The

CEYLON ECONOMIST

2

Vol. 1.

A Quarterly Journal of Economics.

VOL. I. NO. 2. NOVEMBER 1950.

Economic Research Association, Colombo.
Price : Rupee One.
Annual subscription: Rupees Four, post free.

The Ceylon Economist.

A Quarterly Journal of Economics

Vol I. No. 2.

NOTE:— The views expressed in the articles are not necessarily those held by the members of the Editorial Committee or the Advisory Board.

Communications:—

Articles for publication and books for review should be sent to the Editor, The Ceylon Economist, 42, Dutugamunu Street, Dehiwela. Communications dealing with subscriptions and advertising space should be addressed to - The Business Manager, Ceylon Economist. 42, Dutugemunu Street, Dehiwela.

The Ceylon Economist

A Quarterly Journal of Economics.

Vol. I. NOVEMBER 1950. No. 2.

CONTENTS

Our Contributors.

Mukerjee, K. P. *Is Lecturer in Political Science in the University of Ceylon.* Sangarapillai, P. *Is Assistant Commissioner of Motor Transport.* Siriwardhana, P. H. *Is in the Research Department of the Central Bank of Ceylon.* Samaratunga, S. *Is a Graduate in Commerce of the London University.* Sarkar, N. K. *Is Lecturer in Economics in the Univesity of Ceylon.* Kandiah, P. *Is Assistant Librarian of the University of Ceylon.* Corea, G. *Is a graduate in economics of Cambridge, is now at the Nuffield College, Oxford, where he is engaged in research work on public finance in under-developed countries.* Gunesekara, H. A. de S. *Is Lecturer in Economics in the University of Ceylon.*

Notes and Comments

Aid to Asia

The development of the backward countries, though implicit in the Charter of the United Nations, was relegated to the background. Three hazy resolutions in the General Assembly (179, 180, 200) did no more than express the desire of all the members to recognise, in some form or another, the prevalence of such a problem.

'Point Four' which has now become an international slogan was a "bold" attempt on the part of the American President to unearth what was sinking beyond vision in the mass of verbiage of the U. N. General Assembly. Picturesque plans and loud sounding conferences appear to be the ceremonial preliminaries. But if 'Point Four' is to be freed from all this ceremonial burden, then it must be rescued from the web of vested interests in which it is entangled.

When the ceremonial floods have subsided the landscape will remain the same. The problem facing the underdeveloped countries, into which category fall practically all the countries of S. E. Asia with the exception, perhaps of Japan and China, is of the same magnitude and character.

The questions which have to be asked are:—What is 'Point Four'? What has been done to implement it? How far will it succeed? Before examining them, let us try to survey the magnitude of the problem that faces us. In doing so we shall make use of statistics computed by Allen and Thorp. (The primary objective of development is the raising of the standard of living; by industrialisation and diversification). On the basis of 1936-40 as 100, the income per capita is 13 in underdeveloped countries, 34 in transitional countries, and 100 in developed countries. The life expectancy which remains 60 in the developed countries is 45 in transitional countries and only 35 years in the underdeveloped countries. In regard to literacy it is 94, 60 and 15 respectively. It is no wonder that half the world are living in conditions of misery.

The percentage of the population living in these underdeveloped regions is 59, whereas only 20 and 21 respectively enjoy the benefits of developed and semi-developed conditions. The percentage of world income that this 59 per cent of the world population derives is 22; and U.S. exports to these regions remain at the appallingly low figure, which perhaps would be still lower consequent to devaluation, at dollars 0.7 per capita (this includes Africa and Latin America).

These figures reveal sufficiently the magnitude of the problem in the light of which 'Point Four' is a fleabite, or in the words of Miss. Susan Strange, "an attempt to reach for the moon with a butterfly net." The emphasis upon technical assistance rather than financial aid, the emphasis upon private capital investment rather than government-to-government loans, is a serious drawback which we shall try to illustrate.

Before we examine its drawbacks and consider how far it is likely to succeed we shall try to analyse the attitude of America and that of the recipient countries.

As evidenced by the statements made by the Secretary of Commerce, Mr. Charles Sawyer, in October 1949 'Point Four' is a "logical extension of the good neighbour policy." The good neighbour policy as practiced by the U.S. in their relation with the South American territories! The U.S. Dept. of Scientific and Cultural Co-operation (established in 1938) proclaiming in 1949 the work done in 16 of the Latin American countries includes among its projects that of the placing of a nurse midwife in the government maternity welfare clinic in Quito, and the work of the three American scientists on a survey of migratory birds in Cuba! American interest may lie in the production of rubber in the lands of its good neighbour, Brazil, rather than in Ceylon, Indonesia or Malaya; or in the establishment of meteorological stations in the Carribean.

The main emphasis in the Point Four Aid is upon technical assistance rather than financial aid, and upon private capital investment rather than government-to-government loans. And the assumption is, of course, that the main source of the aid is to be the U.S.A.

Firstly, to insist on the private capital investment is to insist on its failure. Private capital seeks avenues of most profitable investment. Investments in America prove more profitable and less irksome; and if private capital is to be channelled abroad, there must, in the opinion of the U.S. Chamber of Commerce endorsing the report of a Trust Company in New York in October 1949, be created a "favourable economic climate" in those countries which need such capital. The Report further said that it should be made "perfectly clear to foreign countries at the start that financial aid under the programme would depend on the *creation and maintenance* of conditions favourable to private investments." [my italics] The private capital investor would thus insist on the creation and maintenance of a system which does not toe an independent line. As Chang maintains, "To what extent capital can be transferred from the U.S.......depends upon a host of factors, among which the basic and the most important are the political stability and the prospect of industrial development in the borrowing countries."[1] Moreover, the question of International capital transfer depends on whether the particular producer interests will be retained by the maintenance of traditional methods of foreign trade and finance, or on whether the interest of the common man as producer and consumer, that is, full employment and a high standard of living will form the goal of International restrictions.

The prevailing economic and political instability, particularly in the underdeveloped countries, would make it extremely difficult for the free flow of private capital. And in these countries where the political and economic disturbances have not sifted to the surface, there lurks the real danger of foreign political interference through economic control. Will the American businessmen and investors have the 'faith and courage' "to give ample assurance that the inflow of American capital will not be accompanied by interference with the national policies (of borrowing countries) or by American domination of others' economies" ?

It was suggested that the Export and Import Bank which was established in 1934, to stimulate American exports by making loans to foreign governments, should make guarantees (1) to convert into dollars the profits accruing from American investments abroad (2) to compensate in U. S. dollars for any loss resulting from expropriation, confiscation or siezure by public authority of the borrowing country. The danger in this suggestion is that it thereby creates a desire on the part of the Bank as well as the investor to safeguard their mutual interests, by the maintenance of the status quo and this, naturally, might lead to interference. President Truman himself has declared: "I recommend, therefore, that the Export-Import Bank be authorized to guarantee U. S. private capital invested in productive enterprises abroad which contribute to economic development in underdeveloped areas, against the risks peculiar to those invesments." The possibility remains that the Bank may levy discriminatory rates for the guarantees in various countries, which will affect the foreign credits of those countries where investments require higher rates; on the other hand if the guarantee fees are uniform,

1. Chang: Agriculture and Industrialization; Harvard Economic Studies, page 214.

investors would be peculiarly poised on differential risks. The sole purpose of Eximbank insurance is to iron out the difficulties of private investments.

The Eximbank thus requires the support of the government to bring about intergovernmental agreements to safeguard the investors funds in cases of nationalization; but the safeguards do not hold water if the succeeding government does not consider it obligatory to remain faithful to the contracts of its predecessor. This naturally creates a vested interest on the part of the U. S. government to maintain the status quo. The remark of Benjamin H. Williams, that the extention of $ 25,000,000 credit to China on December 15, 1938 by the Export-Import Bank was "the most important American *political* loan since the world war (1)" should endorse the view that the government could use the Bank as a political weapon in the East. This was as Dietrich remarked "an unfortunate use of the Bank as an economic institution."[1] Unless, therefore, the International Bank for Reconstruction and Development, (I.B.R.D.), pools the resources of various countries, which enjoy a very high standard of living, to make loans on a non governmental non political basis, 'Point Four' cannot escape the vices of political reaction.

Let us now examine what has been done, and what is likely to be done by the various bodies that have been organized to implement 'Point Four' plans. In the Draft Bill sent to Congress in July 1949 Acheson maintained that 'Point Four' was primarily "an expanded programme for technical assistance and secondly an experimental program for encouraging the flow of private investment." Though technical assistance is an important aspect of development, it is likely to be overstressed and emphasised at the neglect of another, much more fundamental aspect, of capital requirements. The capital requirements of a country under industrialization are too great to occupy a secondary place. The demands vary from country to country and industry to industry. For instance, Dr. Rosenstein—Rodan in discussing the problems involved in the industrialization of such countries in Europe and South East Europe computes that capital equipment per head of £300—£350; ranging from £100—£400 (in light industry); £400—£ 800 (in medium industry); and £ 800—£ 1500 (in heavy industry—);[2] apart from the expenses incurred on housing and transport, etc; would be required, this is done on the basis that 50% of the demands will be met by local capital. The demands of the countries of South and S.E. Asia would be very much greater and the possibilities of squeezing the already inadequate standards

1. Far Eastern Trade of the U. S. by Ethel B. Dietrich, (I. P. R.)
2. Economic Journal, 1943, July-Sept.

of living of these countries (existing on 2200 calories per day which is 900 calories below that of developed countries),are extremely remote. In the light of these facts what could be the results achieved, for instance, in China where before the war the investments per head remained at a fantastically low figure of 2.70 dollars (Am.)?

By way of implementing 'Point Four' the President suggested that a sum of $ 45 million should be set aside. This has been recently pruned down to $ 35 million which fades into insignificance in veiw of the above computations. Thus 'Point Four' in practical terms cannot be considered seriously. This becomes clear in a statement made by Christian A. Herter of the Foreign Affairs Committee that "no illusion should be held out that this (*Point Four*) is going to be a large scale give away programme .." Thus the sum alloted or the pious words expressed do not permit us to envisage a future for Point Four, any less dismal than if the President had not taken the trouble to announce it. It remains a slogan.

In its broader aspects 'Point Four' grazes upon the shaper edge of colonialism in a disguised form. Instead of rushing headlong into the accepting an aspect of America's foreign policy we must weigh carefully the warnings of Susan Strange when she asked "can the U. S. have a 'Point Four' programme without acquiring in the process a latter day colonial empire? It can be argued, they will not be able to curb the national acquisitive exuberence (or capitalist imperialist tendency to exploitation, if you prefer it) of American business corporations."[1] The most vicious form of political control is that which enters through the door of economic control.

Apart from this, there remains the real danger that if 'Point Four' enters into the vagaries of the 'cold war' conflicts, our countries may turn out to be mere pawns in a complicated game of chess; to do or die under the guidence of the moving hand. The other factors which will determine the success of such aid are the absence of war and the domestic prosperity of the United States. The costs of rearmament and the gearing of the post war economies towards the production of war materials have weaned away a great proportion of the capital which may have been profitably used, as Sir John Boyd Orr once maintained, towards the rehabilitation, reconstruction and development of the underdeveloped Asian countries. The increasing unemployment in America (which bordered upon 5 million in May), only arrested by arms for the unemployed and alms for Europe, does portend that the U. S. economic machinery is jerking too violently, to expect a prolonged period of prosperity.

1. Year Book of World Affairs, 1950. 'Truman's Point Four' p. 286,

If 'Point Four' is to become a reality it must be implemented through an international organization without political strings attached to such aid; which should not emulate the I. B. R. D's parsimony in aid to Asia amounting to a paltry total of only $ 0.1 million of a total of $ 526.3 million spent in 1949; it must dispell the fears of the recipient countries. It must concentrate upon the more fundamental aspect of capital development and industrialization than upon mere technical aid. If 'Point Four' is to become a reality, positive action must be taken and that without a moments delay; an illusion like the proverbial carrot before the donkey must rot if held out too long.

Commonwealth Aid

Within the Commonwealth an attempt to resuscitate this problem of development has been advertised at the recent meetings held in Colombo, Sydney and London. Stripped of ceremony there remains the plan to build a Commonwealth Bureau in Colombo and spend £8 millions sterling for 3 years.

The Colombo conference set up the Commonwealth Consultative Committee. It was decided that by the 1st of September 1950 each country should present plans for construction which were considered last month in London. The draft report was based upon surveys prepared by the Governments of Ceylon, India, Pakistan, the Federation of Malaya, Singapore, North Borneo and Sarawak. The reports emphasised that the people of S and S. E. Asia must improve their standards of living by the development of the potential wealth by application of modern science and technology.

The Council for Technical Co-operation will organize the provision for technical assistance by way of the "training of personnel from countries in the area in countries where suitable instruction is available...." The sum of £8 millions ($ 22.4 millions) to be spent beginning from July 1st 1950 during 3 years seems hardly adequate.

Two relevant points and perhaps the only two relevant points, appear to have continued to elude the grasp of these various Commonwealth Conferences. Firstly, the primary objective of development is the raising of the standard of living, by industrialization and by diversification. Capital equipment is the first need; technical personnel is a subsidiary requirement, more easily supplied. The continuous reference to lack of technical personnel and the emphasis on technical training, both at the Commonwealth talks and the 'Point Four' project appears suspicious; are they perhaps the subterfuges of vanquished saviours!

Secondly, as far as the Asian countries of the British Commonwealth and Empire are concerned, the essense of the question of aid is less a question of a nominal share of £5 millions, with which in good time some of their nationals will become trained technically, than of releasing for their own use, in whatever they thought would benefit their people, the entire surplus which their current trade is piling up for them. For instance, the total sterling balances of the *colonies alone* amounted at the end of 1948 to £600 millions—as against this the amount spent on colonial development by the Colonial Development and Welfare Acts between the years 1940 - 49 amounted to £25,609,180[1] or *one twenty fourth* of the sterling earned by the colonies but blocked by Britain. "A simple sum in arithmetic," says Palme Dutt[2] "shows that this is equivalent to a total amount of 7*s*. 4*d*. per head over nine years, *or an average annual rate of under 10d per head.*"

If these dollar resources were made available to these countries, and their blocked sterling balances were also paid back and made convertible, there is little in the form of aid that would be required These countries could use these resources to obtain equipment and trained personnel from U. S. A. or from other sources. In view of this continued economic debt owed to them by Britain, continuous talk of aid, while nothing is in fact being done, and nothing contemplated beyond the training of personnel, is a little irritating.

