seem to have persuaded the supreme Government at Batavia in 1697 to recommend a partial liberation of the trade of Ceylon. Now private traders could freely sail in and out of the King's ports with goods other than cinnamon. This was no doubt partly motivated by the good effect it would have on Dutch-Kandyan relations. It was also caused by some other factors. The closing of the Kandyan ports had discouraged the arrival of rice ships from Bengal and Coromandel which usually supplied the country with this vital commodity. This was one trade which it was in the interests of the Dutch to keep going. For the rice was needed both by the community and by their own establishment. Then there was the fact that rulers of neighbouring Indian coastal states where the Dutch enjoyed trading privileges were beginning to complain of the denial of trade in areas under Dutch domination. All these considerations took the edge off the obvious advantages of trade monopoly.[12]

The Supreme Government went even further in its recommendation. Seeing the recurring heavy expenditure on the many fortifications in the island, they decided that there should be a general reduction of their number and a demolition of those they considered unnecessary. Among these they reckoned the two large fortresses of Trincomalee and Batticaloa on the East coast, which they felt should be vacated and demolished or handed over to the King. Now that the trade on the East coast was open to all, there was no point in maintaining these expensive fortifications. It was sufficient if two factories were maintained there in the charge of a few European officers, merely as proof of the Company's rights there and to conduct purely commercial dealings.[13] This decision sparked off a major controversy, reminiscent of a similar one in the time of Van Goens over a similar issue. The Commissary Van Rheede had already considered this and declared positively that the Eastern fortification must be maintained and a considerable power lodged there. The Ceylon Government now echoed these views. They asserted that, if the Dutch withdrew, there would be nothing to prevent the King from inviting some other European

12. Gov. Gen. and Council to Directors, 30 November 1697, Koloniale Archief 1475 ff. 196-7.
13. *Ibid.*, f. 205.

power as he had done in 1672. And once this power set foot on the island, it would be difficult to remove it.[14] The Batavian Government pointed out that the existing garrison was not enough to prevent a large fleet coming in and would, in any case, have to be withdrawn to safer positions. Trincomalee was not easily accessible from the centres of Dutch power in the West. As for the King, it was better to ensure against his alliance with a foreign power by friendship and treaty than by force. And so they proposed that this evacuation should be combined with renewed attempts to come to a treaty with the King. Accordingly in January 1697 an embassy was sent to Kandy with presents to explore the possibilities of a new treaty under the favourable conditions created by a withdrawal from the East coast.

This trend was suddenly interrupted by the intervention of the Directors. They had for some time been of the opinion that too many concessions were being given to the King. They had opposed the conceding of passage to the envoys of the King for the purpose of bringing priests from Arakkan. They had urged that the value of presents given to him be cut down. They had objected to the humble forms of address adopted towards the King by the Governor. Now they positively ordered that the fortresses of Trincomalee and Batticaloa should not be abandoned nor should they be over anxious to come to a settlement with the King.[15] They felt that the Dutch should assert more positively their rights in the lowlands. This attitude seems to have stemmed from a consideration of over-all strategy in the East. In the last decade of the 17th Century the French had appeared in the Eastern waters with fleets of considerable size. The contest had begun between them and the English in Siam, and Ceylon assumed a great strategic importance in relation to this contest. Though the Dutch had taken Pondicherry in September, 1693 they were constrained by European considerations to return it in 1699. In 1697 the old East India Company of the French was reformed radically and was back in the trade with great vigour. In the face of this potential threat, it seemed foolish to the Directors to leave an attractive harbour and Bay like Trincomalee unprotected. In the light of subsequent events, it can be seen how a harbour of this nature was just what the French required in this area. Accordingly, in 1698 the earlier orders were countermanded and ports continued to be garrisoned and occupied.

Encouraged by the attitude of the Directors, the Government of Ceylon also adopted a tougher line towards the King. Van Rhee was succeeded in 1697 by Gerrit de Heere as Governor of Ceylon. Van Rhee had more or less followed the policy of his predecessor Pyl and now recommended to his successor that

---

14. Minutes of Political Council of Ceylon, 1 November 1699, Dutch Records 37, pp. 356-362.
15. Directors to Gov. Gen. and Council, 27 December 1697, Kol. Arch. 462.

the King 'may best be won by kindness and courtesy.'[16] De Heere did not share this opinion and agreed with the Directors that they should not truck too much to the whims of the King. If they had their way, they would have done away with the annual presents given to the King in return for permission to peel cinnamon. They would have written letters which the King would doubtless have considered impertinent and relations would have deteriorated considerably. They wanted to challenge the right of the King to send his priests into the low country for the purpose of rebuilding some of the Buddhist temples.[17] But they held their hand because the Supreme Government ordered in the strongest terms, even over the wishes of the Directors, that the officials in Ceylon do everything in their power to remain on the best possible terms of friendship with the King and that this was of utmost importance to their interests.

In 1700 the Kandyans closed all the outlets from their Kingdom into the low country and prevented the flow of goods. Strict guard was placed in all the major passes to see that this order was carried out. The purpose of this was to channel all the export of arecanuts and other produce through their own ports of Puttalam, Kottiyar and Batticaloa and to prevent them going through the Company's ports.[18] This measure imposed great hardship on the Company. They missed the food provisions that used to come in from the highlands. They found their supply of arecanuts heavily reduced, not having enough even to send to their own factories in Bengal and Surat. Cloth which they had earlier sold with fair profit now lay unsold in their warehouses. Private merchants were flooding the country with cloth through the King's ports. Even Indian merchants with English passes, probably freighting goods for English privateers, were coming in to share in the trade. Both the Kandyans and the merchants of the Indian coast were making full use of the recent liberation of the trade of Ceylon. The Ceylon Government, reporting these new developments recommended a reversal to the old policy.[19]

Again it was the Directors who ordered a tougher line than the Batavian Government was prepared to adopt. In September 1702 they wrote ordering the immediate closing of the ports.[20] This was given effect to in 1703. No passports were given to the private Indian traders to any of the King's ports. To soften the blow, an embassy was sent to Kandy with a present and a pleasantly worded letter repeating the old argument that if the ports were left

16. *Memoir of Van Rhee to his successor*, 1697 (Colombo 1915), p. 58.
17. Minutes of Political Council of Ceylon, 1 November 1699, Dutch Records 37, pp. 366-371.
18. Gov. Gen. and Council to Gov. and Council of Ceylon, 4 November 1701, Kol. Arch. 839 f. 1125.
19. *Ibid.*, f. 1126.
20. Directors to Gov. Gen. and Council, 18 September 1702, Kol. Arch. 462.

open, the coast Moors would begin their intrigue against the King. It was also promised that the King could send out a vessel if he desired, under Dutch protection. The envoy reported that there was no visible adverse reaction to this obviously unfavourable proposal.[21] The Dutch fully expected something to happen and were on guard. That the Court let this pass, without even a diplomatic protest, was an obvious index to the comparative weakness of the Kingdom and the lack of leadership of her King. The peeling of cinnamon and the transport of elephants through Kandyan territory were permitted unhindered. Their anger may be seen from the fact that the passes continued to be closed and though now the Dutch ports were the only outlet for their produce they would rather leave them unsold than sell them to the Dutch. They also refused to buy cloth from the Dutch and some modification had to be introduced by the latter in their policy. In 1705 they decided to issue permits to Indian traders to frequent the Kandyan ports, provided they first called at Colombo or Jaffna where the Company would have first preference on the goods they brought. Similarly on the out going produce, the Company could first buy whatever quantity it wanted. It could thus keep a check on the quantities taken by private trade.[22]

The acquiescence of the court in these above moves may best be understood in the light of their contemporary needs. Once again in 1705 the King desired to send his envoys to Arakkan in search of Buddhist priests. And for this he solicited the assistance of the Dutch. Of more immediate concern were the attempts which were now begun to secure princesses of the Madura Nayaka dynasty for the Kandyan royal family. This was not a new phenomenon. Its significance now, was that, because of Dutch control of the seas round the island it needed tacit Dutch approval. Early in 1705 the chiefs wrote to the Dutch asking them to grant passage in their ships to two persons from Madura who were obviously acting as middlemen to the whole transaction.[23] To fulfill both needs active Dutch help was necessary and the Dutch did not lose anything by obliging the King. On the contrary, they stood to gain a great deal. They put the King and the Kandyans under obligation to them and could pass off as their great friends. In 1706 two Sinhalese chiefs, Palacumbara Mohottiyar and Uduwitte Muhandiram, embarked in a Dutch ship to Tuticorin from where they proceeded on an embassy to the Madura court obviously on the same errand. They returned in the same manner to Colombo where they were treated by the Dutch with full honour.[24] Connections were established with the authorities in Arakkan for another deputation of priests to visit Ceylon. With both these negotiations unfinished, the King died in Kandy in July 1707.

---

21. Gov. Gen. and Council to Directors, 1 December 1703, Kol. Arch. 1560, ff. 177-179.
22. Resolutions of Gov. Gen. and Council, 20 October 1704, Kol. Arch. 619, pp. 491-493.
23. Court Chiefs to Governor Simons 1705, Dutch Records 3259.
24. Court Chiefs to Governor Simons, 1706, Dutch Records 3259.

The reign of Vimala Dharma Surya, lasting twenty years (1687-1707), was a period of undisturbed peace and contrasted with the turmoil and conflict of the preceding reign. This period of peace was very necessary for the Kandyan Kingdom and, indeed, for the entire island. The wars and expeditions and the constantly shifting boundaries had adversely affected production and life in the interior villages—a factor which was reflected in the increasing dependence not only of the Dutch establishment but also of the community on imports of food grains. Under Vimala Dharma Surya political boundaries became settled and neither party seemed to have had a desire to change them. This gave the people of the Dissavanies of Sabaragamuwa, Four Korles and Seven Korles a greater sense of security. It would appear that the people who benefited most by the settled condition of the country were the chiefs. The opportunity was not used by the King for an assertion of royal authority in the land. Instead it was the chiefs, who as his councillors and administrators of the provinces, seem to have control over affairs of state. All dealings with the Dutch were conducted through them and the former had no direct access to, or correspondence with the King. Though this was necessary as a matter of form to keep up the fiction that the Dutch were the King's officials managing the coast line for him, it at the same time contributed to increasing the political influence of the chiefs and paved the way for subsequent intrigue and interference by the Dutch in the politics of Kandy. Here are seen the beginnings of the emergence of the chiefs as an important factor.