In recent years what has become painfully evident to the British and other Colonial Powers is the overt penetration of American trade at a galloping rate into the countries of S. E. Asia. This is evidenced by the following figures of U. S. exports.[3]

	% age increase between 1938 1947
India ...	... 850
Australia ...	... 283
Burma ...	... 36
Ceylon ...	... 3,840
Br. Malaya ...	... 555
Hong Kong ...	... 390

It thus becomes increasingly necessary to view what appears to be eleemosynary on the surface, in the context of what appears to be a growing trade war between Western European countries and

1. Colonial Development and Welfare Acts—published in July, 1949.
2. Britain's Crisis of Empire.
3. Palme Dutt. Britain's Crisis of Empire.

the U.S. There was also Britain's enhanced interest in colonial development, particularly in Africa where such words as: "The growing development of African resources is of the same crucial importance to the rehalibilitation and strengthening of Western Europe as the restoration of productive power is to the future progress and prosperity of Africa" (Sir Stafford Cripps 1947) and John Strachy's statement on the groundnut scheme that "......this is not a philanthropic scheme started purely and solely for the African's benefit." It thus becomes extremely difficult to sift the political pepper from the economic omelette.

It is clear that Britain with the commonwealth countries will not be able to solve the problem. One important source of supply of capital needs of South and S. E. Asia would be the U. S. A. If a successful scheme could be devised for the transfer of the blocked up sterling balances to the U. S. so that the S. and S. E. Asian countries could buy from the U. S. their requirements, then a tremendous amount of tied up trade would be released—thereby creating a freer flow of international trade and an automatic rehabilitation of our countries.

All plans of economic development which bear a hard core of politics cannot hope to succeed. 'Point Four' and commonwealth plans if they are to succeed must be based on an appreciation of this fact. If aid is to come it must come through an international body shorn of political control. What the peoples of S. and S. E. Asia wish and hope for is the progressive raising of their standards of living from the rut of colonial stagnancy in which they had so long remained.

The Ceylon Wages Boards

By K. P. Mukerji.

The drift of progressive ideologies has finally cut off the ship of State from its *laissez-faire* moorings, as a result the purely protective State has been replaced by the welfare State even in "liberal" societies. Freedom of contract, self-help and thrift on the part of workers are no longer considered adequate guarantees of their basic interests and minimum human standards of living. Experience has shown that opportunities of and remuneration for work are determined by complex social forces whose operations are beyond the control of the individual workman. State help is necessary for canalising these forces for the social good which must include the good of the working class. The first pre-requisite of a good social order is the recognition of the right to work and the assurance of a living wage. The most important aim of Wages Boards is to ensure this living wage.

General Aims

Wages Boards, however, are peculiar mechanisms of State help, which illustrate the fallacy of extremist social philosophies which are unable to find a *via media* between no interference and full interference (by the State) in the economic life of the people. The fact is that though the bargaining strength of an individual worker (as against his employer) is insignificant, the collective bargaining power (thanks to the Trade Union movement) of workers organized in unions is considerable. The Wages Boards illustrate the possibility of keeping alive the free play of *collective-bargaining*, between representatives of employers and employees under the umpireship of the State. Herein lies the other object of the Wages Boards.

It is important to note that the Wages Boards are only State-sponsored and not State institutions. Under the vigilant auspices of the government, they are able to bring representatives of employers and employees together on a common platform and secure for them opportunities for discussing their mutual problems in a spirit of co-operation and amity. A glance at the operation of the Wages Boards in Ceylon for the last six years—the first Wages Board was set up in 1944—would convince any one that they have to a great extent helped the realization of these objects.

Composition

In Ceylon the Wages Boards Ordinance (no. 27 of 1941 as amended by Ordinance No. 40 of 1943 and No. 19 of 1945) and the Regulations made thereunder provide the law in this regard. According to the provisions of law the Minister of Labour may by order published in the Gazette establish a Wages Board for and apply part II of the Ordinance to any trade after inviting objections to the proposed order by Notification (in the Gazette and one English, one Sinhalese and one Tamil newspaper). Any such Board is to consist of the Commissioner of Labour (*ex officio* Chairman), an equal number of representatives of workers and employers and nominated members (who are not to exceed three in number). All (classes of) members are to be appointed by the aforesaid Minister for a term of three years (there being no restriction against women being so appointed). Representative members are appointed with the approval of associations or organizaations which they represent. (Sec. 6 - 9). Any vacancy caused by resignation, death or removal of any member is filled by appointment only for the unexpired portion of the term of office of the member in whose place it is made (Sec. 12).

Meeting and Quorum

A notice of at least 14 days in case of an ordinary (and 7 days in case of a special) meeting is to be given to all the members by the Chairman. The mover of a motion (at any meeting) must give at least 7 days notice to the Chairman (Sec. 7 of the Wages Boards Regulations of 1943). The quorum for a meeting requires the presence of the Chairman (or his deputy), at least one nominated member and not less than one-half of the total number of representative members of whom there must be at least two representatives of workers and two of employers. For instance if a Wages Board is composed of (say) 3 nominated members, 5 representatives of workers and 5 of employers then the quorum would require the presence of at least one nominated member, 5 representative members of whom not less than 2 to be the quota from each group. (Sec. 11).

Voting

If at any meeting of a Wages Board one group of representative members outnumbers the other then the former, *by mutual agreement*, must choose from among themselves the member or members who shall abstain from voting so that the equality of voting strength between the two groups may be ensured. If the group which is in a majority is "unable to agree among themselves as to which of them shall so refrain from voting at that meeting, the member or members who shall refrain from voting at that meeting shall be chosen by lot to be drawn in the presence and under the direction of the Chairman. (Such a member, however, fully participates in the discussions at the meeting). (Sec. 11). From my experience (as a nominated member) of over half a dozen Wages Boards I am in a position to state however, that never any difficulty is experienced in securing this

mutual agreement and the usual practice is for the Chairman to ask the over-weighted group to indicate who among them would refrain from voting and this is immediately done by show of hands (often in larger number than is needed for the occasion), indicating thereby the growth of a healthy convention in the conduct of Wages Board meetings in the island.

Growing Conventions

Indeed several procedural conventions, I believe, are in the process of formation at present, most noteworthy among them being (i) the systematization of the procedure of arguing a case, (ii) submission before the meeting of memoranda giving the main points relied on by each side, (iii) acceptance of the position that a question on which a decision is taken will not be brought forward again within six months and (iv) disallowance of debates on issues (discussed at a previous meeting called for considering objections to a tentative decision of a Wages Board. The implications of the last mentioned convention need a little elaboration. The decision of a Wages Board is *legally binding* (indeed it supersedes all previously existing laws on the subject-vide Sec. 29 & 60) from the date on which such a decision comes into force. A Wages Board decision, however, does not come into force unless it receives *the approval of the Minister of Labour*, which again is given only after certain procedural observances have been complied with. The observances to be complied with are:

(a) The publication of the proposed decision in the Gazette and in one English, one Sinhalese and one Tamil newspaper, inviting objections to the decision from the public which must reach the Wages Board concerned within a specified date, must be made in writing and mention the grounds thereof.

(b) The objection or objections thus received must be considered at a separate meeting of the Wages Board. (Sec. 26 A).

The convention referred to above prohibits the reopening *at this meeting* of issues already considered by a Wages Board before the decision against which objections were invited was taken.

Procedure to make Decisions Effective

To continue the career of a proposed decision of a Wages Board, only after duly considering the objections against such a decision, *at a meeting of the Board*, is it permissible for the Chairman to sign (and date) it and transmit it to the Minister of Labour through the Commissioner of Labour. On receiving the

Minister's approval* the decision together with a Notification of the approval of the Minister must be published in the Gazette and one English, one Sinhalese and one Tamil newspaper. A decision of a Wages Board comes into force only on the date on which the Notification of the Minister's approval is published in the Gazette (or on such later date as may be specified in such a Notification) (Sec. 27). So that before becoming effective a decision of a Wages Board has to go through five stages:— 1. Notification in the Gazette (and three newspapers) inviting objections to the decision, 2. considering objections (or no objections) received at a meeting called for that purpose, 3. signing and dating of the decision by the Chairman and the transmission of the same (through the Commissioner of Labour) to the Minister of Labour, 4. approval of the Minister and 5. notification of the approval of the Minister in the Gazette and three newspapers.

The procedure may appear cumbersome and dilatory but if we remember (i) the multiplicity of parties concerned in a Wages Board decision, (ii) the power of a Wages Board to rescind or alter its previous decision at any subsequent time (Sec. 28) and (iii) the full (legal) implications of a Wages Board decision, it would not then appear to be erring on the side of tardiness and caution. In this connection it is necessary to emphasise (once more) that a Wages Board decision is a legally binding order, breaches against which are penal offences liable to summary magisterial trial (Sec. 55). The only check against this summary procedure is the requirement that the plaint for instituting such a suit must receive the previous sanction of the Commissioner of Labour. This requirement serves as a useful brake in this summary mechanism as it gives an opportunity to the Commissioner to intervene and bring about amicable settlements and thereby check hasty and ill-advised litigations and in practice this brake appears to be in frequent use. The Labour Commissioner in his *Administration Report* (1948) *inter alia* observes—"Prosecution for infringements of the provisions of the ordinance was resorted to only when other corrective action failed to achieve the desired result" and that the general policy of the Labour Department is not to prosecute "where it is possible to correct matters departmentally." This is as it should be if our objective is to reconcile the interests of various groups in society and the Labour Commissioner in the same report has cited a case in which through a settlement brought about by the intervention of his department he was able to recover much greater benefit to the worker concerned than any legal remedy would have been able to do.

* The Minister may (under Sec. 27 of the Ordinance) refer back a decision, transmitted to him, to the Wages Board for reconsideration but it is not clear if he can refuse to give his approval to such a decision under any circumstance.

Functions

The main object of setting up a Wages Board, however, is the *fixation of a legal minimum wage* for every worker in a trade which comes under the operation of the Wages Board Ordinance. Under the Ceylon Ordinance the *first and only obligatory duty* of a Wages Board is to determine the minimum rate of wages for time-work (or a general minimum *time-rate*) and this duty a Wages Board must discharge immediately after its establishment. A Wages Board which, for some reason or other, is unable to do this within six months of its establishment, has to report the fact to the Minister of Labour and in such a case he either allows the Board an extension of time for the purpose or (under Sec. 29 A) authorises the Commissioner of Labour to determine the rate and such decisions of the Commissioner are treated as decisions of a Wages Board for the purposes of the Wages Board Ordinance.

The general minimum rate may consist of a basic wage *plus* a special allowance to be adjusted to accord as nearly as possible with the variation in the cost of living index number applicable to workers in that trade. A Wages Board may also fix the minimum variation in index-number upon which any such adjustment shall have effect (Sec 20). Now the minimum variation is 5 points but in one or two Wages Boards a move to reduce it to 3 points has been made.

Other things with a Wages Board is not bound to but *may* determine are:—

1. A minimum rate of wages for piece work (or the general minimum *piece-rate.*)

2. A minimum *time-rate* to apply in the case of wokers employed on piece-work for the purpose of securing to such workers a minimum rate of remuneration on a time-work basis (i.e. the *guaranteed time-rate.*)

3. A minimum rate (either *time-rate* or *piece-rate*) to apply in substitution for the minimum rate which would otherwise be applicable, in respect of over-time work done by workers (i e. the *over-time rate*) (Sec. 20). (Now the *over-time rate* varies in different trades from $1\frac{1}{4}$ to $1\frac{1}{2}$ times the minimum hourly rates.)

4. The intervals of payment of wages. (Sec. 23.)

5. The number of working hours per day, with due regard to the provisions of section 24. This section provides that in no case should the number of working hours per day exceed nine (including of an interval of not less than one hour for meals but exclusive of over-time during which a worker should in no case get a remuneration below $1\frac{1}{4}$ times the normal rate of wages in such work.)

6. A weekly holiday for workers (Sec. 24). In most trades the workers get the weekly holiday on Sunday, the exceptions being the Toddy, Arrack and Vinegar trade the Motor Transport trade and the Cigar Manufacturing trade. For sunday-works workers in these trades are paid $1\frac{1}{2}$ times the rate paid for a normal day's work.

7. The number of annual holidays not exceeding 21 days and the mode of computing remuneration in respect of such holidays (Sec. 25). The yearly holidays actually available to workers now varies from 10 days in the Plumbago trade to 21 days in the Cinema trade. In the majority of the cases they get 12 to 14 days.

Employers' Liabilities

It has been observed that it is a penal offence to evade the liabilities under the Wages Board Ordinance. The liabilities might accrue for contravening the provisions of those sections of the Ordinance whose breach is declared punishable or for contravening any decisions of any Wages Board. The following is the list of cases in which liabilities, punishable under the Wages Board Ordinanee, may arise:—

(a) Non-payment of the minimum wage fixed by a Wages Board (The liability of employers to pay wages has been made the first charge on the assets of a trade according to the provisions of Section 51 A.)

(b) Short payments of wages in contravention to the provisions of section 22 (which forbids paying less than the full minimum daily wage for the employer's inability to allot a full day's work to a worker) and section 31 (which forbids paying at a piece-rate which falls short of the prevailing time rate.

(c) Non-payment in contravention of any other decision of a Wages Board.

(d) Failure of an employer to exhibit a notice of the latest decision of the Wages Board of the trade in which he is engaged (Sec. 37/1943.)

(e) Failure of an employer to keep in the premises in which trade is carried on, a register or registers of workers (as specified in Sec. 36/1945).

(f) Dismissal (by an employer) of workers for being members of a Wages Board or for having become entitled to any benefit under any decision of a Wages Board or giving information to any authority regarding matters under the Wages Board Ordinance These six categories of offences are punishable with a fine not exeeding one thousand rupees or imprisonment of either description not exceeding a peried of 6 months or both (under the provisions of sections 39 and 44)

(g) Failure of an employer to comply with any decision of the Wages Board of the trade concerned [other than that metioned in (c) above].

(h) Failure or refusal to allow any lawful holiday to a worker.

(i) Failure of an employer to pay wages to a non-able-bodied worker in accordance with the terms of the permit granted to the latter under section 34. These three categories of offences are punishable with a fine not exceeding Rs. 500/- or imprisonment of either description not exceeding a period of 6 months or both (under the provisions of sec. 43)

(j) Acceptance of a premium from an apprentice or a learner (which is forbidden under sec. 35) is an offence punishable by a fine not exeeding Rs. 200/- or imprisonment of either description for a term not exeeding 3 months or both (under the provisions of section 45).

The Commissioner of Labour (and his deputies) and inspectors and other officers of the Labour Department have been granted wide powers of demanding information, right of entry into premises and of enquiry in order to enable them to detect offences committed in contravention of the above provisions (vide sections 49 & 50) After an employer has been convicted for non-payment or short-payment of wages to a worker the latter, by giving satisfactory evidence of not having been paid fully during any time within one year of the date of the filing of the complaint, may recover all such arrears [vide sections 39 (3) and 41].

Role of the State

I have remarked earlier that the Wages Boards are not government-sponsored institutions. Before I conclude I would like to elucidate the point and thereby remove certain popular misconceptions. It is to be noted in this connection that (usually) the only government servant who is a member of a Wages Board is the Chairman. A non member secretary, however, attends solely for the purpose of keeping the minutes of the meetings. The Chairman who presides at the Board meetings merely sees to the proper conduct of meetings ensuring fair representation of all the view points and a quiet and friendly atmosphere in which alone such deliberations are possible The Chairman has no right to vote in the meeting.

But what about the nominated members? I find that there is a notion prevalent that the nominated members are on the Wages Boards to represent the government view point, that they vote according to instructions received from the government and receive extra remuneration for this. This is an entirely wrong notion. First, the nominated members do not receive any extra allowance. According to Section 27 of the Regulations (of 1943) the only allowance payable to members of Wages Boards is for attending meetings of the Boards and (except government servants who receive no such allowance) *all members* of Wages Boards are paid at the same rate (i.e. rupees ten per day per individual as subsistence allowance and a travelling allowance).

Secondly, nominated members do not represent the government or any body else; they are not answerable to any body except their own conscience, are not obliged to support any policy nor do they receive any instruction whatsoever from any body. They are an entirely independent group and, so far as I know, in their appointment good care is taken to ensure their independence of view. That is why, though there is no bar against the appointment of a government servant as a nominated member, so far only four persons have been so appointed and that too probably on the ground of their possessing technical knowledge which was considered valuable for the Boards on which they were appointed. These official nominated members are the Commissioner of Motor Transport (on the Wages Board for the Motor Transport trade), the Director of the Technical College (on the Wages Board for the Engineering trade), the Deputy Director of Industries (on the Wages Board for the Match Manufacturing trade) and the Government Mineralogist (on the Wages Board for the Plumbago trade). These are obvious exceptions. Usually members of the University staff, retired judicial officers and other retired officers of independent outlook are appointed as nominated members.

They are no doubt an important group because in case of an acute difference of opinion between the two groups of representatives, the nominated members are expected to bring about a reconciliation (in which more often than not they succeed) and in case of a division they and their attitude ultimately decide the issue. This is perfectly true. What, however, is not true is that their importance is due to the fact of their representing the government's view point. On the contrary they have been vested with some importance because of a conviction that in case of an irreconcilable difference of opinion between the representatives of workers and employers the issue involved should be decided by a body of persons whose independence of judgment would be vouchsafed by their academic upbringing and unassailable position in life.

The above described composition and mode of operation of Wages Boards clearly indicate the real part which the State wants to play here, that is the role of a friend, philosopher and

guide to both the industrial groups with a view to maintaining a healthy and satisfactory industrial relationship upon which the prosperity of a country so largely depends. In Ceylon, to quote from the Labour Commissioner's *Administration Report* (1948) "the smooth working of these 'Industrial Parliaments' has proved beyond doubt that Wages Boards have come to stay and to play a large role in the maintenance of industrial peace in this Island." To describe the Wages Boards as "Industrial Parliaments" may be, at the present stage of their development, an obvious exaggeration representing the natural proclivity of progressive minds to mistake a longing for an actuality. It cannot, however, be gainsaid that they have come to stay and are performing very useful functions in maintaining peace and order in the industrial life of the Island. Today, in Ceylon, Wages Boards are operating for *seventeen** different trades and we gather from the latest *Administration Report* (1949) that there is "frequent demands for extension of the application of Wages Boards Ordinance to more and more trades." No institution would enjoy this degree of popularity unless it performs some important social service.

* The Wages Boards Ordinance was applicable at the end of 1949 to the following seventeen trades :—

(1) The Tea Growing and Manufacturing Trade,
(2) The Rubber Growing and Manufacturing Trade,
(3) The Cocoa, Cardamom and Pepper Growing and Manufacturing Trade
(4) The Coconut Growing Trade,
(5) The Coconut Manufacturing Trade,
(6) The Engineering Trade,
(7) The Printing Trade,
(8) The Plumbago Trade,
(9) The Tea Export Trade,
(10) The Rubber Export Trade,
(11) The Toddy, Arrack and Vinegar Trade,
(12) The Cigar Manufacturing Trade,
(13) The Motor Transport Trade,
(14) The Match Manufacturing Trade,
(15) The Cinema Trade,
(16) The Dock, Harbour and Port Transport Trade,
(17) The Building Trade.

Mr. M. Rajanayagam, the Commissioner of Labour and Mr. D. H. Greve, (Asst. Commissioner) very kindly checked up, at my request, the factual statements made herein for which I am grateful to them.

The Theory of Value*

By P. SANGARAPPILLAI.

1. The theory of value occupies an important and central place in the Science of Economics. It is so important that some economists have defined economics as the science dealing with the price mechanism i.e. the market determination of value. The two characteristics of our economy which distinguish it not only from those of the primitive, feudal and middle ages but also from the planned socialist economy are (a) the existence of a market wherein all goods and services are bought and sold (b) the use of money as the accepted and common medium of exchange in all transactions.

2. In a market economy, the direction of resources, the distribution of incomes, the wealth and welfare of the community and of each individual therein are all governed by the movement of prices in the market. Every transaction involves a value judgment. We are all vitally affected by the prices for the goods and services which we propose to sell or buy. Every person is not only a seller of certain goods and services but also a buyer of other goods and services. According to Professor Schumpeter, it is possible to conceive all the fundamental aspects of human behaviour in the science of economics as having the form of exchange and to a large extent, this is true since economists deal chiefly with a market economy.

3. In a plannel economy, we substitute a central determination of value by the government or the controlling body for the normal functioning of the market. Such determination may be based on ethical, political and sociological grounds which cannot form the subject matter of economics. In societies, other than ours, the theory of value is not so important in economics since there is no means of determining value and production and distribution are carried on according to the arbitrary decisions of the controlling body. The theory of value, therefore, is mainly concerned with the study of the factors influencing or determining value in a market economy.

4. The market functions efficiently and well because of the use of money. Owing to its use, it is possible to sell or to buy goods and services at appropriate values. In a barter economy, the freedom to do so may be restricted by lack of opportunities. Buyers and sellers cannot be paired off according to actual needs and the terms of barter would provide no true indication of values. In primitive communities or in a planned socialist economy, individual freedom is restricted and values therefore will depend on arbitrary political decisions.

* Revised Text of a Lecture delivered at the Y.M.C.A. Colombo.

5. To understand the functioning of our market economy and to solve its problems, a proper understanding of the determination of value in our economy is therefore essential. Economics has been ridiculed often as an unreal and theoretical science, inapplicable to the problems of everyday life. It was not the fault of the science of economics but the fault of a completely misleading and ambiguous classical theory of value. To build up anew the science of economics and to make it real and applicable to day-to-day problems, a new approach to the theory of value is essential and this has been done to a great extent by the economists since 1931.

6. It is not my intention to set out a new theory of value. There is little that is new in human experience or in the science of economics. Even the Keynsian doctrines reflect many of the views held in the Mercantalist period. No one theory adequately explains how value is determined. The different theories place emphasis on different factors to the exclusion of others while in fact there are innumerable factors which determine value. No theory can be rejected as absolutely false and no theory can be accepted as completely sufficient for the purpose of determination of value. It is necessary to analyse the different theories, assess their importance and find out their deficiencies before a synthesis of these theories can be made to provide solutions for the determination of value under the complex conditions of modern life. The various theories must be restated in clear terms so that one can accept the true and reject the false in each of the theories. When this is done, it will be found that there is no conflict between the different theories.

Definition

7. The value of an article is defined as the ratio in which it is exchanged for other goods and services i.e. the quantity or number of units of every other kind of goods which may be exchanged for a given quantity or a given unit of the first mentioned good. But what are the values of the other goods and services which are exchanged for this article. They are again expressed in terms of other goods and services. It makes no sense to me if the value of my labour is expressed in terms of so many oranges or coconuts. All these commodities are not exchanged in the same market, and barter is rare in a modern economy. Value is expressed in terms of money and it is the function of the market to determine what price should be paid for an article. We do not express the area of a triangle in terms of another triangle but in terms of square inches, feet or yards. Once the area is determined in square inches, feet or yards, it is then possible to compare the areas of different triangles and to express them as percentages or multiples of each other. In the same manner, the markets

determine prices and once these prices are known, the values of articles can then be expressed in terms of each other. The following quotation from Karl Marx clearly illustrates this point. "We know from experience that these proportions vary infinitely. Taking one single commodity, wheat for instance, we shall find that a quarter of wheat exchanges in almost countless variations of proportion with different commodities. Yet its value remaining always the same, whether expressed in silk, gold or any other commodity, it must be something distinct from and independent of, these different rates of exchange with different articles. It must be possible to express, in a very different form, these various equations with various commodities.

Besides, if I say a quarter of wheat exchanges with iron in a certain proportion, or the value of a quarter of wheat is expressed in a certain amount of iron, I say that the value of wheat and its equivalent in iron are equal to some third thing, which is neither wheat nor iron, because I suppose them to express the same magnitude in two different shapes. Either of them, the wheat or the iron, must, therefore, independently of the other, be reducible to this third thing which is their common measure."

8. In a modern community, money is the common measure of all values. It it therefore meaningless to speak of separate theories of value and prices. In our economy, the value of an article is the price paid for it. It does not mean the price which should or ought to have been paid in the estimation of any individual but the actual price paid in the market. The theory of value therefore deals with the determination of market prices and the question to be answered is as to why one article should have one price while another article should have another price.

Although money is the only real and practical measure of value, yet it is not perfect as other measures. A yard means the same distance whether the measurement is taken in 1949 or 1950. It does not vary with time and comparison between measurements taken at different times is possible. But a rupee in 1949 is not the same as a rupee in 1950. Values as expressed in rupees cannot therefore be compared as between different periods. This is admittedly a defect in the unit of measure chosen by us and provided this is known and due adjustments are made even values for different periods can be compared. If therefore prices change uniformly in respect of all goods and services, we have chosen a different unit of measure though under the same name. But unfortunately, money is not neutral. The supply of money itself changes the values of commodities and services and it might therefore be argued that money cannot be an independent measure

of values. But for all its defects, this is the only measure of value in a market economy and if this is discarded, there is no substitute for it.

Classical Theories of Value

9. According to Adam Smith the word value has two meanings. It expresses the usefulness of an object (i. e. value in use) as well as its purchasing power (i. e. value in exchange). An object can have no value in exchange unless it has a value in use. Adam Smith however pointed out that the value in exchange is not in proportion to the value in use. Free goods such as pure water, fresh air etc., which have the greatest value in use, are wholly without exchange value. Diamonds, ornaments etc. etc. which have little or no value in use have the greatest exchange value. Adam Smith himself never sought to explain this paradox. It was left to the marginal utility theorists to provide an answer. When Adam Smith speaks of the utility of water and diamonds, does he refer to their total utility, or the utility of the first gallon of water and first ounce of diamonds or that of the last gallon of water and the last ounce of diamonds? Utility will differ according to the quantity in possession. Since all units are homogeneous, price is determind by the utility of the last or marginal unit. Value in exchange cannot be higher than this utility since no one will pay for an article more than the estimated value in use of that article. Value in exchange cannot be lower than this utility since then the buyers will exceed sellers. In other words, the value in exchange must exactly equal marginal utility. Although this is an explanation of Adam Smith's paradox, it cannot be a theory of value since utility itself cannot be measured and differs with different persons. Adam Smith himself merely pointed out this apparent contradiction. He believed in some form of cost theory of value.

10. If exchange value and utility differed as pointed out by Adam Smith, then, exchange value must depend on something entirely different from utility or on utility and something else. The latter view was adopted by the classical economists except Ricardo and his followers. In order to have exchange value, an object must necessarily be useful. But in addition, it must exist in limited quantities. If the supply is unlimited in relation to demand, exchange value falls to zero as in the case of free goods of nature. On the other hand, great scarcity can impart a high exchange value to an article. Scarcity in relation to demand, according to this view, determines value. This is really the marginal utility theory expressed in a different manner. If the supply is fixed and cannot be varied,then the utility of the last unit determines value. But supply is never fixed. Most goods are produced. The amounts produced and offered for sale at any

moment in the market will depend on value and demand. Even in the case of goods of nature which are sold in the market, the amounts offered for sale by the owners of these goods will depend on value and demand. The degree of scarcity of an article is determined by price to some extent. When the supply is indeterminate, it cannot determine value.

11. So far the classical economists have explained value without reference to the market economy and the price mechanism. The concepts of utility and scarcity are vague and unreal. They are incapable of measurement. To deal with market value, which is the only real value, the classical economists introduced the concepts of demand and supply. In any market, goods are exchanged for money or money for goods. When I sell an article, I exchange money for that article and when I buy, I exchange that article for money. The exchange of goods for other goods which is known as barter is very rare in modern communities. In any market, there are a large number of persons who are eager to exchange goods for money. These persons are known as buyers and their eagerness to buy is known as their demand for the article. Equally, there are a larger number of persons who are eager to exchange money for goods and this eagerness determines the supply of the article in the market. The demand curve indicates possible action in response to possible prices. Although demand is based on expected utility or satisfaction, yet it is not entirely governed by it. The chief reason is that the demand curve at any point is controlled not by marginal utility of a specified commodity alone but by a balancing of that utility against the marginal utilities of other commodities and services. Utility or desire is without effect unless it is backed up by purchasing power. Purchasing power is unequally distributed amongst persons and such distribution is not based on needs. Even if purchasing power is equally distributed, no two persons have the same need for an article. But these considerations are irrelevant for the purpose of determination of value. It is quite sufficient for us to know that people are ready to part with certain sums of money for certain amounts of the article at various prices. At any moment, however there is only one price in the market and a definite amount bought. Therefore there is only one knowu point in the demand curve. The demand curve is based therefore on assumptions regarding the other points. Yet it is true in so far as it indicates a tendency. There is a tendency in all these demand schedules. The quantity of any good which people are ready to buy varies inversely with the prices of that good. At higher prices, less will be bought and at lower prices more will be bought. There are, no doubt, exceptions to this general rule but the exceptions are so few and insignificant that they can be ignored.