Where the personality of the King did assert itself was in the aspect of religious revival of the period. Wars and unrest, and the preoccupation of Raja Sinha with politics had led to a decline in religion and the quality of the priesthood. Vimala Dharma Surya devoted his attention to the progress of Buddhism. It has been seen that his attention was drawn not only to Buddhist institutions in his own Kingdom, but also to those in Dutch lands. He was responsible for the improvement of Kelaniya as a center of worship. It is learnt from Dutch records that he went on frequent tours of pilgrimage to various shrines in the remote areas of his Kingdom. Perhaps his most significant achievement was the re-establishment of connections between Sinhalese and Burmese Buddhism. In 1697 a group of thirty-three Burmese Bhikkhus lead by the great Theras Santane and Lokaragapudgale arrived in Kandy, resided there for a few months, and re-established the Upasampada. One of the consequences of the intense religious devotion of the King was the great influence on him of the Buddhist priesthood. There is enough evidence to show that during his reign the high ranking priests of Malwatte had a great influence in court. The Chief Priest lead the Kandyan delegation which conducted negotiations with the Dutch Ambassador Alebos over the draft treaty. Under him Kandyan policy received an emphasis on religion that had been lacking for some time. An unintended consequence of this was to blur the distinction

between low-country and up-country, caused by distinct political boundaries, and to draw together the people of the highlands and the coastal areas through the bond of the common faith. The King did not seek to make political capital out of it, but the Dutch did not fail to see the potentially adverse effects of this trend. Their policy for a long time now was to emphasise the distinction between low-country and up-country, divide the Sinhalese into these two groups, the former of which would be loyal to them and the latter to the King. This trend was no doubt unmistakable and was conditioned by the political facts of the time. But the revival of Buddhism tended to cut across this trend and even reverse it, thus creating in their own lands a counter loyalty to this faith and through it to the King. Though inconspicuous at the moment, this factor was to play an important role in Dutch-Kandyan relations in the course of the next few decades.

The efforts made by the Dutch to sign a fresh treaty with Vimala Dharma Surya and the failure of these efforts influenced deeply their views as to the legal basis of their power in Ceylon. The attempt to legalise Dutch power and secure Kandyan recognition had failed. It was now recognised that they could not go on appealing to the treaty of 1638 because it was, in any case, signed with Raja Sinha and did not necessarily bind subsequent kings. With a view to discovering an independent title to sovereignty, there was an attempt to go back to the theory of succession by conquest from the Portuguese, a theory first put forward by Van Goens. With the failure of the embassy of Alebos, the commissioner Van Rheede declared that they should now base their claims on the low-country by right of succession from Don Juan Dharmapala to the Portuguese and then from them to the Dutch. This left the Kings of Kandy out of the picture entirely.[25] Succeeding Dutch Governors discussed this knotty problem in their memoirs to their successors. Governor Simons (1702-1707) laying down office in the year Vimala Dharma Surya died (1707) stated the position clearly when he said: "The safest plan would therefore be to base our claims on the conquests made in open warfare on our public enemies."[26] Needless to say, this was not the position recognised by the Kings of Kandy who continued to refer to the Dutch as their guardians of the coast.

25. Minutes of Political Council of Ceylon, 1 November 1699, Dutch Records 37, pp. 362-3.
26. *Memoir of Simons to his successor*, 1707. (Colombo 1914), p. 15.

EDUCATIONAL WORK OF THE CHRISTIAN MISSIONARY SOCIETIES IN CEYLON DURING THE EARLY YEARS OF BRITISH RULE

IV. THE AMERICAN MISSIONARY SOCIETY

T. Ranjit Ruberu

The American missionaries arrived in Ceylon two years after the arrival of the Wesleyan Methodist Mission,[1] and consisted of the representatives of the American Board of Commissioners for Foreign Missions,[2] an organisation which at the time was "one of the most remarkable associations for the dissemination of Christianity" in the non-Christian world.[3] The Society had its headquarters at Boston in the State of Massachusetts. The Board was founded in 1812 and immediately after its foundation six missionaries headed by the Rev. Samuel Newell embarked on their maiden mission to Asia on February 19th, 1812.[4] They arrived in India at a time the British East India Company was hostile to the Christian missions, and the missionaries on their arrival had a very cold reception. The missionaries were "ordered by the Governor General to leave Calcutta by the same vessel they have arrived",[5] but later however, this order was withdrawn, and they were asked "to depart to any place not within the jurisdiction of the East India Company".[6]

It was after this event that the American missionaries directed their interest to Ceylon, which was under the British Crown. "Seeing no door open or likely to be opened in countries eastward of British India",[7] and taking advantage of the opportunities in Ceylon, Newell embarked for Ceylon on 24th February, 1813, and arrived at Galle a few weeks later. On his arrival in Ceylon

---

1. For an account of educational work of the Wesleyan Methodist Mission see *The Ceylon Journal of Historical and Social Studies*, Vol. 4, No. 2, 1961.
2. The American Board of Commissioners for Foreign Missions was founded in 1812 by the general association of Massachusetts for the purpose of converting 'Heathen' to Christianity, particularly in Asia. The Board included Congregationalists as well as Presbyterians.
3. Sir Emerson Tennent, *Christianity in Ceylon* (London 1850), p. 109.
4. *Missionary Register*, 1815, p. 137.
5. Tennent, *op. cit.*, p. 111.
6. *Missionary Register*, 1815, p. 137.
7. *Ibid.*, p. 137.

Newell was "warmly welcomed by Governor Brownrigg", and in course of time found the country most "peculiarly inviting" for missionary work.[8] Encouraged and "greately impressed" by the "distinguished courtesy and kindness"[9] shewn to Newell by the government of the day, the American Board of Commissioners sent a second batch of missionaries in 1816, with the desire that "the people of the Island might receive the benefits of Christian Instructions". This lot of missionaries included the Rev. Danniel Poor, the Rev. James Richards and their wives, together with the Rev. Edward Warren, and Horatio Bordwell. Together with Newell who was already in the country, the mission totalled six.

Under Brownrigg, the American Mission received every support and protection from the government. With the Governor's approval the American missionaries "entered upon permanent residence in the district of Jaffna".[10] They were permitted "to reside in any part of the district and establish schools".[11] Not being English missionaries they were not granted land, but, were authorised to occupy an old Dutch church-house in Tillippallay.[12] After being established in the Jaffna district for some time, the mission was increased by the addition of three other missionaries in 1819.[13] They were Messrs. M. Winslow, L. Spaulding, and I. Senden.

Missionary work started with the opening of two missionary stations "in the parishes of Tillippallay and Batticotta",[14] but the number was increased to four in 1820 with the addition of Uduvil and Pandeteruppu stations.[15] There were seven ministers in charge of the four stations.[16] Up to this stage the relationship of the government with the American Mission was very cordial but in course of time conditions became unfavourable to the Mission and these will be pointed out below. Despite such difficulties the American Mission was able to do a considerable amount of educational work in the Jaffna peninsular, and by about 1834 the Mission had expanded to seven stations, namely Batticotta (Vaddukodai), Tillippallay, Uduvil, Pandeteruppu, Manipay, Tennerachen, and Vadamarachi, all in Jaffna.

Whatever co-operation the American Mission received from Governor Brownrigg came as usual in consequence of the hearty support he gave to all Christian missions in the country. As pointed out elsewhere,[17] Brownrigg was

---

8. Arnold Wright, Ed., *Twentieth Century Impressions of Ceylon*, 1907, p. 281.
9. C.O. 54/69, Enclosure in letter of Brownrigg sent to Sec. of State, 10 March, 1816.
10. C.O. 54/59, American Board to Brownrigg, enclosure in letter of Brownrigg to Sec. of State, 3 Feb., 1816.
11, 12. C.O. 54/74, Letter of Brownrigg to Sec. of State, 31 December, 1819.
13. Ibid.
14, 15. C.O. 54/77, Enclosure in letter of Barnes to Sec. of State, 10 October, 1820.
16. D. Poor, J. Richards, M. Winslow, H. Woodward, I. Senden, L. Spaulding, and B. Meigs.
17. See the account of the Wesleyan Methodist Mission in the *Ceylon Journal of Historical and Social Studies*, Vol. 4, No. 2, 1961.

happy to see all missionaries, irrespective of their denomination or nationality working in the country for the common aim of propagating Christianity. But, with the change of government after his retirement, and the arrival of Sir Edward Barnes,[18] the attitude changed. From the commencement of his government Barnes was prejudiced against the American Mission in the country, chiefly because it was not a missionary society of England, but a foreign one. In his own words, he felt extremely adverse to the admission of foreign missionaries into the Island. Neither did he see the necessity, nor did he conceive himself as justified in encouraging foreign missions to promote Christianity or education in the colony.[19] This view he expressed on several occasions in his correspondence with the American Missionaries in Jaffna. On one occasion he wrote, "the means we possess in our own country for the conversion of our heathen subjects to Christianity are . . . fully adequate to all purposes".[20] The same view is reflected in a letter sent to the American missionaries by the Secretary to Governor Barnes when it was stated: "If the present establishment of Church missionaries (and such are the only missionaries he would wish to see employed in the Island) are proved to be insufficient, in point of number, the Lieutenant Governor is persuaded that time will have the salutary effect of removing the difficulty, especially as the Wesleyan missionaries are readily increasing".[21]

This attitude of Barnes disheartened the American missionaries considerably, and in the absence of any official support to the mission, the progress of its work was curtailed. There is no indication that the attitude of Barnes ever improved. Rather, it worsened and, at a later date he became more or less hostile to the American Mission by refusing admission to the country a lay member of the mission. The lay member was James Garrett, who was sent to the mission as a printer for the printing press the mission was contemplating to establish in Jaffna. When the missionaries sought permission from the Governor for Garrett to stay in Jaffna, it was refused. Furthermore Garrett was ordered to leave the country immediately.