12. The great bulk of selling is done for profit. With few exceptions, sellers are not parting with goods which might satisfy their wants. In a modern community, production is organised by certain persons; call them capitalists, entrepreneurs or by whatever name you like. They engage factors of production which are paid remuneration for their services. They will not carry on production for long unless they can sell the goods at prices which cover at least the costs of production. Costs include not only payments made to other persons by the entrepreneur but also interest on his capital and an adequate reward for his own labour of management. The supply curve therefore, is mainly based on costs although not entirely dependent on it. The expectations of the entrepreneur regarding future costs and prices are equally important in the determination of the amounts offered for sale. There is only one amount offered for sale and one price in the market at any particular moment of time. In other words, only one point in the curve is definitely known. The curve however, is drawn on assumptions regarding possible prices and possible amounts which would be offered for sale at those prices. Here too, there is a general tendency which is true except for a few insignificant exceptions. The cost per unit increases with increase in supply and decreases with a decrease in supply, The supply of factors to an industry is not elastic. If we have sufficient homogeneous unemployed factors, supply can be increased at constant costs. But an increase in production necessitates the employment of less efficient factors at the same rate of remuneration or the payment of higher rates to attract factors from other industries where they are at present more profitably employed. The classical theory assumes that price is determined at the point of intersection of the supply and demand curves where the amount demanded equals the amount supplied. The four laws of supply and demand are stated in support and these are:—

(1) Price tends to equate the amount which sellers are prepared to offer for sale and the amount which buyers wish to buy.

(2) Usually a large quantity of a commodity will be demanded at a lower price than at a higher price; and a larger quantity will be offered for sale at a higher price than at a lower price.

(3) An increase in demand tends to raise the price and to extend supply; a decrease in demand tends to lower the price and to contract the supply, and

(4) An increase in supply tends to lower the price and to extend the demand; a decrease in supply tends to raise the price and to contract the demand.

13. All these laws are perfectly obvious and true. It is not the purpose of the theory of value to explain the obvious but to find out the factors determining value. Demand is on the average neither great nor small in relation to supply but is in fact exactly the same. If the demand is greater than supply, price will no doubt, rise; if it is less, price will fall. Since supply and demand are equal at the point of equilibrium, the question we must ask is this: Why does the supply and demand of a particular commodity achieve equilibrium at one price and of another commodity at a different price? It is also possible to have a large number of equilibrium positions as shown in figure (1) below:

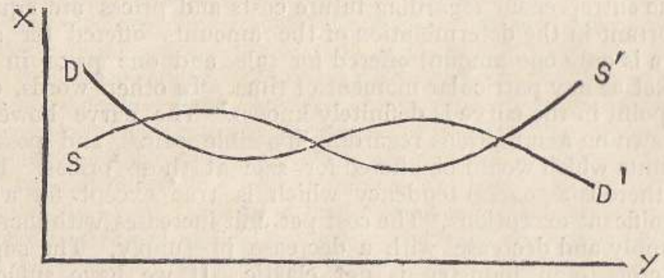

FIG. 1.

In that case there is no reason why equilibrium should be reached at one point rather than at another. The classical theory tries to explain this by the costs of production or reproduction. In the long run, it is maintained that it is the cost of production that determines prices. Under perfect and pure competition and in a stationary economy, price cannot be either above or below costs of production. If it is below costs of production, the marginal producers will leave the industry since they cannot carry on at a loss. This reduction in supply not only results in a higher price, if the demand remains the same, but also in a reduction in the marginal costs of production. A new point of equilibrium is reached at a higher price while the amount produced will be lower. If price is higher than costs, the profits earned will attract new firms. Supply will increase and price will be reduced to the level of the new marginal costs of production.

14. For this theory to be true, costs of production must be something definite which is determined independently of price. If, for example, all articles require the same quantities of the different factors of production, it is possible to say that their values must be the same. Where the articles require the various factors in the same proportion, it is also possible to determine values without reference to remuneration. Suppose an article A requires 3 factors

in the following proportion $1a+2b+3c$ and article B requires the same factors in the proportion of $2a+4b+6c$, then it is possible to say that the price of B must be double that of A. Where the quantities of the factors utilised are not in the same proportion, the only unit of measuring the values of the different factors and the cost is the remuneration paid to the different factors in the market. The remuneration paid however depends on the price or value of the article. Costs and prices are therefore interdependent. They are not independent quantities, the one determining the other, but are variables which are mutually determined like the position of the planets in the Solar System.

15. Even under competitive conditions, it is impossible to separate or impute costs where production of an article proceeds simultaneously with the production of other goods known as joint supply. Mill regarded them as exceptions to the rule, though in reality they cover a large part of the field of production. Practically all branches of agriculture fall within the category of joint supply. Since the separate costs cannot be calculated, the total selling value of the joint products must cover the total costs of production. These are the main objections to the cost theory of value.

Other Theories

16. We shall now deal with two other theories according to which value depends on something other than costs of production. Ricardo, Karl Marx and the Socialists adopted the labour theory of value. Karl Marx sums up his theory of value as follows: "We arrive, therefore, at this conclusion. A commodity has a value, because it is a crystallization of social labour. The greatness of its value or its relative value, depends upon the greater or less amount of that social substance contained in it; that is to say, on the relative mass of labour necessary for its production. The relative values of commodities are, therefore, determined by the respective quantities or amounts of labour, worked up, realised, fixed in them. The correlative quantities of commodities which can be produced in the same time of labour are equal. Or the value of one commodity is to the value of another commodity as the quantity of labour fixed in the one is to the quantity of labour fixed in the other." But how does one measure quantities of labour? It is assumed that all kinds of labour can be reduced to units of average or simple labour. Labour of a higher quality is regarded as representing an extra number of working days. Even then, the only measurement possible is that provided by remuneration which depends on value. Karl Marx himself was aware of this difficulty. Ricardo, however, accepted this measurement provided by remuneration. Karl Marx clearly states that the reward for labour and the quantity of labour are disparate things. What then measures quantity of labour? There is no clear answer provided to this

question. Capital is considered as accumulated and stored up labour which can be measured in labour units. Capital today means command over money which cannot be considered as stored up labour. Even Ricardo expressly admits that this rule is subject to important exceptions in consequence of the unequal proportion of fixed and circulating capital in the various branches of production. Finally, these economists thought that land, being a free gift of nature could be disregarded and rent is a surplus which does not form part of the costs of production. To the firm or industrialist engaged in production, land is certainly not a free gift of nature. He must either buy it or pay for its service just as in the case of any other factor of production.

17. It might be possible to determine value according to the theory of Karl Marx under certain conditions. Land must be made available free to the producer i.e., land must be nationalised. Capital too should be in the hands of the state so that no person would be in a position to control production on account of ownership of capital. The social values of the various kinds of labour should be determined arbitrarily by a central planning body and the free functioning of the market for goods and services should be abolished. The question whether such a determination of value is preferable to the market determination in our economy is irrelevant to our subject. Karl Marx's theory of value does not apply to a capitalistic market economy like ours.

18. The marginal utility theory of Jevons and the Austrian economists gives a more simplified picture avoiding many of the difficulties. Price is determined by marginal utility, namely, the utility of the last unit bought. Supply is assumed to be given and fixed at any particular moment in the market. Marginal utility becomes the synthesis of utility and scarcity. If a relatively scarce commodity has a high exchange value, it is due to the fact that consumption must cease at a point where the least important of the needs satisfied or the most important of the needs unsatisfied are still of great significance. Common commodities such as bread etc., are usually consumed in such large quantities that the need of one additional unit is of slight significance.

19. There are many objections to this theory. There is no measure of utility. If we assume that the utility of an article is measured by the amount of money which a person is ready to pay for it, then this theory is nothing more than a truism, since no person pays for an article more than what it is worth for him. Supply is never fixed. It depends on the price. In any market for an article, there is a fixed price. Purchases will be carried on till the utility of the last unit bought is equal to this price. Given the demand, it is price that determines the amount bought and the

marginal utility and not vice versa. If the price is less, stocks will be withdrawn from the market so as to adjust supply to demand. If price is more, stocks will be brought to the market. Many articles cannot be divided physically into small units so that the marginal utility of these units can be found out. This theory does not provide for joint demand.

20. Where, however, supply is fixed or where the costs of production cannot be imputed, then certainly price is determined in the market by marginal utility or the willingness to buy the last unit. Take the case of a perishable article. If it cannot be stored up, then the whole amount must be disposed of in the market. In the case of an article, the demand for which has fallen owing to change in fashion, taste, etc. the existing stock must be sold at prices less than cost.

21. All these however are exceptions to the cost theory of value. This is the only theory of value which is applicable to a market economy. But that does not mean that price must always or in the long run be equal to costs of production. It may be more or less than the costs of production depending on circumstances. The classical theory is based on many assumptions which are not true to life. A study of the theory of value under such assumptions is highly unreal. Professor Straffa rightly points out the unreality of such studies in the following words; "We are led to believe that when production is in the hands of a large number of concerns entire y independent of one another as regards control, the conclusion proper to competition may be applied even if the market in which the goods are exchanged is not absolutely perfect, for its imperfections are in general constituted by frictions which may simply retard or slightly modify the effects of the active forces of competition, which the latter ultimately succeed in substantially overcoming. This view appears to be fundamentally inadmissable. Many of the obstacles which break up that unity of the market which is the essential condition of competition are not of the nature of frictions but are themselves active forces which produce permanent and even cumulative effects; they are moreover frequently endowed with sufficient stability to enable them to be made the subject of analysis based on statistical assumptions." Although the conclusions of the classical theory are unreal it does not however mean that the theory itself is fundamentally wrong. The error lies in the unreal assumptions made. Once these unreal assumptions are discarded, the theory can be modified to find out value under the real conditions of the market.

22. I shall now deal with the actual determination of value under various assumptions and then discard them one by one. Let us assume a static economy under pure and perfect competition.

What do we mean by these terms? A stationary economy is one in which there are no changes in the three fundamental sets of data. Tastes:—the tastes or preferences of individuals for various commodities and services are fixed. This statement must be interpreted broadly. Resources:—With respect to land, no soil will be washed away, no new areas settled, no new ore deposits discovered or existing deposits depleted. The labouring population will not change in size, age etc. The capital equipment will not increase or decrease. No new inventions will be developed or changes made in the existing organisation of production. Money will remain neutral. Income and its distribution will remain fixed. This state of rest does not mean a state of rest in the physical sense. Rest means that the level of the various quantities remain constant and that the economy continues to churn over. Pure competition:— (a) There must be a large number of sellers so that the influence of one or of several in combination is negligible. There is no need for their numbers to be infinite but they must be large enough so that even though a single individual has in fact a slight influence upon the price, he does not exercise it because it is not worth his while to do so. If the individual seller produces on the assumption that his entire output can be disposed of at the prevailing or market price and withholds none of it there is pure competition as far as numbers are concerned and (b) goods must be perfectly homogeneous or standardized for if the product of one seller is slightly different from those of others he has a degree of control over the price of his variety. Not only goods but sellers also must be standardized. It should be matter of chance from which seller a particular buyer purchases. Competition may be pure but not perfect. Imperfection results from lack of mobility of resources, imperfect knowledge, friction in the smooth working of the market etc.

23. In a stationary economy, under pure and perfect competition, the value of an article is determined by supply and demand. The supply and demand curves remain fixed. Since no change can arise or is anticipated, the mutual inter-dependence of the curves can be ignored. There is neither profit nor loss. Price reaches stable equilibrium at the point which equates demand and supply. For the industry as a whole, price and total production are determined by the

average demand and supply curves. In figure 2 below, Q P is the price and O Q is the total amount produced.

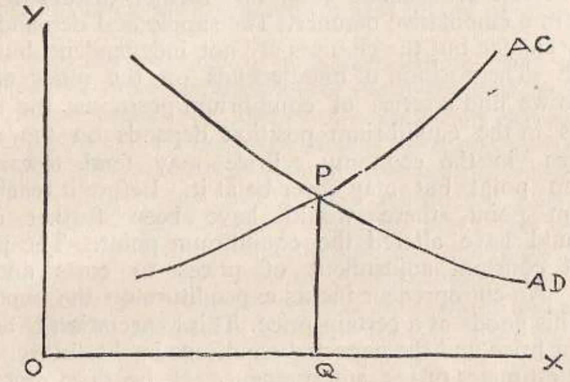

FIG. 2.

Each individual firm in the industry will be of the optimum size. The price of the article for the industry is already fixed and no one firm can influence the price. This is one of the conditions of pure competition. Each firm will, therefore, produce that amount which will bring in the maximum amount of profits. Production by each firm will be carried up to the point where marginal cost is equal to price. Average costs per unit cannot remain lower or higher than the price. If it is lower, then the firm will be making surplus profits and this will attract new firms into the industry and competition will eliminate profits. If it is higher, the firm will make losses and cannot carry on production for any length of time. The firm will be in equilibrium where marginal costs=average costs=price. This is graphically represented as follows:—

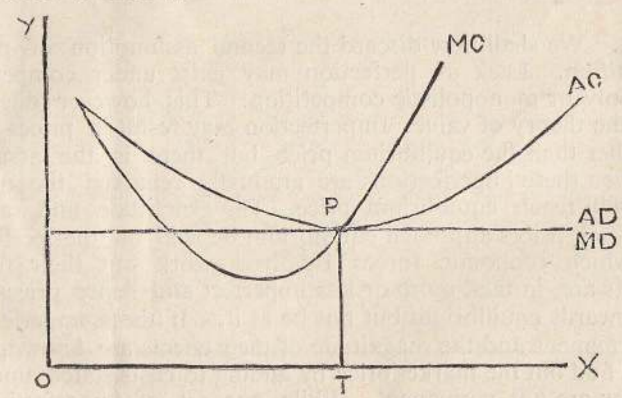

FIG. 3.

24. Let us discard these assumptions one by one. Every economy is dynamic and as such no equilibrium price can be stable. A small disturbance calls out further disturbing forces which act in a cumulative manner. The supply and demand curves constantly change but the changes are not independent but interdependent. The position of one depends on the other and vice versa. So we find a series of equilibrium positions; the rapidity of changes in the equilibrium position depends on the rapidity of changes in the economy. Price may tend towards the equilibrium point but may never be at it. Before it reaches this equilibrium point, there would have been further changes which would have altered the equilibrium point. The problem is one of constant adjustment of prices to costs and costs to prices. An entrepreneur incurs expenditure on the expectation of selling his goods at a certain price. This expectation is based on the present price and the expected conditons in the future according to the estimates of the enterpreneur. If he does not realise this price, he will cut down his costs either by reducing the remuneration paid to the factors or by reducing his supply till his costs are again equal to the price at which he expects to sell. If he sells at a higher price, he will increase his supply in order to maximise his profits and prices will tend towards the level of costs. If profits exist for a sufficiently long period of time, new firms will enter the industry. It is therefore quite clear that in a dynamic economy prices and costs may differ. But there is no doubt that they depend on each other, and tend towards equality. When conditions change, it is not prices alone that change as is generally assumed. Where the change is a once over change, prices and costs will change and reach a new position of equilibrium. But where the change is continuous, there may be no equilibrium point although both quantities may tend towards such a point owing to their mutual interdependence.

25. We shall now discard the second assumption of perfect competition. Lack of perfection may exist under competition, monopoly or monopolistic competition. This however does not affect the theory of value. Imperfection may result in prices which are higher than the equilibrium price but there is the assurance that when these imperfections are gradually removed the market price will reach equilibrium price. The exactitude and rapidity with which prices approach equilibrium depend on the perfection with which economic forces involved work out their results. Markets are, in fact, more or less imperfect and hence prices may tend towards equilibrium but not be at it. If these imperfections are permanent and the magnitude of their effects are known, then we can find out the market price by adding to costs stated amounts. But they are not permanent. While one set of imperfections is

removed, another set comes in. The magnitude of their effects is constantly changing in view of constant changes in the economy. However, this does not invalidate the cost theory of value.

26. It is the absence of pure competition, that makes the costs theory of value inapplicable to the determination of value. In classical economics, the theory of competition has been accepted generally to explain the price system. Monopoly is treated as an exception and a separate theory of monoply value is given. Mrs. Joan Robinson and others have considered our economic system as a world of monopolies. In their view, the competitive theory is an exception while the monopoly is the rule. Monopoly means the absence of any element of competition. The producer should have complete control over the production and sale of the article. There should be no substitute for that article. For pure monopoly, there should be no competition even as regards the expenditure of consumers' income between this article and other articles. Since the firm controls the industry, the demand curve for the firm and the industry will be the same. It will remain constant and will not be affected by the price policy of the firm. The price fixed and the output sold will be such as to maximise profits. Even under competition, each firm tries to maximise profits but profits are eleminated by the forces of competition. Under a monopoly these profits will remain till the monopoly itself is destroyed. The profits of the firm are at the maximum where marginal costs=marginal revenue or demand. The amount produced and the price may be graphically illustrated as follows:—

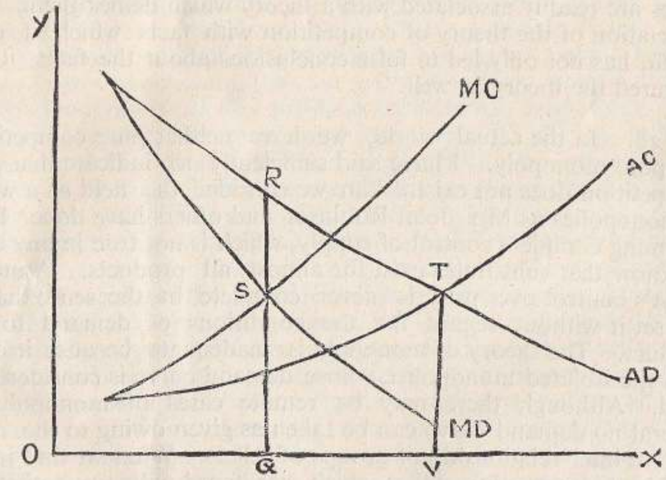

FIG. 4.

The marginal cost and marginal demand curves intersect at S. The amount produced is OQ. and the price is QR. Under competition, the amount produced would have been OV and are price VT.

27. The separation of both theories has led to absurd results. E. H. Chamberlain in his introduction to the Theory of Monopolistic Competition makes it clear that such separation not only leads to false conclusions but also obscures both theories. "Economic literature affords a curious mixture, confusion and separation of the ideas of competition and monopoly. On the one hand, analysis has revealed the differences between them and has led to the perfection and refinement of a separate body of theory for each. Although the two forces are completely interwoven, with a variety of design, throughout the price system the fabric has been undone and refashioned into two, each more simple then the original and having to it only a partial resemblance. Furthermore, it has in the main, been assumed that the price system is like this - that all phenomena to be explained are either competitive or monopolistic and therefore that the expendient of two purified and extreme types of theory is adequate.

On the other hand, the facts of intermixture in real life have subtly worked against that complete theoretical distinction between competition and monoply which is essential to a clear understanding of either. Because actual competition (rarely free of monopoly elements) is supposedly explained by the theory of pure competition, familiar results really attributable to monopolistic forces are readily associated with a theory which denies them. The association of the theory of competition with facts which it does not fit, has not only led to false conclusions about the facts; it has obscured the theory as well."

28. In the actual world, we have neither pure competition nor pure monopoly. I have said sufficiently to indicate that pure competition does not exist. Can we consider the field as a world of monopolies as Mrs. Joan Robinson and others have done? Even assuming complete control of supply, which is not true in any case, we know that substitutes exist for almost all products. A monopolist's control over price is never complete in the sense that he can set it without regard for the conditions of demand for his product. The theory of monopoly is inadequate because it deals with the isolated monopolist, whose demand curve is considered as fixed. Although there may be remote cases of monopoly, in general no demand curve can be taken as given owing to the competitive inter-relationship of groups of sellers. What we find in the world to day are monopolies which are faced with competition of varying degrees and as such both theories are inadequate.

Monopolistic competition concerns itself not only with the problem of individual equilibrium (the ordinary theory of monopoly) but also with that of a group equilibrium (the adjustment of economic forces within a group of competing monopolists ordinarly regarded as a group of competitors). The market of each seller is to some extent isolated. (Under competition it is merged with the general market; under monopoly, it is completely isolated). We find a network of related markets, one for each seller. Each seller has a separate demand curve. For example, there is no demand curve for motor cars in general. There are separate demand curves for Austin cars, Ford cars, Standard cars, etc. The demand curve for Austin cars is not an independent curve but is conditioned by the actions of the makers of the other types of cars. The demand curve of each seller changes according to circumstances, the actions of the other firms, their reactions to any action of this seller, the price fixed, the nature and quality of the article, advertising outlays and a lot of other factors. The producer will endeavour to anticipate the reactions of his rivals, estimate the probable results of his actions and fix a price for his product which, in his opinion, will bring him the maximum profits. Each case must, therefore, be dealt with separately.

29. Assuming a standardised product, take a market of two or more sellers where each seller exerts some influence on the market. The action of a seller in that market and his price would depend on the following factors:—(1) he can assume the supplies of his rivals to remain constant, (2) he can assume their prices to remain constant, (3) he can estimate the variations in their prices and supplies in response to his actions. Different sets of conditions will result in different prices for his product. Finally we have the elements of imperfect knowledge and uncertainty. I shall sum up from Chamberlain, the case of duopoly i.e. that of two sellers. (1) Duopoly is not one problem but several. The solution varies depending on the conditions assumed. (2) If the sellers have regard to their total influence upon price, the price will be the monopoly one. Independence of the producers and the pursuit of their self interest are not sufficient to lower it; only if the number is large enough to render negligible the effect of an adjustment by anyone upon each of the other is the equilibrium price purely a competitive one. If the market is imperfect, however, true self interest requires the neglect of indirect influence to a degree depending upon the degree of imperfection (3) If sellers neglect their indirect influence upon price, each determining upon his policy as though his competitors were uninfluenced by what he did, the results vary depending upon further circumstances; if each seller assumes his competitors' supply to be unchanged, the equilibrium price is continually lower than the monopoly one as the sellers are more numerous, descending to the purely competitive

level only when their numbers are infinite. If each assumed his competitors' prices unchanged and if competitive bidding or re-contract continues until no further price change can be made without disadvantage to some one, the equilibrium price is the purely competitive one for only two sellers and of course for any great number. If the full power of the seller to alter his price, even to the disadvantage of the buyer, is recognised, however, price will oscillate over an area which becomes narrower and approaches more closely the purely competitive figure as the number of sellers becomes larger. (4) If the sellers both neglect their indirect and direct influence upon price, the outcome will be the purely competitive price regardless of numbers. (5) Uncertainty where present as to (a) whether the other competitors will hold their amounts or their prices constant, (b) whether they are far sighted, (c) the extent of the possible incursions upon their markets and (d) in the case of a time lag, its length, renders the outcome, indeterminate for the particular reasons indicated in each case.

30. Where the product is differentiated, the seller has various possibilities. The volume of his sales depends partly upon the manner in which his product differs from that of his competitors. The variation may consist in the alteration of the quality, design, material or even it may mean a new package or container. But since variation alters completely the cost and demand curves of the seller, he will now fix his price so as to maximise his profits having regards to his new costs and demand. If the profits are too high, competition from other substitutes will decrease his sales and profits, thereby compelling the seller to fix another price which is lower. But such competition cannot completely eleminate his profits.

Selling costs alter the position or shape of the demand curve for a product. Every market is full of ignorant buyers. An ignorant buyer cannot judge the quality of the products which he buys by their intrinsic merit and therefore easily falls a prey to the emotional suggestion of advertising. The seller by his advertisement outlays changes both his demand and cost curves.

31. I shall now sum up the theory of value briefly as follows: In a stationary economy under pure and perfect competition, price is equal to the costs of production. Price may be said to be determined by costs since supply and demand are fixed and their mutual interdependence can be ignored. Where the market is imperfect, price may be higher than costs but it will tend towards equality with costs, unless these imperfections are permanent. In the absence of pure competition, prices will be higher than costs and there is no tendency towards equality. The maximum price is the monopoly price. The minimum price is the competitive price. The market price must lie somewhere within these limits. Its actual position depends on various subjective and objective factors. The degree of competition, the choice and indifference of consumers, the limited income and the infinite ways of spending it all tend to lower the price to the competitive level. The goodwill of the seller, the degree of differentiation of his product, advertising outlays, etc., all tend to raise the price to the monopoly level. At every stage the seller endeavours to exploit the ignorance, inertia, conservatism, habits, etc., of the consumer in order to maximise his profits. At the same time, he endeavours to reduce his costs by reducing the remuneration paid to the various factors of production. Each factor, including labour, is always trying to exploit the producer and consumer by demanding higher rates which result in the elimination of the profits of the producer or in higher prices to the consumer. The problem of value, must therefore, take into account monopolistic exploitation. The weaker factor is exploited by the stronger and price depends on the weakness and strength of the different conflicting interests. Even the maximum and minimum limits are not fixed but vary according to circumstance. The seller can vary his product. This changes the demand and costs curves of the product. Advertising outlays will also do likewise. When the curves change the monopoly and competitive prices will also change. In a dynamic economy, both limits are constantly changing. Owing to mutual interdependence, costs are adjusted to prices and prices to costs. It is, therefore, difficult to specify the limits within which the price should lie. Let me give one example. Can any one explain how the values of new cars are determined today in the Ceylon market? Month by month, all importers are increasing the prices of new cars. Although costs have increased, prices have increased more than costs and prices are not certainly equal to costs. On account of inadequate supplies and import control, the market is still a sellers' market. However, there is no monopoly of the sale of cars and prices are not monopoly prices. Each importer is able to increase his prices because of the differentiation of his product and his goodwill. The manufacturers change the quality of the products also frequently. Rs. 500 may be added to the price of a new make, owing to a slight change in the design of the bonnet. Each seller anticipates the reactions of his rivals in the car market. When he increases the price, he anticipates his rivals to follow suit. Since the rivals also increase the prices for their cars, there has been a general increase in the prices of all cars.

32. In the short run, price may fall even below the competitive level. In every firm, certain expenses must be incurred even if production is abandoned for some time. Instead of abandoning production, the entrepreneur will continue, if he can sell his goods

at a price higher than marginal costs per unit so that he meets at least a portion of the fixed charges. Fixed capital which is already sunk in the business may not be rewarded at all and may be written off. Fresh capital, however, will not enter the industry when existing capital equipment becomes obsolete or is exhausted. The necessary adjustments will only be made then and the price will rise to the competitive level. Even the costs are not fixed. When demand falls off, it is possible to reduce costs also. Many of the factors may be specific and their mobility may be imperfect. In their alternative use, they might not be able to earn the same remuneration. Remuneration, therefore, can be reduced to the level of remuneration which they can earn if put to alternate uses and till then the factors will not leave the industry. When circumstances necessitate, it is possible to reduce both average and marginal costs and price may be reduced to the new level of marginal costs. The short run period may be a few months or a few years, the period depending on the time necessary for the economy to adjust itself.

33. I hope I have sufficiently explained the problem of the determination of market values. It is not simple, and can never be reduced to accurate and mathematical proportions. The actual price in any case depends on many objective and subjective factors, whose effects, even if known, cannot be measured accurately. In any particular case it is only possible to indicate the factors determining price. It is impossible either by means of equations or graphs to determine the actual price.

Some Reflections on the Purposes of Exchange Control

By P. H. SIRIWARDHANA.

In Ceylon, Exchange Control has been a very recent phenomenon, but as a weapon of economic policy its existence dates back to the period following the first world war. At the very outset the devices so introduced did not remain to become an essential part of the country's administrative machine. But its disappearance was extremely short lived. For with the steady deterioration in the world's economic situation, restrictive policies had to be introduced to regain the equilibrium almost irreparably lost. Economic depressions spread from one country to another and communicated to all the diseases contracted by a few. And consequently the restrictive policies also began to spread all over the world and Exchange Control became a popular and useful device by which the prevailing disequilibrium was sought to be remedied.

The aims of Exchange Control are directed fundamentally to one end—the conservation of a country's resources and stabilisation of its currency with a view to adequately securing its external purchasing power. A good many will no doubt be interested to know the purpose underlying such controls and the methods by which the restrictions are administered. Needless to say, an elaboration of the technicalities involved will not help to understand the problem; a discussion in very general terms may on the contrary be of wider significance not merely to comprehend but even to appreciate, the restrictions presently enforced.