According to the comments of the Secretary of State quoted below, the Home-Government too disliked foreign missions in Ceylon. "Had the question indeed been now to be decided" observed the Secretary of State, "whether an Establishment of foreign missionaries should be formed in the Island, I should have had no difficulty in withholding my consent. But . . . the permission to these gentlemen to reside has originally been given without the previous sanc-

---

18. Sir Edward Barnes was governor from 1820 to 1831.
19, 20. C.M.S. Archives, Letter of Deputy Secretary to Governor sent to the Secretary, American Mission, 22 September, 1820.
21. *Ibid.*

tion of His Majesty's Government".[22] It seems that, Brownrigg sanctioned permission without consulting the Home-Government. On hearing the restrictions and objections placed on the American missionaries by Barnes, the Secretary of State approved such action in the following manner. "I am far from being surprised that you should view with extreme jealousy any establishment calculated under any pretence to give to the subjects of a foreign state an influence over the reputation of a British colony".[23] With regard to the application of Garrett to stay in Jaffna the Secretary of State ordered that permission could be given, but on two conditions. First, the American Mission was to be told that there were to be "no further additions to the mission". Secondly, "vigilant control over the press under Garrett's directions" was to be maintained by the Governor.[24] This attitude continued until the relationship was improved on the recommendation of the Colebrooke Commission.

When the motives of the Home-Government for placing restrictions on the American Mission are examined it becomes clear that they were largely political. They feared that foreign missionaries would "foster political objects",[25] while engaged in missionary work. The following remarks of the Secretary of State will testify this: " . . . as it is most desirable not to admit the subjects of a foreign state, to situations in the British colonies in which they must necessarily acquire considerable authority and influence over the inhabitants . . . Lord Barthurst[26] does not consider it either necessary or expedient to encourage or admit missionaries proceeding from foreign states".[27] The same view was expressed when the Home-Government placed restrictions on the admission of new members to the American Mission on a later date. "There are however such serious objections to the unlimited admission of Foreign Missionaries to a residence in the British possessions (and it is difficult to make an exception in favour of any particular nation), that I consider it most desirable for you, to communicate to the American Mission the objections".[28]

The fact that it was for political reasons that the Home-Government did not allow the American Mission to strengthen its hold in the country is further supported by some observations of the Secretary of State. "As the Government retains the power of dismissing them", wrote the Secretary of State, "from the Island at any moment when they have justly suspected of favouring political objects, I see no objection to their continuing to discharge the important and useful duties".[29] Thus this foreign mission, as long as their influence was limited

---

22, 23. C.O. 55/66, Letter of Sec. of State to Barnes, 25 August, 1821.
24. C.O. 55/66, Instructions of Sec. of State to Barnes, 25 August, 1821.
25. C.O. 54/59, Reply of Sec. of State to letter of Brownrigg, 27 March, 1816.
26. Lord Barthurst was Secretary of State.
27. C.O. 54/59, Letter of Sec. of State to Brownrigg, 27 March, 1816.
28. C.O. 55/63, Letter of Sec. of State to Barnes, 18 June, 1820.
29. C.O. 55/66, Letter of Sec. of State to Barnes, 25 August, 1821.

to the religious welfare of the people, it did not matter. Yet, as a safety measure the Home-Government restricted the unlimited increase in personnel of the American Mission.

In sum, it can be mentioned that the American Mission since the departure of Brownrigg had a difficult time. Both the Ceylon government as well as the British government did not approve the existence of this mission in the country. They worked on the conviction that "the religious wants of Ceylon should be supplied by ministers of the Established Church",[30] and not by foreign missions. Despite these obstacles, the American Mission attempted to establish a school system in the Jaffna peninsular and the attainments they made in such work remain outstandingly noteworthy.

As any other Christian missionary society, the American Mission also considered conversion and the spread of Christian instruction as primary aims. The methods adopted for such purposes were similar. Familiarising with the Tamil language and popularising it was considered by the American Mission as a step in the right direction for conversion and disseminating Christian instruction among the inhabitants. Establishing a large number of "free vernacular schools in different villages" of Jaffna, was for the purpose of "raising up a reading population" in Tamil.[31] There being no provision for printing, the mission had to request other missions like the Wesleyan and the Baptist to provide them with "Tamil Scriptures, Tracts, and school books",[32] when they were needed in their schools. What is interesting to note is that amidst such shortcomings too, the American Mission paid interest to the learning of Tamil. Taking interest in native languages, was a feature common to all missionaries of the time.

One aspect in which the American Mission differed from other missions in the country was the interest the American Mission paid to the spreading of the English language among the people with whom they worked. Not that the other missions considered this as less important, but the American missionaries started to teach English on a large scale from the very inception of the mission in Jaffna. The result was that by the time the commissioners of the Colebrooke Commission arrived, they were impressed by the Mission's achievements in this work. This is evident in the remarks of the Commission " . . . the American Missionaries are fully impressed with the importance of rendering the English language the general medium of instruction and of the inestimable value of this acquirement in itself to the people".[33] According to the views of this mission, by emphasising the teaching of English they aimed at providing

30. C.O. 54/59, Observations of Sec. of State, 27 March, 1816.
31. C.O. 416/6, American Missionaries to the Colebrooke Commission, 2 December, 1833.
32. C.M.S. Archives, Letter of the Rev. Poor to C.M.S. mission, 23 August, 1822.
33. Colebrooke Commission Report, 24 December, 1831, p. 32.

"young natives . . . a literary and scientific education". It was believed that only by an English education could "the treasures of European sciences and literature" be made available to the people. Furthermore, by raising "a large number of English scholars" in the country, the people "could be enlightened" by making it possible to translate into Tamil the important works of English.[34]

Making use of schools to propagate Christianity was evident in the schools of the American Mission. In all these schools, attempts were made for "teaching the truth of Christianity by means of suitable catechisms, and compends of Scripture". The Bible was "daily read as a class book", and teachers were summoned once a week "to report the state of their schools and be better instructed in what they teach; particularly Christianity". The teachers were also "required to attend church on Sabbath, with all the elder pupils".[35] All these indicate the extent to which the religious tone prevailed in the schools of this mission.

Before commencing to discuss the educational establishments of the American Mission, some reference should be made to the contributions this mission made towards the promotion of female education, a field in which the other missions were also actively engaged. The start was made by the American Mission as early as 1817 when girls were "gathered in to the missionaries' families to be taught", by the ladies of the mission.[36] Much progress was made in course of time, and by 1823, the mission was in a position to start a free boarding school in Uduvil exclusively for girls.[37] Girls were admitted to this school when young, and were instructed in reading and writing Tamil, Arithmetic, Geography and Christianity. English was taught to a few, but all were trained in sewing. The girls were retained in the school until they were "suitably married". By educating girls, the American Mission hoped "to form Christian house-holds in the midst of Heathen".[38]

The interest of the mission in education becomes clear when it is stated by the mission that the missionaries concentrated "in all their numbers and force" to establish schools in the areas they worked.[39] Because it was restricted to Jaffna alone, the American Mission was in a more advantageous position than the other missionaries elsewhere in the country. It is true that a few schools were founded by other missions in Jaffna, but when compared with the schools of the American Mission they were an insignificant number. The success of this mission in forming a school system in Jaffna is indicated in the remarks of

34. C.O. 54/96, Statement concerning a Mission College for Tamul Youth in Jaffna.
35. *Colombo Journal*, 1833, p. 82.
36. Arnold Wright, *ed. Twentieth Century Impressions of Ceylon*, p. 28.
37. *loc. cit.*
38. *Colombo Journal*, 1833, p. 83.
39. Tennent *op. cit.*, p. 103.

the Colebrooke Commission inserted below". . . the northern districts of the Island are chiefly indebted to these missionaries[40] for the progress of education the benefits of which are already experienced. It is but just to recommend that they should receive all the encouragement from the Government to which their exertions, examplary conduct have entitled them".[41]

The educational establishments of the American Mission included several kinds of schools and an institution of higher education. The institution of higher education was referred to as the Seminary of the College. Schools of this mission fell in to three categories which were described as (*a*) Village or Native Schools, (*b*) Central Day Schools, and (*c*) Free or Charity Boarding Schools.

Of these schools, the Village or Native Schools were the most widely distributed. They being schools "always connected with the missionary stations" were generally located "at no great distance"[42] from the stations. The chart below indicates the stations in which the schools were situated, their number and the number of children attended them.[42]

Station	No. of Schools	No. of Children
Vaddukodai	18	643 Boys 100 Girls
Tellipallai	19	743 Boys 103 Girls
Uduvil	19	644 Boys 108 Girls
Panderteruppu	12	392 Boys 42 Girls
Manipay	10	190 Boys 130 Girls
Total	78	3095 { 2612 Boys 483 Girls

The Distribution of Native or Village Schools at the year 1833.

The Native Schools of the American Mission were free schools where besides free instruction, even books were provided free.[43] These schools were for "raising up a reading population" which could later be "addressed and instructed through the Press".[44] As such instruction imparted in these Native

40. i.e., the American Missionaries.
41. Colebrooke Commission Report, 24 December, 1831, p. 31.
42. *Colombo Journal*, 1833.
43. C.O. 416/6, Petition of American Missionaries to the Colebrooke Commission, 2 December, 1830.
44. *Ibid.*

Schools was of an elementary nature carried out mainly through Tamil. The following quotation explains clearly the kind of teaching done in them:

> The children are instructed in reading and writing Tamul (i.e. Tamil) and in some cases in native arithmetic. Also in the leading truth of Christianity, by means of suitable catechisms, and compends of Scripture. The Bible is daily read as a class book. All the more forward children are formed in to Bible classes and brought together once or twice a week for more particular instructions . . . Three or four hundred leave the schools each year, able to read the principal books put in to their hands.[45]

The success of the Native Schools can be attributed to the efficiency of their administration. They were very closely connected with the mission stations and were always "under the immediate care of a missionary".[46] They were also frequently examined personally by the chief missionary of the station or by a well qualified assistant. Teachers were required to report to the mission every week on the progress of the schools. The fact that teachers were paid according to the number of children taught, and the attainment they made also contributed to the success of these schools. From the work done in these schools it can be concluded that the primary aim of establishing these schools was a religious one; namely, to make the people able to read in Tamil and make them fit to understand the word of God.[47]

The second category of schools which belonged to the American Mission were the Central Day Schools. There were three such Day Schools in the stations of Vaddukodai, Uduvil, and Manipey. The number of students who attended the Central Day Schools in the year 1832 was seventy five,[48] comprised of "the most forward lads from other schools".[49] Thus the students in the Central Day Schools were really those who were selected from the Native Schools on the basis of merit. The mission's aim was to prepare them "to become teachers".[50] The education imparted in the Central Day Schools was of an advance kind than what was imparted in the Village Schools, and the curriculum included subjects such as Tamil grammar, Arithmetic, and Geography in addition to English which was taught to all children.[51] The Central Day Schools of the American Mission imparted an education which can be regarded as 'secondary': an education which could pave way for employment. Though these schools were in a position to perform a useful function the fact that they were limited in number, and that admission was restricted to children who were selected from the Native Schools circumscribed their service.