All efforts to eliminate Exchange Controls and other restrictions have had to contend with the trend throughout the world towards an increasing degree of Government controls of all kinds and a tendency to regularise and integrate these restrictive policies into a general system of Government controls. This is quite in tune with historical development where the State has taken upon itself the role of an active agent whose extension of power over anything and everything is but a simple idea, which, with the advance of industrialism has increasingly gained ground. With the adoption of these restrictive policies equilibrium can be attained or even forced at almost any rate of exchange. In the absence of an equilibrium rate in a free market, the problem resolves itself into one of taking decisions, *vis-a-vis*, the desired terms of trade, the amount and nature of imports and exports and indirectly of prices, the level of employment and incomes.

It is conveivable that policies of this nature cannot be carried out with whole-hearted acceptance. The International Monetary Fund Agreement is opposed in principle to any long-term scheme of restrictive and discriminatory controls, although it has no objection to application of such principles in respect of capital movements and a retention of it in toto under exceptional circumstances. This undoubtedly suggests a plea for the free interconvertibility of currencies as reflected in the Anglo American Financial Agreement, the Bretton Woods Agreement and the Charter of the proposed International Trade Organization. But whether such a traditional preference for a free enterprise economy and its belief that such a system is an effective means of promoting an expansion of trade and employment, looking towards higher levels of consumption, would comfortably fit into the present scheme of things, is a matter which prevailing economic conditions alone can answer.

It is clear as it has been implied throughout, that such restrictive policies can be enforced only where the Governments have a monopoly of dealings in foreign exchange. The extent of control and restrictions that is to be administered depends on the exigencies and circumstances in which the policies are conceived. Monopoly may at times merely imply centralisation whereby action of an extremely restrictive nature is not contemplated nor even an attempt made to enforce a price not compatible with basic equilibrium factors. England for instance had this mild form of Exchange Control after the devaluation of the Pound in 1931 and its aim was to insulate the market against possible violent fluctuations.

But effective state monopoly can only be obtained by a more rigorous application of restrictive principles envisaged in such a control. This is particularly evident in the acceptance of official rates of exchange which may diverge from those which the free play of market forces determine. As such it usually becomes necessary to enforce much stricter vigilance over the sending out of domestic money, dealing in precious metals, exporting without assurance of receiving foreign exchange; importing at fictitiously high prices and even inspection of the purses and baggage of travellers to prevent any possible abuse of whatever concessions that exist.

The regulation and manipulation of the Exchange Rate is a feature which is common to most controls and is important. Maintenance of a rate from which the market would tend to diverge is necessary to prevent a possible depreciation of the country's exchange, resources though at times, as in the case of the Exchange Equalisation Account in England foreign exchange

was sometimes sold to prevent a speculative appreciation of Sterling thereby causing a discouragement to British exports. (To secure such an end all other devices and instruments of Exchange Control have to be availed of and so it remains almost a pivotal characteristic of the system.)

Under valued rates no doubt tend to produce domestic inflation while over valuation has been found to have controlling influences on such trends and helping to secure more favourable terms of trade. Other conditions being normal, overvaluation penalises exports and stimulates imports. But since a country cannot continuously buy more than what it sells, in the long run imports must of necessity be affected.

By introduction of restrictive principles as implied in Exchange Control it is possible that the burden of excessive imports resulting from an over-valued currency would be immeasurably reduced. If left unheeded such a rate would tend to depress exports and even create more or less chronic unemployment especially if the country were dependent upon exports to a large extent. The question then is whether equilibrium could even be achieved if restrictive measures of this sort are not resorted to. After a lapse of time there is a probability for an overvalued rate to bring about equilibrium but invariably at a low level of foreign trade, national income and employment. With curtailed exports, employment and incomes would be correspondingly reduced to such a point when exports must of necessity adjust itself to a level compatible with the given situation. Different rates of exchange might yeild equilibrium at different levels of national income. But such a transition will more often than not be accompanied by rather depressing consequences of unemployment and depression. Great Britain's position in the latter half of the 1920s indicates how without the aid of these restrictive policies a balance in the country's payments was maintained only at a reduced level of national income and prosperity.

It may therefore be advantageous to decide upon a controlled rate, especially under circumstances where a country's external assets are not large enough to maintain exchange stability, for that would provide for more favourable terms of trade by securing a higher price in terms of foreign currencies for whatever exports made. It is even possible for the volume of trade to be increased for if the demand for the basic export products were relatively inelastic the favourable terms of trade would enable almost the same volume of exports to be maintained, thereby securing for the country an additional quota of foreign exchange and an unaltered level of prosperity as well.

There has been a large degree of opprobium attached to all forms of restrictive policies and of these Exchange Control has been unhesitatingly and at times unsparingly stigmatised. It is no doubt desirable to eliminate restrictions of all sorts and restore the characteristics of a free enterprise economy. But while condemnation has been freely resorted to, suggestions for satisfactory and workable alternatives have not been forthcoming and so the basic problem of correcting the prevailing disequilibrium remains unsolved. Exchange restrictions could be regarded as a preferable alternative to excessive borrowings or deflationary measures whose consequences may prove to be immediately less effective, and in the long run even more distressing. Even the facilities offered by the International Monetary Fund do not attempt an abolition altogether. Apart from giving members freedom "to exercise such controls as are necessary to regulate international capital movements," excessive borrowings are discouraged when the Fund's resources are used "to meet a large and sustained outflow of capital". In such an event the Fund could request a member to exercise such controls to prevent such use of funds. Further if a member's currency were to become scarce, authority is granted to impose exchange restrictions in respect of the currency concerned. And again the Fund has the right to authorise a member country "to impose restrictions on the making of payments and transfer for current international transactions." The need for such action may be remote but the possibility still exists.

It may therefore be wrong to assume that after the emergency periods have been survived and the change-over completely effected, exchange control measures could be altogether abandoned. Even the creation of the International Monetary Fund can give no guarantee to that effect. "The Fund will greatly reduce the need for exchange control and set up safeguards against unnecessary or discriminatory restrictions. It will not, and should not blindly and flatly prohibit all uses of legitimate controls as an instrument of monetary policy, when temporary exchange shortages make them the only alternative to drastic deflationary policies or currency devaluation."

It will doubtless follow from what has already been stated, that under particular circumstances the introduction of such restrictive measures may be both necessary and helpful. When a country discovers its balances to be not too favourable, it is advisable to select the types of goods most useful to the economy in general, and allow import of goods that would promote economic development and restrict those of a non-essential nature. In this way exchange control is ancillary to import licensing and the grant of import licences is in most instances automatically followed by the approval of the appropriate payment abroad. Such

decisions are largely influenced by the quality and type of goods to be imported and the country from which they are to be obtained.

Of greater significance perhaps is the possibility of these restrictive measures enabling a country to pursue a policy of economic development by deficit financing,—a method which if pursued will tend to inflate monetary incomes and stimulate imports to an extent when the country's finances will find it impossible to provide through exports or other revenues received. Such a problem may turn out to be of greater magnitude to a country like Ceylon whose revenue is derived from prices obtained for the few commodities available for export, while imports cover a comprehensively wide range of commodities including foodstuffs and other items of an equally essential nature. Under such conditions any inflationary trends that would cause a stimulation of imports will certainly bring about an excessive strain on the country's financial position. Where such consequences are likely to follow, a country can choose to put economic development ahead of price and monetary stability only by harnessing the aid of exchange restrictions which alone will prevent its foreign balances from getting out of gear.

Exchange controls may also be useful in dealing with temporary or emergency situations such as a deficit in international accounts or other short-term disturbances. Countries with undiversified economies, heavily dependent on international trade, may have occasions to find severe or mild dislocations in their balance of payments position. Temporary mal adjustments of this nature can be more easily and effectively remedied by the enforcement of these restrictive measures which will enable the countries to tide over the difficulties without sustaining much damage or the agony being prolonged. Thus exchange controls are generally adopted to counteract the consequences of disturbed conditions and that explains why most countries emerging from a period of war have little choice but to continue controls today.

Exchange controls cannot be isolated from their economic contexts. The picture of a planned economy with direct state intervention is a feature of our age. Differences in degree and kind do exist but the tendencies everywhere are the same. Nationalistic and restrictive policies have been growingly evident and of these exchange control measures designed to safeguard each country's balances, have been gradually adopted by most countries in the world. Whether as a weapon of economic blackmail or aggression or as a measure of despair, such restrictive measure have been adopted under pressure of circumstances whose justifiability has been debated by economists and statesmen alike.

But its practicability and usefulness under special circumstances have been underlined in the proposals for an International Clearing Union set out in 1943 and representing what may be said to be the Keynesian approach to the problem of stable exchange rates, where the following reference to Exchange Control is to be found:—"There is no country which can in future safely allow the flight of funds for political reasons or to evade domestic taxation .... Equally there is no country that can safely receive fugitive funds which constitute an unwanted import of capital. For these reasons it is widely held that control of capital movements should be a permanent feature of the post-war system. It is as an objective to this, that control, if it is to be effective, requires the machinery of Exchange Control for all transactions."

That it is an irksome restriction curbing the community's freedom cannot be denied. But how much planning can be done without destroying essential freedoms is still an unsolved problem. A unique position of equilibrium is only a mirage and direction by conscious policy make these restrictions inevitable until society can eventually be restored to economic and political health.

Road-Rail Co-ordination In Ceylon

Some Economic Aspects

By S. SAMARATUNGA.

I.

As this article goes to Press a Draft Motor Traffic Bill will have been formally placed before Parliament, which seeks among other things the co-ordination of road and rail transport. The Bill is due to come up for debate only in December after the Parliamentary recess is over, and the intervening period is expected to provide adequate time for all sections of the House to consider the Bill in all its aspects. Meanwhile, it is necessary that the public be acquainted with a broad background knowledge of some at least of the main economic issues involved in order that the Bill may be taken at its true worth when it does come up for discussion. Some of the arguments in this article may appear highly technical, but some amount of technicality is unavoidable.

It would be advisable at the outset to lay down the limitations of this article. Firstly, I have confined myself to the road-rail problem which is not the only problem in co-ordination, but certainly the most important. Secondly, the problem is viewed only from the point of view of freight transport which is undoubtedly the most important in any scheme of co-ordination. Thirdly, the analysis does not pretend to be either comprehensive or exhaustive.

The Road-Rail problem forms the kernel of any system of transport co-ordination. It is a problem that has been baffling experts and administrators the world over ever since road motor transport began to offer powerful competition at the beginning of the present century to the then most important means of transport—the Railway. The Railway Age may be said to have begun in the year 1830 when steam locomotion was first effectively applied on the Liverpool-Manchester line opened that year, and after which a great network of railways began to spread over the face of Europe. England, which may be considered the pioneer in modern transpost development, saw its early railways established by private enterprise while the pattern of railways on the Continent was the result of varying degrees of State paternalism. Whatever the manner in which the railways first began, by the beginning of the 20th century it had become increasingly clear that monopoly in railway transport was inescapable, so that by the time road motor vehicles appeared on the transport areas the railways in most countries had already developed into large-scale combines. From then on the road-rail problem has been a thorn in the flesh of successive Governments in every country with consequent Committees and Conferences, Commissions and Reports putting forward diverse proposals for the solution of this much-vexed question.

Ceylon has been no exception in this respect. The history of modern transport development in this Island dates back to the year 1865 when the first railway line connecting Colombo and Ambepussa was established. Railways in Ceylon have from the outset been State-built and State-owned. Road motor transport first became a powerful competition to railways in Ceylon only about the year 1930. Since then the well-known uneconomic distribution of traffic between road and rail has gone on unabated with disastrous consequences to the latter. Our railways which had been making steady profits since 1867 registered a loss for the first time in 1934-35. The first attempt at arresting this unforseen development was made towards the end of 1936 when the Hammond Commission was appointed to inquire into this question. The outcome of their recommendations was Ordinance No. 45 of 1938 which still governs the position of road goods haulage in this country. The results being unsatisfactory, the services of Mr. Nelson were utilized to help Ceylon out of her difficulties in transport but nothing was done by him to re-organise goods transport, Ordinance No. 47 of 1942 dealing exclusively with road passenger services. Mr. Nelson also submitted a memorandum on the post war development of transport and this was published as a Sessional Paper in 1944. Meanwhile, the Railway continued to incur losses annually until the abnormal demands of the war period reversed the process. Back to peace time conditions, the Railway has resumed at an accelerated pace its losing fight in the "mad competitive game." The losses on the working of the Railway in the last 3 years have averaged over thrice those of the immediate pre war period. The appointment of Mr. Donald Rutnam as Transport Adviser to the Government in September, 1948, the publication of his report in two volumes in February and March, 1949 respectivley, culminating in the present Draft Bill now before Parliament may be considered the final act to date in the transport history of this Island. In the meantime the two main actors on the transport stage—the C. G. R. and the road haulier have, instead of each playing his proper part, exchanged the true functions of each for those of the other with consequent ill-effects to the entire national economy.

II

What are these functions ? What is the proper part that each should play ? The true economic division of function proceeds from the essential differences in the technical characteristics of these two principal forms of transport. The construction of railways have involved enormous capital outlay on initial survey of lines, acquisition of land for tracks, clearing of the road-bed and construction of the permanent way, building of embankments, tunnelling, cuttings, etc. Road motor transport on the other hand involves comparatively little initial outlay. Since a road network already existed when motor transport made its appearance, all the expenditure that a road haulier newly setting up in business had to incur was on the purchase of one or more lorries as was needed. The other main difference is the rigidity of railway transport as compared with the flexibility of road transport. A lorry can go wherever there is a road, while the railways are confined to their own permanent way.

The consequance of these significant differences is that road transport is best fitted to carry short-distance traffic of small consignments requiring speedy transit or going to out-of-the-way places and remote areas, while the railway is most suited for the carriage of regular long-distance traffic offering in large consignments between big centres. The aim of any legislative measure for transport co-ordination must be to achieve this division of function. This should be the criterion by which the worth of any measure must be judged. It is the meaning and purpose of co-ordination.

III

While this should be the rational and economic division of function a distribution of traffic had grown up which tended to be just the reverse of what is economic.

Perhaps the main cause of this undesirable feature is to be found in the fundamental difference in the principles of charging as between road and rail. It is significant that this aspect of the problem has received scant attention in the Rutnam Report. These principles are commonly termed in economic analysis as 'cost' and 'value'. The Railway Classification of commodities is drawn up mainly on the basis of 'value'. This is the result of charging "what the traffic will bear". Railway business is such that some amount of differential charging is, no doubt, essential. For this purpose the goods usually carried by rail are classified under a number of groups depending on the value of the commodities concerned. The highly-valued goods are heavily taxed, while the low class commodities get off lightly. Thus jewellery and precious stones, for example, would be charged very high rates while straw and manure for example would be charged very low rates. Theoretically no rate will be charged which does not cover the costs incidental to the carrying of a particular traffic, for otherwise the railway will incur a direct loss on it. This means that whatever the commodity carried the rate charged must at least equal the costs of handling, loading and unloading, warehousing and other terminal charges, the actual transit cost being negligible. No rate, on the other hand, can exceed the value of the commodity concerned for the traffic will not be then able to bear the cost imposed, and therefore will not pass. In theory, therefore, no railway rate can fall below cost of service, nor can it in practice rise above value of service. Actually, the Railway Classification is drawn up on a combination of both principles, but with greater emphasis on the 'value' rather than the 'cost' principle.

Road motor transport, on the other hand, has neither a rigid classification of that sort nor a fixed agreed basis of charging. In this country the road haulage business consists mainly of small units of one or two lorries each. They have no restrictions whatever on the rates they charge or on the times at which they run. That being so, the charges they levy vary widely as between different times and as between different places.

If their charges are so variable, are there no principles applicable? In fact they have, and they are the soundest ever. The fundamental principle is the rule of cost. Under competitive conditions their charges tend to approximate to cost conditions. These cost conditions vary from place to place and from time to time according to variations in the density, bulk and flow of traffic offering. Where there is heavy density of traffic, or small bulk of goods in relation to their weight, or a good balance of traffic either way, it is possible for commercial vehicle operators to use larger lorries, get bigger loads in relation to carrying capacity, and to use their vehicles more intensively. All these factors are important cost-reducing elements so that road charges will be lower in such places than in places where such conditions do not exist. But even in places where these conditions are found, these cost-reducing elements may not exist evenly throughout the year. There may be hour-to-hour, day-to-day, or seasonal variations in the demand for transport. At times when return loads are not easily available, or during slack periods, it is often profitable for the operator to reduce excess capacity and eliminate 'vehicle-idleness' by touting for return loads or charging lower rates so long as the charge levied is sufficient to cover the additional costs incurred. Thus in all cases it is seen that road charges will always tend to equal cost under competitive conditions.

The consequence of these essentially different principles of charging has been that goods which ought to go by rail tend to travel by road and vice versa. The higher classes of goods which are charged high rates owing to their greater value cost less to go by road since road charges are based on cost. The cost by road is lower not because road transport is more suitable or efficient for that particular traffic. If that were so, there is nothing

economically wrong. The reason is that while the cost to the railway is really smaller than the cost by road, the rate that the railway charges is higher than the rate levied by road transport. The result is that the railway is left with cheap and bulky freight which cost more by road than the corresponding railway rates. "The Railway has to carry a large volume of low class traffic such as straw, manure, empty cases, plucking baskets, etc, which are usually not transported by road except where railway facilities are not available."[1]

Another not insignificant factor in this connection is the inefficiency and lethargy of railway administration and management in Ceylon. There is a very high rate of pilferage, and delays in transit occur all too often. For instance, referring to road haulage between Galle and Colombo the Rutnam Report says "the shopkeepers in Galle are so dissatisfied with the goods service offered by the railway that they are prepared to pay the higher rates (by road) rather then to put up with delays in delivery, long delays in settlement of claims, pilferage, and other removable defects that uafortunately now appear in the railway service." Now this is a long distance haul where the railway ought definitely to have superior advantages. In fact as the Report says, the road charges are higher than the railway rates for this haul between Colombo and Galle, but cost after all is not the only consideration that weighs with traders.

Further, "the Railway is under an obligation to carry small consignments involving multiple handling and a large volume of clerical work."[1]

The total result of these important differences in charging, legal obligations, and quality of service has therefore been that the long distance traffic, the large consignments and the most valuable goods tend to go by motor transport, leaving the railway with the short-distance traffic, the small consignments, and the cheap, heavy and worthless merchandise.

This brings us to the hard core of co-ordination. How are these unhealthy tendencies to be reversed and the proper division of function restored? It is commonly assumed that competition is the cause of all the trouble. We need to qualify the meaning of competition.

Is it pure and simple competition that has caused the present uneconomic distribution of traffic, or is it competition that is 'wasteful' and 'unfair'? These are terms that have been bandied about freely in discussions of the transport problem in

1. Administration Report of G. M. R. for 1949.

the Press and elsewhere. Competition is 'wasteful' in so far as economic resources are not being put to their best uses, judged by what consumers desire. The unabated expansion of lorry transport (from about 3,000 in 1939 to over 10,000 in 1949) is looked upon as an unhealthy sign. The railway is losing traffic to the road. Something must be done, or else the railways will be working below capacity so that part of the large amount of economic resources invested in them (the total railway capital at the end of 1949 stood at Rs. 236,108,947) would go to waste. What most people fail to realize is that the 'waste,' if any, did not occur as a result of competition by motor transport, but had already taken place at the time when investment in the railways was first undertaken[1] (assuming, of course, that road transport is already bearing its approriate share of road costs[2]). The 'waste' represents the loss that has arisen owing to the inability of railway entrepreneurs (in Ceylon, the Govt.) to foresee the future developments in motor traction that might render their assets obsolete. There has been investment in the railways considerably beyond what would have been reasonably necessary to meet future demands. This is not, however, to blame the Govts. responsible for railway building, for the railways have filled a wide gap in the transport systems of the world until the coming of motor traction. On the other hand, that is no justification for their continued existence, or at least, for any revived pouring of capital into them unless the needs of the country really demand such.

How far has competition been "unfair"? It has been unfair to the extent that one or the other of the two forms of transport has had obligations imposed upon or benefits endowed with which the other was not equally called upon to bear or to share as the case may be. For example; in most countries the railways are subject to varying degrees of state control as regards their rates and fares, whereas road charges can vary freely. In Britain standard charges were fixed under the Railways Act, 1921, and rate reductions to meet road competition were hindered by the law of undue preference. Again, railways are required to have their rate books open for inspection by the public, whereas the charges of road hauliers are a close secret. Further, obligations to carry are imposed upon the railways which are not equally required of road hauliers. In adition, there is the allegation that while railways have had to provide their own permanent way and incur heavy annual expenditure on maintenance and reconstruction, road transport has got a "legacy from the past" in the form of an already existing system of roads.

1. This point is fully explained in an article by G. J. Ponsonby entitled "An Aspect of Competition in Transport" in the Economica, Nov. 1935.

2. Whether it actually does so is discussed below.

Various proposals have been put forward in other countries for putting road and rail on a fair basis or equal footing. We may begin with the problem of track costs. Some of the proposals urged in this respect are:—

(a) that the Government should own all tracks and charge vehicles whether road or rail, the same ton-mile rate for use of the tracks

(b) that road transport should pay in taxes a total sum equal to the cost of railway tracks

(c) that the Government should meet the cost of all tracks out of taxation.

The first proposal implicates another principle and will be considered in section V.

The second proposal has economic sense only if the cost of roads due to commercial vehicle transport can be said to be equal to the cost of railway tracks. There is no inherent reason why road transport should be called upon to pay anything more than the costs they actually impose on the community. It would be instructive to go deeper into this issue.

We have already made reference to the argument that while the railways have had to provide their own permanent way and incur heavy annual expenditure on maintenance, road transport has had no corresponding burden. This argument was one that found currency in the great road rail controversy that raged in the U. K. before the famous "Square Deal" proposals of the railway companies in 1938.

Commercial vehicle operators are not the only users of the road. It is used by many others—the 'bus operator, the private car, the motor cycle, and above all, the general public. Even if lorry transport were absent, roads would have to be maintained for these other users. If, in addition, buses, motor cycles and private cars were also absent, that is to say, even if there were no motor transport at all, the roads must still be maintained for the public. The problem then is to find out what part of total road expenses can be directly attributed to the presence of motor transport on the roads and to levy this on all classes of motor traffic. For Britain, Prof. Gilbert Walker has estimated that "with the technique of road construction and repair usual in the two decades before 1909 (that is, before the period of motor traction), a road suitable for the traffic of that period and maintained at the standard of those times would have cost in the years between the wars (that is, during the period of motor traction) about £ 40 millions annually......It represents the annual sum which the highways of this country (England) would have cost, without the demands which have in fact been made by motor traffic. £ 40 millions are equivalent, on the average, to about 2/3 rds of the actual annual expenditure during the two decades from 1920 to 1940."[1] On this basis, therefore, the road costs that all motor users must bear would form only about 1/3rd of the total annual road expenses, and are the costs of "improving and adapting to the needs of modern motor traffic the highway system which has already been provided, and which must be maintained for the purposes of the public generally." They are the costs which have been incurred on such purposes as widening, strengthening and straightening the highway.

We have next to ascertain what part of these costs could be placed fairly and squarely on the shoulders of the commercial vehicle operators. For these costs have been incurred, as much to allow for the high speed of the private car as to support the weight and make room for the larger lorry and bus. The division of costs among the various classes of motorists must be determined by considerations of equity and expedience. The Salter Commission in the U. K. recommended that commercial goods transport vehicles should bear at least 1/3rd of the total expenditure on the roads. According to Prof. Walker's estimate this is the proportion that *all* motor users must pay, so that the share payable by commercial transport must be a mere fraction. The present Permanent Secretary to the Minister of Transport and Works has used the generous "Salter" proportion for his calculations, and these have been examined by Mr. Rutnam, who has come to the conclusion that "the general basis of motor vehicle taxation is such that it cannot be said that competition was not fair to the railway." In point of fact, the reader who studies para 19 of the Rutnam Report (Vol. II) carefully would be convinced that commercial goods vehicles were actually paying far more than their fair share."[2]

The costs imposed on the community by lorry transport do not consist only of the additional expenditure incurred on the highway. There are the social costs in the form of congestion of roads and consequent danger and inconvenience to the public. These costs are however minimised by the fact that licences can be refused on the following grounds:—

(a) that the lorry concerned cannot be used safely in the areas for which application is made

1. Walker: "Road and Rail".

2. It is however, argued below that this may be justified by other considerations.

(b) that the highways in question are so congested that the proposed additional lorry traffic will be detrimental to the safety and convenience of the public.

But the proposal under discussion is one for taxing road transport an amount equal, not to the cost of the roads and other social costs, but equal to the cost of the railway tracks. In this connection one can do no better than quote Prof. Walker himself. "The whole expenditure on maintenance, improvement and reconstruction (on roads in Britain) from 1920, the year when serious provision first began to be made up to 1939 did not exceed £ 1,000 millions. Rail service requires a track which can be used for no other purpose and which has cost £ 800 millions to construct. The saving of this cost is one of the economies which road transport offers the public. There is no reason why an economy as important as this should be offset by taxation."[1]

The third proposal is the kind of solution suggested by Brigadier-General Sir Osborne Mance.[2] It rests on the supposition that total track costs would not be affected by any possible diversion of traffic from one to the other as a result. This proposal has been first made by him for East Africa where it is quite possible that the sizes of the road and rail networks were not likely to be affected by any foreseeable traffic changes in the near future. Do these conditions hold for Ceylon at the present time?

As far as Railways go, there is very great excess capacity at the moment. There is no likelyhood of the rail net being extended to any appreciable extent in the near future, howevermuch the Railway may be bolstered up by legislation. If the railways were being worked at or near capacity a substantial diversion of traffic from road to rail would necessitate additional capital expenditure on constructing new lines and duplicating or quadruplicating existing lines. As it is, additional traffic could conveniently be accomodated on existing lines with some increase in, possibly rolling stock, and staff and other minor items. As a matter of fact, the rail net has actually contracted during the last 10 years.[3]

Could the same be said of roads? Certainly not. Existing roads are being widened and new ones are being built every

1. Walker: Road and Rail—p. 32.

2. "The Road and Rail Transport Problem."

3. The total length of line steadily increased up to 951 miles in 1927/28. It remained stationary at this level until 1940/41. From then on there has been a gradual decline until at the present time there are only 896 miles of lines.

year.[1] Road congestion has already become a top headache for the Police, as much as it is a terrible nuisance to the public. The roads are today working to capacity and would have to be considerably expanded over the next few years. But every extension of the road net involves heavy expenditure on land and their conversion for tracks. In economic terms, all this means that the marginal costs of road tracks are high.

If, therefore, the Government meets the cost of all tracks out of taxation, the net effect would be to cause goods going by rail to contribute towards the maintenance of roads. For the cost of all tracks will be polled and the taxation levied will relatively be lighter on road transport than on railways. "Given constant marginal cost, road transport ought to pay on existing roads not only their maintenance, but also interest (on past investment), and given rising marginal cost it should pay also a rent." [2]

We have already argued that commercial vehicles are paying far more than their fair share. Since we have also shown that marginal costs of road tracks are high, the excess may be properly considered interest on past investment. If in fact the marginal costs are rising it will be desirable actually to increase the present level of motor taxation. This is essential if road transport is not to develop beyond the economic point.

Unfortunately this aspect of the problem has not been considered at all in the Rutnam Report—probably because of the inadequacy of statistics and the complexity of the calculations involved. The Report has confined itself to an examination of the "fair share" question, and has in a very general way concluded that no change in the present level of motor taxation is necessary.

All the three proposals for putting road and rail on a fair basis discussed here suffer from one common defect. They all violate the principle that "in countries where it is decided that track expenditure depends on whether traffic goes by road or by rail, such expenditure is part of the marginal costs of traffic and should be reflected in prices." [3] In Ceylon, I have shown that while the size of the rail is not likely to be affected by any foreseeable traffic diversions in the near future, the road network may have to be considerably expanded. None of these proposals, therefore, could be accepted uncritically for Ceylon. Their

1. According to the Administration Report of the Commissioner of Motor Transport for 1949 the following are the figures for the last year:—
Direct cost of new roads and bridges Rs. 1,370,798.
Direct cost of major improvements to roads Rs. 1,666,481.
2. "Fixed Costs." By W. A. Lewis in Economica, November 1946.
3. "Fixed Costs." By W. A. Lewis in Economica, November 1946.

discussion, however, has thrown considerable light on issues that are vital in what follows.

V.

We may now turn to other considerations for putting road and rail on a fair basis.

In Section III it was argued that the main cause of the uneconomic distribution of traffic between road and rail is the fundamental difference in the principles of charging. "Unlike road services where the deciding factor is the cost of each operation or trip by the road vehicle, railway costs (i.e. charges) are based on" what the traffic will bear.[1] Both services could be put on an equal footing if only one principle is adopted for both. Both road and rail should charge on the basis of either cost only or value only.