---

45. *Colombo Journal*, 1833.
46. *Ibid.*
47. *Ibid.*
48. Petition of American missionaries sent to the Colebrooke Commission, 2 December, 1830.
49. *Ibid.*
50. *Ibid.*
51. *Ibid.*

The Charity Boarding Schools constituted the third category of schools of the American Mission. All schools where children taken from parents were "fed, clothed, and educated at the expense of the Mission"[52] came under this category. This explains why even the College or the Seminary which was an institution of higher education was also described by the mission as a Charity Boarding School. In this discussion, however, the College will be treated as an institution of higher education, irrespective of the fact that it was also a Charity institution.

The mission maintained two Charity Boarding Schools in the stations of Tellipallai and Uduvil. The one at Tellipallai was for boys and in the year 1829 eighty five boys were in residence. The one at Uduvil was for girls and in the year 1833 there were fifty girls in residence.[53] There is evidence to show that the Charity Boarding School at Uduvil was at a later date converted into a Preparatory School to prepare candidates for admission to the Mission College.[54] The aim of the American Mission in establishing these Charity Boarding Schools can best be indicated by including a quotation taken from a letter addressed by the mission to the Colebrooke Commission. The letter states, "These establishments containing as they do more than 180 lads and youths who are supported as well as educated, certainly afford some advantages for the cultivation of English, and by giving an impulse to learning and raising up suitable teachers they are preparing the way for the more general instruction of the people".[55] Besides the teaching of English the curriculum included subjects such as Tamil, Arithmetic, Geography and Christianity. The girls were taught the same subjects but in addition they were trained in needlework.[56] There is no indication to show that the curriculum of the Charity Boarding Schools differed much from the Day Boarding Schools described above. Moreover they also served as places where teachers of the mission were prepared.

With the provision of such facilities for education on a wider scale than any other mission of the time, the American Mission felt the need to make provision for higher education of the children who were being educated by its schools. This need according to the Mission was enhanced "by the establishment somewhat extensively of free Native Schools and more specially that of Charity Schools".[57] In order to meet the requirements for higher education the American Mission considered the feasibility of establishing a Mission College or Semi-

52. C.O. 54/77, Memorial of American Missionaries to the Sec. of State, 10 October, 1830.
53. C.O. 416/6, Petition of American missionaries to the Colebrooke Commission, 2 December, 1833.
54. *Ibid.*
55. *Ibid.*
56. *Colombo Journal*, 1833.
57. C.O. 416/6, Report on the American Mission Seminary in Jaffna, 1827, p. 28.

nary in Jaffna and as a preliminary measure a prospectus of the proposed College was published in the year 1827. This is a valuable document which gives some information about the views this mission had on higher education. Some extracts which have been taken from this publication, and inserted below will give an indication to the aims and objectives of the proposed College:

> A leading object will be to give native youth of good promise a thorough knowledge of the English language . . . it will open to them the treasures of European science and literature and bring fully before the mind the evidence of Christianity . . . the learnings of the West should as fast as possible be brought in to the language of the East. The most important works of English must be translated . . . To accomplish all a large number of English scholars must be raised up from among the natives.
>
> Another object will be the cultivation of Tamul (i.e.Tamil) literature . . . in order to maintain any good degree of respect among the native inhabitants it is necessary to understand their literature . . . it is particularly desirable that some at least if not all of those who are set for the defence or employed for the propagation of the Gospel should be able to read and understand them . . . Sanskrit. The language which is the repository of Eastern literature, science and religion may be of much use to a selected few of established principles and piety. Hebrew . . . It will also be an objective to give to a several number a knowledge of Hebrew, the Latin, and Greek may be added . . . In addition to these languages, it is desirable to teach . . . the sciences usually started in Europe and America. The course at present contemplated will embrace more or less extensive Geography, Chronology, History (civil and ecclesiastical), Mathematics, Christianity, Principles of the mind, and natural and Revealed Religions.[58]

By establishing a College or Seminary on these lines, the American Mission hoped "to give a new tone to the whole system of education in the district, and exert an influence which would be felt in every school and village".[59] There were also spiritual advantages, for it was presumed that, through such an institution "light could be thrown on the evidence of Christianity" by teaching children "to understand the nature of the proof to be derived from prophecy and miracles". At the same time, the Mission College could train Christian teachers "from among the people",[60] and overcome the difficulty of getting teachers from America. This in fact was very important, particularly due to the restrictions which had already been imposed by government on the admission of new members of the mission into the country.

Although the mission was keen on establishing the College as early as possible objections from government prevented such action. This is indicated in a letter sent by the mission to the Colebrooke Commission in the following manner ". . . when the plan was laid, it was in the hope that the local government would afford such a degree of patronage as would considerably facilitate its accomplishments; we soon learnt it is time that this hope would not probably

---

58. C.O. 54/96, Statement concerning the Mission College for Tamul and other youth in Jaffna, 1823.
59. *Ibid.*
60. *Ibid.*

be realised".[61] It would be interesting to discuss the objections made by the government in greater detail.

On the fourth of March 1823, the American Mission made an application to Governor Barnes seeking government approval and the extension of financial support to the proposed Mission College. Governor Barnes while refusing such permission pointed out to the mission the objections of his government to the establishment of the College in the following manner:

1. In the first place much inclined as the Government of the Island is, to adopt and patronise any measure tending to the religious and moral improvements of its subjects, its pecuniary resources are really too limited to an undertaking the expenses of which appear likely to be of very considerable amount.

2. . . . more particularly does it behove this government to abstain from any such undertaking in the Island from the circumstances of the establishment of the Bishop's College at Calcutta, to the benefits of which the natives and the descendants of Europeans in the Island . . . are admissible in any number.

3. There is another topic . . . to bring to your consideration as affecting the probable permanency of your College, should it be established. The instructions of His Majesty's Secretary of State you are aware limit the number of your mission to the gentlemen now comprising it, and there appears no reason to suppose that the restrictions will be removed.[62]

There is evidence to show that even the Home-Government was against the establishment of a College by the American Mission in Ceylon. In reply to an appeal made by the American Mission to the Secretary of State so as "to obtain the consent of the British Government on the establishment of a Mission College in Ceylon"[63] the latter raised objections in the following manner:

The establishment of the American Mission in Ceylon appears to have arisen from their having being refused an establishment by the East India Company . . . and upon that refusal they proceeded to Ceylon when Sir Robert Brownrigg at that time governor, allowed them to remain.

His Majesty's government approved of Sir Brownrigg's conduct, but it was afterwards given to be understood that no increase of the number was to be permitted to the general principle that the Education of His Majesty's subjects in Ceylon ought to be conducted by British teachers . . . The formation of a Seminary of a higher description, has been recommended by the Governor of Ceylon, and is under consideration, but it is essential that such an establishment ought to be British and placed under the special care and protection of the Governor . . . Under these circumstances you will, I hope excuse my declining to give encouragement to the Establishment which you propose.[64]

Thus Governor Barnes as well as the Secretary of State did not approve the proposal of the American Mission. No further explanation is necessary to show that such objection came as a result of prejudice the authorities had on the American Mission, and were primarily due to political reasons. As pointed out earlier, although this mission was fortunate to establish itself in Ceylon

---

61. Letter of American missionaries to the Colebrooke Commission, 17 September, 1823.
62. C.O. 416/6, Letter of Chief Secretary to Governor sent to the American Mission in Jaffna, 26 March, 1823.
63. C.O. 55/70, Letter of American Mission to Sec. of State, 2 Feb., 1826.
64. C.O. 55/70, Letter of Sec. of State to the American Board of Commissioners, 20 May, 1826.

by arriving during the tenure of Governor Brownrigg, it faced difficulties later, and the government laid every obstruction possible to curtail the activities in which the missionaries were engaged. The proposal for the establishment of a College of higher learning also received same treatment.

This discouragement could not however destroy the enthusiasm of the mission to start a College for higher education of the inhabitants. Amidst all difficulties the mission endeavoured to found the College on a less ambitious scale than had originally been proposed. A College was started by bringing together "the most forward lads" who "were selected from the Boarding Schools" of the mission.[65] It was established in Vaddukodai and came to be known as the Vaddukodai Seminary.[66] The founding of the Seminary or the College has been described in the following manner. "This was established at Batticotta (at Vaddukodai) in the district of Jaffna . . . The Rev. Daniel Poor A.M., was constituted the Principal and Gabrial Tissera, a well qualified native was made English and Tamil Tutor. Assistant teachers were also appointed. A visiting Committee was appointed for the school".[67]

According to the American Mission, the Seminary established at Vaddukodai provided "for further education of the most promising youths who have made considerable progress in the higher branches of education",[68] and was the only institution of the mission which gave some kind of higher education. As such, the teaching of English was considered an important task of the College. Mode of teaching in the Seminary was the system described by the mission as "a system of instructions by monitors", which apparently was Dr. Bell's system. Thus in addition to the teachers of the College there were in the year 1832 ten monitors helping in teaching.[69] On foundation, the Seminary had "48 Tamil lads of good caste",[70] who were selected on the results of an admission test in English and Tamil.[71] By 1832 the number of students in the Seminary went up to 148 of whom 140 students free tuition, board and lodging.[72] The Seminary was a Charity institution where everything was provided free of charge.

The curriculum of the Seminary was one which the mission described as "a Literary and Scientific Course".[73] It included Tamil, English, Geography,

---

65. C.O. 416/6, Report of the American Mission Seminary in Jaffna, 1827.
66. The Batticotta Seminary so founded was closed in June, 1855. On November 9th the same year a college under the name the Jaffna College was started in the same premises and possibly in the same buildings.
67. Report of the American Mission Seminary in Jaffna, 1827.
68. C.O. 54/104, Letter of Barnes to Sec. of State, 11 March, 1829.
69. Report of the American Mission Seminary in Jaffna, 1827.
70. *Ibid.*
71. *Ibid.*
72. *Colombo Journal*, 1833.
73. Report of the American Mission Seminary in Jaffna, 1827.

Chronology, History, Arithmetic, Algebra, Geometry, Trigonometry, Mechanics, Optics, Astronomy and "most useful branches of Native Philosophy".[74] The literary course included the languages, and, the scientific course the other subjects. The latter was "prosecuted mostly in English under the immediate direction of Mr. Poor".[75] With the expansion of the Seminary a Theology class was started. With such a curriculum, the education given at the Seminary became broad and liberal, than it would have been with a curriculum more religious as it was the case with some higher educational institutions of the other missions in the country at the time.[76]

A Preparatory school to coach children who were to be admitted to the Seminary was started at Tellipallai in June 1827. What really happened was, that, the Charity Boarding School at Tellipallai was converted into a preparatory school, by the addition of twenty students to the eighty who were already there. It is recorded that these twenty students were "selected from more than one hundred brought on an appointed day by the parents".[77]

In the light of the above observations it is possible to come to certain conclusions about the views the American Mission had on higher education. The fact that despite all difficulties and obstructions from government, the American Mission endeavoured to establish a College show the interest they had in the importance of providing higher education. The curriculum of the Seminary was a broad one which took into its sphere a wide variety of subjects including sciences, mathematics and philosophy. They were democratic in the manner in which admission to the Seminary was made. In contrast to the Wesleyan Mission, and even the Church Mission who restricted facilities of higher education to a privileged few, the American Mission admitted to the Seminary all those who were able to profit by such an education.

Before concluding this account of the educational activities of the American Mission in Ceylon during the early years of British rule, some reference should be made to the development of a favourable attitude towards the American Mission by the Government during the later years. It was this change in the Government's attitude which resulted in the achievements this mission made in the later years. The Colebrooke Commission which introduced some reforms to the system of education, paid special attention to the removal of the obstacles which had been placed on the American Mission hitherto. It was recommended that the American Mission "should receive all encouragement from the Government".[78] Since this date the attitude of the government to the American Mission changed for good, and the mission was in a better position to work without any restriction, and thereby establish a school system of their own in the Jaffna peninsula.

74. *Colombo Journal*, 1833.
75. *Ibid.*
76. This point becomes clear when the provision for higher education by the Wesleyan Methodist and the Church Missionary Society are compared with that of the American Mission.
77. C.O. 416/6, Report of the American Mission Seminary in Jaffna, 1827.
78. Colebrooke Commission Report, 31 December, 1831.

FOREIGN CAPITAL IN THE ECONOMIC DEVELOPMENT OF CEYLON*

S. KANESATHASAN

At the outset itself a reference may be made to the current practice, which unfortunately is only too common, of using the term foreign aid in a sense synonymous with foreign capital. The term "aid" carries the connotation that an element of subsidy is involved. Such a definition would exclude certain categories of foreign capital, which are of significance to underdeveloped countries — particularly, private foreign capital. The more general term "foreign capital" is therefore preferable, and this paper covers the role of foreign capital of all types in the economic development of Ceylon. However, this is not to underrate the importance of foreign capital of the subsidised variety (consisting of grants and the so-called soft loans). In fact, one of the main conclusions of this paper is that foreign capital inflow to underdeveloped countries will in future predominantly need to be of the subsidised variety and be therefore on a governmental basis.

It is probably true that every one of the present industrially advanced countries has benefited in the early stages of its economic growth by the inflow of foreign capital. Even in the case of the U.S.S.R. there was a considerable volume of foreign capital which was invested in Russia in pre-Revolution days when Russia had already made substantial progress towards industrialisation. Even Soviet Russia was keen on getting foreign capital on acceptable terms, but this was rendered impossible by political developments and she was thereby forced into a phase of economic expansion where the needed foreign exchange for capital goods was squeezed out the hard way by drastically curtailing the consumption of the people.

Therefore, foreign capital has had, and still has, a crucial role to play in the economic growth of nations. It may be useful to analyse why this is so, and what the needs and prospects of foreign capital are in Ceylon's case. This paper observes the following pattern. Firstly, it analyses the impact of rapid growth on the balance of payments and the role of foreign capital in meeting the balance of payments problem. Secondly, it makes a rough assessment of Ceylon's need for foreign capital. Thirdly, it discusses the different forms of

*Revised version of a paper presented at a Seminar on the Drive to Rapid Economic Growth organised by Section F of the Ceylon Association for the Advancement of Science.

foreign capital and their impact on the balance of payments and on the implementation of the development programme. And finally, it makes a few comments on the prospects for foreign private capital.

Economic Development Programmes and the Balance of Payments

It will be useful at the outset to emphasise the fact that any intensified development programme must inevitably produce a strain on the balance of payments. This would be so in every case, except in an entirely closed economy, even where the entire developmental expenditure is financed out of domestic savings, i.e. without resort to any inflationary financing.[1] Let us take a simple example, where the Government suddenly steps up its investment by 100 units but finances the new investment entirely from tax revenue. Let us assume that 40 units of the investment programme immediately get spent on capital goods imports needed for the programme. This means that the programme results in 60 units being put back into the domestic income stream, while 40 units have immediately leaked out. The total import bill would be 40 of direct imports *plus* the induced (i.e. secondary) imports from the 60 units put back into the income stream. The latter would depend principally on the propensity to import.[2] If, on the other hand, the investment programme had not been implemented, the tax would not have been raised and the public would have retained control over the 100 units, which would have induced an inflow of imports depending on the same import propensity. In so far as 60 units are concerned therefore, there would be no difference in imports, in the two situations. The difference would arise only in regard to the 40 units, the whole of which is spent on imports when the investment programme is launched, and only a part of which, depending on the import propensity, is spent on imports in the alternative situation.

It is clear therefore that, even where the investment programme is financed from current domestic savings, imports would increase whatever the ratio of capital goods imports to the investment expenditure and wherever the propensity to import consumer goods is less than unity. However, the deterioration

1. This is in contrast with Mr. Hicks' analysis in "Papers by visiting Economists" (National Planning Council). Suppose that the proportion of investment expenditure according to the best available plan, that must go on imports, is X %; that the proportion of saving (private and governmental) which is at the expense of imports (the proportion, which would have been spent on imports, of the consumption that would have occurred if the saving had not been made) is Y %; the balance of payments will then be deteriorated by the saving and investment if X is greater than Y, improved if Y is greater than X (P. 15).

2. Not allowing for lags. For a relatively simple analysis in monetary terms of the relationship between income and imports, allowing for lags, see Polak "Monetary Analysis of Income Formation and Payments Problems", I.M.F. Staff Papers, Nov. 1957. A number of papers published subsequently in the I.M.F. Staff Papers have dealt with the statistical application of the Polak analysis.

in imports would be greater, the higher the proportion of capital goods imports to investment and the smaller the propensity to import consumer goods.

The deterioration in the balance of payments would be still greater where a part or whole of the investment programme is financed from inflationary financing; in such a case both the direct and the induced import effects that follow, would be the measure of the deterioration in the balance of payments.

The final impact of the investment programme on the balance of payments will also depend to a substantial extent on the direction of the investment, whether it promotes the production of exports and of import substitutes. The promotion of exports would provide a *direct* relief to the balance of payments of equal amount[3] *less* any secondary imports arising from the increased income from exports. On the other hand the production of import substitutes of the same amount would provide the same *direct* reduction in imports and a smaller offsetting increase in secondary imports, because it is likely that the propensity to import itself would be reduced by the production of import substitutes. In other words, the relief to the balance of payments gained from the production of import substitutes would be greater than from the production of an equal amount of increased exports. Moreover, increased production of import substitutes may be much easier to achieve. Thus Ceylon, with her high level of consumer imports which can be replaced by domestic products and her high level of exports earnings, can be considered advantageously placed vis-a-vis those countries which would have to earn the foreign exchange needed for import of capital goods, through new exports.

The deterioration in the balance of payments as a result of the implementation of the development programme will depend, therefore, on the following factors:

(*a*) the extent of inflationary financing,
(*b*) the import content of the investment programme,
(*c*) the propensity to import and its variability over the Plan period,
(*d*) the nature of the investment, i.e. whether it adds to exports and import substitutes. The production of an adequate level of import substitutes may even reduce the propensity to import consumer goods, e.g., if the present pattern of consumption of goods is more or less preserved, and the production of those goods which are presently imported more than keeps pace with the demand for them caused by the increased incomes, then the import ratio will fall. The import ratio will not fall by as much if the consumption pattern also changes with, as is usually the case, newer imported items taking the place of the ones locally produced.

3. To be precise, the direct relief to the balance of payments would be equal to the net exports, i.e. the increased exports *less* the import content (e.g. in raw materials etc.) in them. Likewise in the case of production of import substitutes.

Assessing the Need for Foreign Assistance

Therefore, given the size and pattern of the investment programme governed, for example, by a target level of increase in per capita income, as in the Ten Year Plan,* the ensuing balance of payment deficit can be computed by means of the above variables. The same variables also constitute the means for meeting the balance of payments deficit.

One of the primary targets of economic planning is to achieve economic growth whilst preserving a reasonable balance in the external balance of payments. If a given level of investment is to be achieved, whilst keeping the balance of payments deficit within manageable limits, the following policy approaches are possible:—

(*a*) domestic savings can be stepped up;
(*b*) exports or the inflow of capital may be increased;
(*c*) the import component of the investment programme may be reduced, by concentrating on projects with low import content;
(*d*) the propensity to import may be lowered, both by the higher production of import substitutes and by the imposition of tight import controls; and
(*e*) the investment may be more concentrated in the production of exports and import substitutes.

All of these, except increased capital inflow, call for additional sacrifices from the people and will need to be used in combination. Amongst these measures some would provide a greater immediate relief to the balance of payments. The most preferable approach would be to increase exports or import substitutes. However, this would take time to produce, especially if the investment programme has already given the maximum possible weightage to such industries. So will it be in the case of additional savings. Moreover, in order to effect a saving in imports of one unit, savings will need to be increased about threefold, given an import ratio of approximately 30%, as in Ceylon. On the other hand some of these measures would create a greater immediate stress on the economy than the others. This would in particular be the case with import restrictions. Import restrictions create inflationary pressures within the economy and though they may provide the quickest relief to the balance of payments position, if they are sufficiently broadbased, they do not constitute a satisfactory long range solution unless they result in the production of import substitutes by giving temporary protection to industries.

---

* The Ten Year Plan for 1958-1968 is still in operation. The Short Term Implementation Programme prepared recently by the Planning Secretariat, is a detailed programme for the three years 1961/62 to 1963/64, within the broad framework of the Ten Year Plan.

Compared to all others, the least demanding approach is the utilisation of foreign capital. By making possible an unrequited inflow of goods and services, it also provides immediate relief to the balance of payments without demanding any immediate sacrifice from the people.

The need for all these remedial measures and for foreign assistance would be reduced if there were accumulated reserves or if there was normally an export surplus at the time of the launching of the Plan, or if there occurs a substantial favourable movement in the external terms of trade during the course of the Plan. In the past, we in Ceylon have tended to take a fairly complacent view of the balance of payments, because Ceylon has normally enjoyed an export surplus, and was relatively favourably placed as regards external reserves, ignoring the periodical phases of reserves shortage caused by cyclical export declines. Both these advantages have now been lost, without any significant increase in investment or import of capital goods to show for it. On the other hand, we have been saddled with a declining rate of domestic savings and an increasing ratio of imports of consumer goods to G.N.P.

These trends are in complete contrast to the assumptions made in the Ten Year Plan, and make the balance of payments projections in it completely unrealisable. The Plan Report does not have balance of payments forecasts for the whole Plan period. It gives the balance of payments data for only 1957 (as realised) and for 1968 (as forecast at 1957 prices). The most significant features of the balance of payments projections for 1968 are as follows:—

(*a*) There will be a substantial increase (33%) in export earnings from Rs. 1800 million in 1957 to Rs. 2400 million in 1968.

(*b*) there will be a considerable increase in capital goods imports from Rs. 150 million to Rs. 450 million and in invisible payments from Rs. 380 million to Rs. 550 million.

(*c*) however, the import value of consumer and intermediate goods (including raw materials) *will remain unchanged at Rs. 1550 million.*

(*d*) the overall effect is that a merchandise deficit in 1957 is converted into a merchandise surplus, and an overall balance of payments deficit of Rs. 305 million in 1957, which was met entirely out of the accumulated reserves, (there having been no net receipt of foreign capital) will be reduced to an overall deficit of Rs. 150 million, which will be met through a net foreign assistance of the same amount.

It is significant to note that between 1957 and 1968, the Gross Domestic Product is expected to approximately double (from Rs. 5000 million to Rs. 9500 million at 1957 prices) and gross investment approximately treble (from approximately Rs. 700 million to Rs. 2050 million). It is a reasonable assumption

that the import of consumer goods (and intermediate goods) is a function of the G.N.P. and the import of capital goods a function of investment. Firstly, capital goods are expected to keep pace with investment, trebling from Rs. 150 million to Rs. 450 million. This is a reasonable projection considering that Ceylon is not likely to go to any large extent for the production of capital goods, within the Plan period. In contrast the estimate of the imports of consumer goods in 1968 which is expected to remain unchanged at the 1957 levels, despite the fact that G.D.P. has doubled seems unrealistic. In other words, the import ratio for consumer goods is expected to drop from 30% to 16%. Such a projection can be justified only on two grounds:—

(*a*) that there is a very large increase in import substitutes, enough to meet the increased demand for them arising from the increased disposable incomes, as spent according to the projected consumption pattern in 1968.

(*b*) that there are strict import controls which restrict the ability of the new income earners to spend on imported goods.

As regards the second, the Plan does not envisage the use of import restrictions except, of course, as a measure of protection. This was presumably justified on the grounds that the planned expenditure was to be met entirely out of non-inflationary sources, viz. domestic savings and external assistance. This therefore necessarily means that the entire explanation for the containing of the imports at the 1957 levels, rests with the production of import substitutes, (estimated in this Plan approximately Rs. 1000 million of agricultural goods and Rs. 600 million of industrial products) adequate to meet the increased demand for such commodities by 1968. The projected increase in the gross domestic product between 1957 and 1968 can, for present purposes, be broken up into three broad components — exports, import substitutes and other domestically produced goods, and services for home consumption. Of the total projected increase in the G.D.P. of Rs. 4,500 million, exports are expected to account for Rs. 600 million, import substitutes for Rs. 1,600 million and the balance Rs. 2,300 million being in other goods and services. The estimate of consumer goods imports in 1968 depends firstly, on the demand for such goods based on the projected incomes and on the projected consumption pattern in 1968, and secondly, on the production locally of import substitutes to meet the increased demand. The gap between the two would be the measure of residual imports in 1968. The demand for imports would be under-stated to the extent that the overall demand for consumer goods is under-stated and the domestic supply of import substitutes is over-stated. An under-statement of the demand for consumer goods imports would result from an optimistic assessment of savings and by the projection of the consumption pattern in such a way as to understate its import component. The supply side could be over-stated by an optimistic assumption of the level of investment, the investment output ratio,

the elasticity of factors of production etc. Such an over-statement of domestic supply would, in addition to keeping the estimate of imports down, also overstate the gross domestic product by the same amount. Thus if the production of import substitutes is estimated at Rs. 1,200 million instead of Rs. 1,600 million, then the G.D.P. in 1968 would be not Rs. 9,500 million but Rs. 9,100 million. There is no reason to assume that the production of exports and of other goods for domestic consumption would also need to be scaled down. On the other hand, the under-statement of the import component in the consumption pattern over the Plan period would have the effect not only of under-stating the demand for imports but also of over-stating the growth in the G.D.P. The higher the import ratio, the lower would be the domestic income multiplier. Therefore, if a higher import ratio is allowed for in the consumption pattern during the Plan period, the G.D.P. projected for 1968 would very likely be less than Rs. 9,500 million. In other words a correction for the under-estimation of the import component in the consumption pattern and the over-estimation of the growth of domestic supply over the Plan period would have the effect of increasing the level of imports in 1968 from the Rs. 1,500 million estimated in the Plan and of reducing the G.D.P. in 1968 from the Rs. 9,500 million projected in the Plan. The ratio of total imports to the G.D.P. in 1968 would rise from the approximately 16 per cent as projected in the Plan to a higher and more realistic level closer to the 30 per cent prevailing in 1957.

The import estimates of consumer goods in the Plan seem to be based on very optimistic assumptions regarding the factors which govern the demand for imports and the domestic supply of import substitutes, mentioned in the preceding paragraph. Taken individually, the element of error in each one of these factors may be small. However, it appears that the elements of error have all been biased in one direction. In addition some of them also produce a cumulative error* over the Plan period. These result in the patently unlikely estimate of consumer imports remaining unchanged whilst the G.D.P. doubles, with the ratio of consumer imports to the G.D.P. being approximately halved from 30% to approximately 16 per cent, without the assistance of the import restrictions. Some drop in the overall import ratio in the initial stages of the country's growth, concentrated on the production of imports substitutes, is not unlikely. However, it has also to be recognised that one of the well-known features of international economic growth has been that it has not resulted in a curtailment of the importance of international trade. Without hazarding a guess regarding the likely consumer import ratio in 1968 it would be sufficeint to point out that even if the ratio was 20 per cent rather than 16 per cent and G.N.P. lower than Rs. 9,500 million, consumer imports in 1968 would be considerably higher

*As for example, the assumption of a low import leakage inflates the secondary income increase from investment. The process of income generation being cumulative this will tend to exaggerate the income growth as each income period is over.

than what is forecast in the Plan and the balance of payments deficit considerably more than the Rs. 150 million forecast in the Plant.

The larger the estimated balance of payments deficit the larger the amount of the net external assistance which will be required to implement the Plan. It is important to emphasise the word *net*, because where there are repayments of foreign loans, etc. involved, the gross assistance required will need to be still higher. Obviously it is difficult to conceive, in the present circumstances, of Ceylon receiving foreign assistance of this magnitude. Moreover, no country should be dependent to that degree on foreign capital. Net foreign capital should be only marginal and should, in fact, progressively decrease in importance as the country's development gathers momentum and repayments fall due. Also, it is important to appreciate that it takes also the right approach to the problem of development and the efficient use of resources by the recipient country, to increase the amount of external assistance that will be forthcoming. To take an extreme case, it would not contribute to the permanent economic growth of a very backward country to pump in massive doses of foreign assistance, beyond its capacity to use it fruitfully. We have heard of the experience of several backward societies in the Pacific islands which underwent similar experiences during the war with the net result that economically they are still just as backward as before but with their traditional social fabric and the old system of production undermined. This is only by way of illustration of the point which applies to a much lesser degree in the case of Ceylon—viz. the limitation on a country's ability to absorb foreign capital without waste. This will depend on the ability of the economy to organise the efficient execution of the investment programme of which the foreign finance is a part, and on the ability of the economy to provide the supplementary domestic savings and other factors that are needed for the investment programme. Judged by these standards one has to admit that absorbtive capacity of Ceylon has been found wanting in relation to the targets set for it in the Ten Year Plan.

One has only to look at three indexes in this context. Firstly, the large inflationary budget deficits incurred by the Government, which reveal the economy's inability to raise adequate domestic savings for the programme. Secondly, the relatively low rate of growth in capital formation and the recurrent under-expenditures of capital account in the public sector, and thirdly the non-utilisation of the foreign assistance which has actually been made available to Ceylon. The lack of the absorbtive capacity is a reflection of the shortage of various complementary factors of production which have to be combined with the available foreign assistance to result in capital investment. Besides the inadequacy of domestic savings, it also reflects the short-comings in the machinery for the implementation of the investment programme. This is most evident in the case of the short-fall in the utilisation of the available foreign assistance as a result of the lack of integration of the foreign assistance

received in kind, with individual projects in the development programme. This no doubt has been due in part to the form in which the assistance has been offered in some cases. As will be seen later the close integration of the foreign assistance with development is particularly necessary where it is received in highly "specific" forms—i.e. linked to particular projects or to purchases only from the donor countries or in the form of particular goods and services.

The existence of an adequate machinery for the implementation of the development programme not only will result in the more efficient utilisation of the already available foreign assistance, but will in fact promote the offer of new aid. There has been in recent years a growing tendency for donor countries to offer aid on more liberal terms to countries with efficient development programmes, e.g., to India rather than to others. In a recent article* Rosenstein Rodan has categorised Ceylon among the low growth countries. The reason for the low growth is attributed to "a high increase in population and a relatively low capacity to organise development". It is not difficult to see that a donor country will not be too enthusiastic about providing assistance for a country whose development efforts have been judged in this manner. The only exception will be where the assistance is clearly of political nature. Countries and international institutions providing normal types of economic assistance will be interested in ensuring that the funds are properly utilized in a manner which will add, in the case of loans, to the recipient country's ability to meet the amortisation and interest rate commitments in due course.

Apart from its absorbtive capacity, the ability of the recipient country to repay foreign loans in due course is therefore another important consideration in determining a country's "need" for foreign assistance. The capacity to repay means the creation of an export surplus at the due date to effect the transfer of an equivalent amount of goods and services to the creditor country. Ceylon, so long as she had a traditional merchandise surplus was in an advantages position as regards its ability to repay foreign loans. However, the surplus is no longer there. Moreover, we have seen that there may in fact be a larger deficit in the current account as the Plan progresses. This could be the situation even after the greatest weight had been given, quite correctly, in the Ten Year Plan for the production of exports and of imports substitutes. It has to be remembered that even the projections of the balance of payments in the Plan for 1968 allow for a *net* foreign assistance of Rs. 150 million. To this figure had to be added therefore the commitments on interest and amortization of foreign debt for that year, in order to arrive at the figure of the gross external capital required. It has to be borne in mind that continuous resort to foreign capital will progressively enlarge the annual commitment in interest and amortisation.

---

*P.N. Rosenstein Rodan, "Foreign assistance to underdeveloped countries" (*Review of Economics and Statistics*, May, 1961).

It is also of particular importance from the point of view of the servicing burden of external debt that the inflow of capital should follow a regular pattern. If the capital follow is erratic it could be more of a hindrance than a help. The disequilibrating nature of capital flows has been more commonly a feature of short-term capital. However, the problem can arise even in the case of long-term capital if the inflow is erratic, especially if it slackens at a time when capital payments in amortization of previous debts are falling due.

All this means that Ceylon has to give serious consideration to her ability to repay and look particularly for foreign assistance which either produces the least amount of external burden (i.e., grants and the so-called soft loans) or adds to the productive capacity of the exports and import substitute sectors. In regard to the promotion of exports to which the Plan already gives maximum emphasis, a more favourable environment perhaps may be created by means of a scheme for the integration of the development programmes and trade patterns of the South-East Asian region as a whole. Apart from this it is absolutely essential that Ceylon will have to resort to a rationalised system of import tariffs and controls. This indicates that import controls and higher tariffs on imports have come to stay in Ceylon for a very long time to come.

The form of foreign capital

Up to this point foreign capital has been treated as homogeneous in its impact on the balance of payments and on economic development. This is in fact not true and different forms of foreign capital inflow, whether on private or public account, produce different impacts on the balance of payments. The most significant distinction would be of course, between loans and grants. Grants do not add to the burden of interest and amortization of the recipient country and would therefore constitute the most desirable form of foreign capital. However, even foreign grants may suffer from the drawback, arising from the fact that they are commonly offered in the form of goods produced in the donor country, that their real worth may be overstated by their not being valued at competitive world market prices. This inflation of the extent of aid may present a false picture in regard to the additional imports that are being provided by foreign assistance. A second problem in regard to grants in kind is that the goods offered may not be of a kind that can be fitted readily into the development programme. The same comments would apply in respect of loans in kind. It would of course be a far more serious objection if the loans offered in kind are valued at higher than world market prices, since that would increase the real cost of the external debt to an extent that may make the loan not worthwhile, unless as is usually the case it is offset by the offer of assistance simultaneously in the form of grants or of low rates of interest and attractive repayment terms. Loans in kind may also suffer from the drawback that the goods offered may be of such a specific nature, as to be difficult to fit into a

development programme. As a rule, therefore, the offer of capital in foreign exchange is preferable for the recipient country. To take concrete examples, if the aid is offered in the form of a particular type of equipment usable only in a particular project, its utilisation will have to await the execution of the project. On the other hand, if the goods offered are of a less specific kind (for example, foodstuffs, cement, etc.) they would provide immediate relief to the balance of payments. However, the disadvantage arising from the specific nature of the aid can to a large extent be minimised if it was closely integrated with the development programme in respect of its different projects and different phases.

Another type of specificity in foreign assistance arises when it is offered in relation to a particular project and thereby its utilisation is dependent on the rate of execution of the project concerned. Such loans are usually offered for projects selected on the basis that their production would provide the foreign exchange for the servicing and amortization of the loan. The loan is also commonly extended (for example, in the case of the IBRD) to cover only the foreign exchange cost of the project, with the complementary local finance being raised locally. If the domestic expenditure is financed out of non-inflationary sources, no additional strain on the balance of payments arises because of the foreign capital received. If on the other hand, the local expenditure is financed from inflationary sources the impact on imports will be greater than the foreign finance available and the balance of payments would have suffered a set-back. The balance of payments would, on the other hand, be improved if the total cost and not only foreign exchange expenditure component of the project is matched by a foreign loan.

There is now a growing realisation that project loans of a self-liquidating nature, particularly those financing the foreign exchange costs of the project do not meet the problem of capital shortage of underdeveloped countries. This is so because of two reasons. Firstly, self-liquidating projects would not include the broad category of infra-structure investment which would constitute a substantial proportion of the total investment in underdeveloped countries. Secondly the provision of foreign exchange to cover only the foreign exchange cost of the project does not relieve the recipient country of the entire, or in fact in some cases even the major part of, the balance of payments burden arising from the investment. Therefore there has been a gradual shift in the external assistance towards the so-called soft loans related to the broad economic programme, from loans covering only the foreign expenditure of individual projects. Soft loans are distinguished from hard loans or bankable loans in that they involve an element of international subsidy. The subsidy normally takes the form of very low rates of interest, a grant component in the loan, and long terms of repayment and provision for repayment in the currencies of the recipient countries themselves. The main category of such loans so far have been

the loans under United States P.L. 480. Recently facilities for the granting of such loans on an international (as apart from a bilateral) basis have been established—namely through the I.D.A.* and the U.N. Special Fund. There is also provision for the I.D.A. to provide such loans not only for individual projects, but as support for overall development programmes as well. This reflects the growing appreciation that the projects comprising a development programme are interdependent for their successful operation and that it is therefore impossible to judge the soundness of any project without a knowledge of the whole program of which it is a part. A 'program approach' and not a 'project approach', therefore, must determine the self-liquidating use of capital.

Therefore, judged from the angle of the extent of relief provided to the balance of payments, four main criteria emerge. Firstly the less specific the type of capital, whether gifts or loans, the more advantageous it would be. Secondly the higher the proportion of the foreign capital to the total planned expenditure the better it would be. Thirdly, as a general rule, outright grants are to be preferred to loans, and soft loans to be preferred to hard loans. Fourthly, the foreign assistance should be available in a steady stream, and not in spurts, and preferably should be geared to the foreign exchange burden (direct and indirect) of the entire programme in its different phases.

This may be a convenient place to make a passing reference to the question of the relative merits of external capital being made available on a bilateral or an international basis. There is a growing body of opinion that the provision of capital aid (here the word aid is used advisedly) through international organisations is to be preferred. From the point of view of the recipient countries this approach has found favour except among a few who have exploited their political position to get liberal aid on a bilateral basis. On the other hand the reaction of the donor countries has by and large not been favourable. However even there a number of observers feel that foreign assistance would be better used if channelled through an international agency. This arises from two factors. An international organisation is better placed to offer critical comment on the use of its resources by a member. Secondly all the other members of the organisation would also have a direct interest in ensuring the best use of the organisation's resources. In any event, it seems that one has to accept as a fact of life that the bulk of foreign assistance will continue to be on a bilateral basis for many years to come.

The role of private foreign capital

So far the role of foreign capital has been referred to almost entirely in terms of its receipt by the public sector and of its balance of payments impact. In the course of the previous discussion various reasons had been mentioned why foreign capital to underdeveloped countries will in future have to be

*International Development Agency—a subsidiary of the I.B.R.D.

predominantly on a governmental basis, rather than in the form of private enterprise capital. In this section I wish to support this contention with positive evidence based on the actual experience in recent years. This is not to deny that foreign private capital has a role to play in the economic development of these countries. However, it will probably have to take new forms which accord with the altered conditions. Secondly, the economic contribution of foreign private capital cannot be evaluated solely in terms of the balance of payments impact. It has a most valuable contribution to make in the form of industrial and managerial expertise and commercial contacts.

Recent studies of the international flow of private capital by the U.N. Secretariat* and others have made certain facts clear. In order of magnitude, advanced industrial countries (including Japan) which offer each other markets and investment opportunities have had the main share of the foreign private capital inflow. Next in order were the rapidly expanding countries with a substantial industrial sector—e.g. Australia, Canada, Mexico, Brazil and Argentina. Then followed low income countries with natural resources, mostly in the form of oil and non-ferrous metals. And finally are the low income countries which have neither important resources nor markets, like Ceylon, which received very little capital. In this context, it may be useful to point out that the recovery of European economies has not resulted in any significant increase in the outflow of capital to under-developed countries. By an large, the recovery of industrial countries has stimulated the flow of capital amongst themselves. With the creation of the European Common Market, this trend is expected to be strengthened.

The U.N. Report on international capital movements also makes the point that the direction of even private development capital flows has to a considerable extent been influenced by special political ties that existed between the capital exporting and importing countries, like membership of the Commonwealth, French Community, etc. This has served to compartmentalise the capital flows and thereby to limit their free flow.

The limited reliance that can be placed on private foreign capital in the economic development of Ceylon is also evidenced by the statistics of the net outflow of long term private capital from Ceylon in every one of the last ten years, as revealed by published balance of payments data.

There are however two significant developments in the field of capital flow to the private sector, which hold out encouraging prospects. Firstly, there is a growing tendency to use the government and specialised agencies as channels, for the flow of foreign assistance to private enterprise. International institutions (e.g. I.B.R.D., I.F.C.) and other public and private lending institutions in the

*For example, "The International Flow of Private Capital — 1956-58"—U.N. (1959).

developed countries (e.g. the U.S. Export-Import Bank, the Development Loan Fund) are extending an increasing volume of foreign currency loans to the private sectors of underdeveloped countries via such development banks and corporations. In fact in India, the major part of the gross capital inflow (including re-invested profits) into the private sector has been in this form in recent years.* If the figures of net capital inflow were taken, this form of capital inflow (through official institutions) into the private sector, was almost equal to the total net inflow. The second development is the growing importance of short term manufacturers' credits extended by industrialists in developed countries to the purchasers of their machinery and of consumer goods. The need in an underdeveloped country is not only for long term capital but also for short term working capital. Further, although the capital offered may be short-term in so far as individual projects and purchasers are concerned, it may actually operate like a long term credit if it constitutes a revolving fund for the whole economy.

Conclusions

The main conclusions which emerge are as follows :—

(1) That any intensified development programme will produce a strain on the balance of payments. The strain would be higher, the higher the extent of inflationary financing, the higher the import ratio and the higher the imported capital goods component of the programme.

(2) Given the magnitude and pattern of the investment programme the remedies for the balance of payments problem have to be sought simultaneously through the concentration of the new investment in increased production of exports and import substitutes, increased domestic savings, import restrictions and the receipt of foreign capital. Of these the last has decisive advantages over the others, where it is available.

(3) The forecasts of the balance of payments for Ceylon made in the Ten Year Development Plan are highly optimistic and underrate the need for foreign capital, even without taking account of the actual developments since the framing of the plan. If these subsequent developments are taken into account the forecasts appear to be quite unrealisable, except with the assistance of stringent import controls.

---

*See "Foreign Investments in India—1959-1960" in the *Reserve Bank of India Bulletin*, May, 1961.

(4) Whilst the need for foreign capital on the basis of the revised balance of payments forecasts appears very large, there are three important considerations which have also to be taken into account. Firstly, no country should depend too heavily on foreign capital for its investment programme. The role of foreign capital should be marginal and be in the nature of a catalyst and should progressively decline in importance as development gathers momentum. Secondly, there are evident limitations on the present capacity of the Ceylon economy to absorb foreign capital without wastage. In regard to this, steps will have to be urgently taken to streamline the whole machinery of the implementation of the plan and in particular to integrate foreign aid with the programme in respect of its different projects and different phases. Thirdly, the problem of the repayment capacity of the Ceylon economy has to be given serious consideration. We have hitherto tended to take a far too complacent attitude about this.

(5) Of the different forms of foreign capital the most advantageous to the recipient country would be outright grants and soft loans. Also the less specific the nature of the capital the better it would be. Further in view of the fact that a considerable portion of the investment undertaken in under-developed countries will not be of the directly self-liquidating type, a substantial part of the foreign capital will need to take the form of aid on a government to government basis. Further, in view of the interdependence of the projects that make up the overall development programme, a programme approach and not a project approach must determine the self liquidating use of foreign capital.

(6) Private foreign capital has a useful role to play more in Ceylon, but in a qualitative rather than in a quantitative sense. The main contribution of private capital will be in the form of industrial and managerial expertise and commercial contacts. Expertise in other fields will be concentrated in the form of technical assistance offered through official channels. Quantitatively, private capital will be considerably less than foreign capital received through governmental channels. In fact an important development in recent years has been a growth of capital inflow even for the use of the private sector, through official channels.

BOOK REVIEW

E.F.C. Ludowyk. *The Story of Ceylon.*, London, Faber, 1962. 328 p., 6 pl., 2 maps, 1 text fig. *30 sh.*

Understanding the present by the past and the past by the present are both twin purposes of the process of historical inquiry. Aspects of a people's past throw considerable light on present happenings and a study of the life around us gives us valuable clues to that society's past. Generally, historical, sociological or political studies of a society make use of either of these two modes of inquiry. Professor Ludowyk has used both these forms of understanding and the result is a well-synthesised story of the island of Ceylon and its peoples from the early beginnings to contemporary times.

A connected account of the history of a country or a people, lasting over a period of two thousand years, is a most difficult piece of writing to undertake. If the account is to be meaningful, one has to get a right perspective and to impart a certain unity to it. Professor Ludowyk seems to be, in my opinion, on the correct lines when he uses the present as a starting point and in his most valuable Prologue (pp. 15–27) looks backwards at the two thousand years or so of Ceylon's past to see if any central clue is available to the student. The author asks of his material questions which have seldom been posed by other historians of Ceylon and this enables him, if not to arrive at valid and final conclusions, at least to pave the way for a certain type of critical inquiry on Ceylon's history and move away from certain stock generalisations that have so far studded the pages of text books and even of more serious works.

This book is born out of the great deal of original work that has been done in post-war years on various aspects of Ceylon history and the author has made very intelligent use of this varied material. The periodisation and categorisation he adopts is infinitely preferable to the usual divisions we have so far been used to. It refreshingly dispenses with such chapter headings like 'Tamil Invasions', 'Portuguese Period', 'Dutch Period' and so on —for long the bane of writers, teachers and students of history. It is to be hoped that the author's categories would become popularly accepted. While one agrees with the division of the book into three broad sections, one wonders about the choice of the term *Old Ceylon* to connote the middle period that comes between ancient and modern. This period has beaten most terminologists, not only historians of Ceylon but of other countries as well. If, as is well brought out in the text, this is a period of change brought in by various agencies, then it is not just old Ceylon but old Ceylon in transition.

By far the best part of the work is its discussion of ancient Ceylon. Because the author is always conscious of Ceylon's contemporary problems his analysis of these formative years of Ceylonese society and culture are very lively and fresh. The constant effort to relate the classical period of Ceylon's past to the present (see pp. 32, 59, 64, 65) makes for a clearer understanding of both. The development of a close relationship between the Sinhalese race, the monarchical state and the Buddhist religion, both in myth and reality, is well brought out, as is also the connection between Sinhalese and Tamils which too assumed in popular myth a characteristic rather different from reality and strongly imparted to it by the force of clerical tradition.

Another strong point of the work is the manner in which the author lays stress on personalities in order to bring out better the trends they represent. What we see then is no lifeless discussion of forces and streams of change as one would expect in a concise work of this kind. On the contrary, every opportunity is taken to give us a personal view of a certain developing force: Dutugemunu—leader of religio-political nationalism, Parakrama Bahu I—agent of cultural and technical achievements of ancient Ceylon, Don Juan Dharmapala—symbol of decadent Ceylon's bondage to Portuguese power, Raja Sinha—back-to-the-wall fighter against Portuguese and Dutch expansion, Frederick North—well-meaning British pro-consul with a one-track mind, and a host of more familiar personalities of the 19th and 20th Centuries come to life in these pages as seldom in works of history. It does appear, however, that the personal interest of the story has been stretched too far in chapter 10 when Robert Knox and his account are given an importance which they do not, in the opinion of some recent historians, deserve.

The attempt to explain political developments in modern Ceylon in terms of social classes and caste groups is ingenious. Serious students of politics would aver that this gives the clue to 20th century developments in Ceylon, and, though a subject dangerously fraught with emotion, must be studied more deeply. Professor Ludowyk's analysis of the first stage of political struggle as a conflict between the traditional but Westernised upper class leadership, and the newly risen wealthy challengers from outside, the 'somebodies' and the 'nobodies' is valid and cogent. The year 1956 saw the great revolt of the 'anybodies' or non-English-educated literati and 'everybodies' or the unlettered masses. The critique of the UNP's 10 year rule over Ceylon (pp. 280-291) is one of the best that has been written so far on the subject.

Whatever shortcomings there are in the work are also the shortcomings of the entire *corpus* of historical writing on Ceylon. If the book tells us little about the economic system and social structure of ancient Ceylon, if it does not explain adequately the causes for the decline of the classical Sinhalese kingdoms, these are defects it shares with other more detailed works on Ceylon. It is a general drawback of historical research on Ceylon that, with the exception of the 19th century, insufficient light has been shed on aspects of its economic and social history.

Professor Ludowyk's work is a great advance on the only other work of its kind, the Hutchinson's University Library series volume on Ceylon (1951) by S.D. Bailey. It has the advantage of using all the research that followed and is better in its conception and quality. It has more than fulfilled the modest aim set out in the preface, and will leave an impress on an intelligent reading public, both Ceylonese and non-Ceylonese. It is to be fervently hoped that it will also receive better treatment at the hands of a too sensitive government than the author's earlier work *The Foot print of the Buddha* (1958).

S. ARASARATNAM.

Ceylon's greatest natural resource is what you can guess—water. Can you doubt that our island's future depends so largely on its utilisation? Rainfall on our plains has to be caught and stored against the dry months. The water that runs waste from our central highlands to the sea has to be channelled to wider areas and tapped for its large potential of electricity. There are our towns and emerging cities that have to be assured their supply of treated water. Nor must we forget the immeasurable wealth of the sea that lies still virgin crying out insistently for fishing harbours. Tanks, Bunds, Dams, Hydro-Electricity, Water-Filtration Plants and Harbours demand the highest priority in development engineering in our country.