On the basis of the analysis in Sections II and III it is clear that it costs less to transport by road where the haul is short, or the consignment small, or the destination is to an outlying sparsely-populated district, or if the traffic is irregular or uncertain; while costs by rail are lower for long distance traffic, offering in large consignments, and demanding regular transport. If therefore the charges of both road and rail are put on a cost basis, the desired economic distribution of traffic ought to take place automatically, for "the high-rated traffics of road transport will then be the low-rated traffics of the railway and vice versa."[2] "Co-ordination is designed to ensure that traffic will flow naturally along the particular channel of transport that suits it best."[3] If so, the best method of co-ordination would seem to be the creation of conditions under which the price of transport would always reflect exact cost, leaving the traders free to choose the form of transport they prefer. In fact, Prof. Lewis has argued that "free price competition could secure a very precise co-ordination, based on hour-to-hour changes in cost. To achieve it, road and rail would have to be placed on an equal footing; the railways relieved of their obligations to carry and given freedom to vary their rates at will, and road transport freed from restrictive licensing."[4] This is directly antithetic to what is now contemplated in the Draft Motor Traffic Bill, but the proposal merits investigation.

Economic theory tells us that at bottom every traffic must pay its marginal cost. But 'Marginal Cost' is an elusive term. It varies as far ahead as one cares to look. As far as the

1. Rutnam Report (Vol. II)—p. 3.
2. "Fixed Costs" by W. A. Lewis in Economica, November, 1946.
3. Rutnam Report.
4. "Fixed Costs."

costs directly and immediately attributable to a particular traffic are concerned, both road and rail are now covering them; these are the very short-run marginal costs, and consist of such items as handling, loading, and unloading, and other terminal charges. But if these were the only costs that all traffic pay, neither lorries nor railways could expect to continue for long. In any case there are other short-run costs such as petrol and oil in the case of lorries, and coal and fuel in the case of railways. Looking ahead slightly further, we see that tyres and certain engine parts in the case of lorries, and upholstery for example, in the case of a railway carriage, require renewing in a few years. Going still further (say 20 to 40 years) one finds that chassis and rolling stock themselves will be worn out. In the fairly long-run, therefore, all these costs enter into marginal costs and must somehow or other be covered by both road and rail. In short, every traffic ought to pay not only the prime costs but also interest and depreciation on both the short and long-lived equipment. But not all traffics can bear all these costs. To the extent that any traffic is being charged less than its cost, some other traffic or traffics must be charged more than its cost according to what it can bear. Road transport does this now by varying charges from time to time and place to place according to the conditions under which traffic is offering;[1] but railways, although they charge different prices for different commodities, do not charge different prices at different times. Such variation of railway charges over time is difficult, partly because of the inherent complexity and vastness of the business unit, and partly because of the allegations of personal discrimination that they may give rise to. In any case, the bureaucracy, inefficiency and lethargy of railway administration in Ceylon would certainly make this an impossible proposition.

Further, this leaves out the question of track costs. Road track expenditure, it was argued, tends under present conditions to increase heavily with every increase in the volume of road traffic. That would mean that track expenditure also may enter into marginal costs, and if so, should be reflected in price. For this, it is necessary in the first instance to estimate accurately whether the marginal costs of extending the road net are actually greater than average costs. This is a fruitful field for independent research. If they are found to be greater than average costs it means that they are rising, in which case it has been argued that they should be recovered from motor-taxation. If, however, the marginal cost of road tracks is less than average costs, it would be wrong to recover the whole of it from motor taxation. In that case only that part of the cost of roads which varies with use (i.e. the actual maintenance costs) should be recovered by a tax on petrol or on the vehicle. The rest of it should be levied only on those traffics that

1. Vide Section III.

can bear it. All the work of determining whether marginal cost is greater or less than average cost, and if the latter, what traffics can bear it and how it must be levied, is not as simple as it sounds and would involve a veritable "revolution in the treatment of road costs." These are questions which in the present state of our ignorance of transport matters are clearly unthinkable. They only go to show the urgent need for more transport statistics and greater research.

There is the further difficulty in basing all charges on cost in so far as an "over all" system of accounting is adopted on the principle that if the whole pays, it does not matter whether the parts pay. This is incidentally one of the arguments of those who favour nationalisation.

We may now get back to the "value" principle. We have already mentioned in section IV that one proposal has been that the Government should own all tracks and charge vehicles, whether road or rail; the same ton-mile rate for use of the tracks. Again, it has been suggested in some countries that both road and rail should adopt a common rate classification which enables both to milk the high-valued traffics and share the proceeds on some agreed basis. The fallacy of these arguments lies in that each traffic will be charged similar rates on both means of transport. The distribution of traffic on this basis would be dictated solely by differences in the quality of service whereas there are also fundamental differences in costs. This would not correct, but would merely sccentuate, the present uneconomic division of traffic.

To sum up; the fundamental problem of co ordination is how to secure an economic distribution of traffic between road and rail. The two must be put on an equal footing if there is to be fair competition. Various proposals were considered. It was found that road transport is paying more than its fair share of road costs But this was believed to be probably justifiable because roads are working to capacity. The cost principle of charging was considered, but insuperable difficulties were found to stand in the way of basing every road and rail rate on exact hour-to-hour cost. The value principle stands self-condemned.

VI.

One outstanding fact, however, has been thrown vividly into relief as a result of all our analysis. Cost must be the ultimate principle if economic resources are to be put to their best uses. Since it has been argued that it is not possible under present conditions to make all rates, both road and rail, reflect exact costs, the next best is to devise rough-and-ready methods for achieving the nearest approximation to cost. We have found that rail transport is cheaper for long distance traffic, heavy freight, large consignments, and regular traffic offering routes. On this basis it is possible to pass legislation prohibiting carriage by road where:—

(a) the length of the haul to more than 50 or 60 miles
(b) the freight weighs more than 25 or 30 lbs. per cubic foot
(c) the consignments are such as to make full wagon-loads possible
(d) they are such as require less than 2 or 3 changes of wagon if sent by rail
(e) they are not perishables which demand speedy transport or careful handling.

Some of these considerations seems to have guided the legislation now proposed. Its fundamental feature from the point of view of freight transport is the imposition of a distance-limit on the road haulage of goods. In fact it embodies condition (a) above. It is proposed that "no permit shall be granted between any two places connected by rail, where the shortest distance by road between the places is not less than 60 miles, authorising (i) carriage between those places or (ii) carriage involving through carriage between those places, of goods by lorry or by a succession of lorries".

There are, however, various exceptions to this rule which are roughly in keeping with condition (e) above. The exceptions include those provided in the Transport Act, 1947 of the United Kingdom such as

(i) the transport of liquids in bulk
(ii) the removal of furniture
(iii) the transport of meat and livestock
(iv) carriage by vehicles specially designed to carry abnormal indivisible loads and contain others to meet the special needs of Ceylon, such as
(i) the transport of fresh fish, fruit, vegetables and other perishables and (ii) the transport of fragile articles such as tiles.

Something in the nature of condition (c) is intended to be achieved not by express legislation as such but by the development of "central stations" as envisaged in para 29 of Vol. 2 of the Rutnam Report. This should result in the proper distribution of traffic and secure advantages to both the road haulier and the railway in the following ways:—

(i) quicker turn-round of wagons by eliminating shunting and other delays
(ii) elimination of excess capacity in each wagon

(iii) consequent reduction in the total number of wagons, and possibly trains, used for a given volume of traffic
(iv) speedier delivery of goods
(v) greater safety of the goods by concentrating responsibility for handling them on fewer station masters
(vi) more continuous employment for road hauliers and consequent reduction of "vehicle-idleness" and "time" costs.

On this analysis the Motor Traffic Bill ought to be a definite step in the right direction. It should achieve the proper and desired co-ordination by making road hauliers the feeders of the railway.

However, there is one other important principle embodied in the Draft Bill which cannot be defended on economic grounds: The principle as such is not altogether new, but it is to be more rigorously applied in the future. This is the principle of restrictive licensing of road transport. At present the issue of lorry licences is governed by Ordinance No. 45 of 1938 according to which safety of the public and congestion of roads are the determining factors. Mr. Rutnam in fact laments that this is responsible for "the present very unsatisfactory state of road haulage in the island". In practice, considerations of adequacy and suitability of existing facilities also are said to have been taken into account in the grant of licences for long-distance routes running parallel to the railway. These latter considerations were justified since the railway definitely possesses superior advantages for long-distance haulage, and these have now received express recognition in the total prohibition (subject to certain exceptions) of road haulage beyond 60 miles. But these same considerations cannot be said to apply equally to short-distance haulage. The Rutnam Report itself emphasises that "the fact that railway facilities exist does not arise over a haul as short as 40 or 50 miles", and that therefore the road haulier in such cases should be given very great freedom. The Bill, however, provides that "the Comissioner shall......be guided by the following policy considerations:—

(a) that, while road transport has advantages in the case of short distance carriage, it is in the interest of the public generally to keep the Railway worked at or as near capacity as possible from the taffic available for transport

(b) where facilities in any area are satisfactory and efficient to meet public needs at a reasonable charge, it is undesirable to grant fresh permits authorising goods carriage in competition with the said transportation facilities".

These provisions in the Bill are undoubtedly meant to serve two fundamental purposes:—

(a) protection of the Railway
(b) protection of existing road hauliers.

This has been explicitly stated in the Rutnam Report in the following terms "provided they are efficient providers of road haulage there is a lot to be said for the protection of the first road hauliers in the field. This is equally true of the railway, because it was the first of all in the field.[1]

The protection of existing road hauliers would mean that they would be placed in a semi-monopolistic position, and the rates they charge would consequently tend to rise, the more so where there is no rail competition. What powers have the Govt. over their charges? At present their charges are a closed book, Govt. would have to force them to disclose their rates, asceratin what is justifiable, and specify the charges leviable. But we saw in Section 3 that costs by road vary widely according to the density, flow and bulk of traffic at different times and different places, so that fixed charges are inadvisable. The Rutnam Report says that "at the most power be taken only to fix maximum and minimum charges". But there will still be room for monopoly profits to be earned within these limits. Why should these accrue to privileged parties ? What is the criterion of efficiency ? Every existing road haulier is not necessarily efficient. There is a strong case here for auctioning licences instead of merely confining them to those already in the field, for then the proceeds will accrue to Govt. But the same results could be got by increasing the level of taxation. We have already surmised that there may exist a case for raising the present level of motor taxation in spite of Mr. Rutnam's verdict to the contrary. If, however, it is not to be increased, there is all the more reason why licences should be sold. And the sale of licences ought to ensure that only the most efficient haulier entered the field, for it is only he who would be able to pay the highest price for his licence.

Is the principle of restrictive licensing in itself justified ? There seems to be an apparent case for it where there is a surplus of road transport facilities. For instance, the Rutnam Report says that on the average a lorry from Galle has to wait as long as three days in Colombo to get a return load.

But the Report further says that in spite of the higher rates charged by road hauliers for the run between Colombo and Galle traders prefer to send their goods by road because of pilferage, delays and other "removable defects" in the railway service.

1. Administration Report of G.M.R. for 1949.

Who then is inefficient—the railway or the road haulier ? Efficiency in transport is not be viewed in terms of lower costs only. There are many variables in the quality of transport service that traders value highly. Speed and safety of carriage are often more important that lower cost. The "least cost" carrier is not necessarily "the most preferred" in transport. Before the full impact of the new Act is let loose on the road hauliers and traffic is diverted from road to rail on any considerable scale, the "removable defects" of the railway must be removed. Or else the consequence would be that the losses which traders will suffer owing to pilferage on the railway and the increased costs of holding stock that may result from delays will be passed on to the final consumer in the shape of higher prices. The loss to the consumer in this manner must surely be offset against the gains from elminations of excess capacity on the roads.

The Bill also contains a departure from existing practice in making a distinction between public and private hauliers. The former would ply for hire or reward only, while the latter could carry only their own goods in their own vehicles. But unlike in the United Kingdom where the "C" Licensee (the private carrier) enjoys unlimited freedom to operate where he pleases, the private carrier in Ceylon will be subject to the same restrictions as the public carrier as regards his sphere of operation. In spite of the higher costs of the private carrier owing to the difficulty of getting return loads (except probably his own "returned empties") the number of "C" Licensees in the United Kingdom has increased enormously in the last few years. This only shows that the trader values the advantages of having his own vehicles—convenience, drivers acting as salesmen, advertisement value, etc.—more than the burden of higher costs. The unlimited freedom of the "C" Licensee has had the advantage of keeping nationalised transport (including British Railways) on its toes; it is considered a yardstick by which the efficiency of the nationalised services could be judged. In Ceylon this yardstick would be absent as private carriers will have no such unlimited freedom The protection to the Ceylon Railway is, therefore, to that extent greater, and judging the efficiency of the Railway will be all the more difficult.

The strong protection thus afforded to the Railway by this comprehensive system of restrictive licensing of road transport under the new Bill should certainly enable it to increase its revenues. During the last 3 years the railway has been incurring heavy losses annually. In 1948-49 "the loss in working amounted to Rs. 16,167,275 and the total deficit including interest and annuities payable was Rs. 21,074,545".[1] But the most that

1. Administration Report of G.M.R. for 1948/49.

should be attempted is the elimination of the loss in working. No attempt should be made, even if that were possible, to earn interest on its capital. Its capital is embodied in highly specialized equipment such as lines and lands, embankments, tunnels, cuttings, etc., which have practically no value in other uses. They are specific and non-transferable. "Earnings in respect of such assets are in the nature of a rent or surplus, and in no sense can be regarded as a cost."[1] Cost, we argued, should be the ultimate principle, and if that were so, protection should not be carried beyond the degree that is necessary to enable the Railway to meet its working expenses. In other words, once the Railway is able to cover its working expenses, restrictive licensing should be relaxed. On strict economic grounds, however, even this amount of protection is not justified, for protected equipment such as locomotives and rolling stock may be renewed when they require renewal through wear and tear, not because consumers voluntarily desire that they should be so renewed but because of the "artificially created demand for the protected facility." Further, protection has the undesirable effect of putting a premium on inefficiency. The Railway must endeavour to stand on its own feet on its own merits, and the road to this lies not in tightening restrictive licensing, but in utilizing to the full the very great economies that will now lie before it, offering greater speed and better facilities, checking pilferage and eliminating inefficiency.

If cost must be the guiding principle there is a very urgent need for a reconsideration of the railway methods of charging. The semi-monopolistic position of road hauliers that will result from restrictive licensing of road transport is bound to cause road charges to be put in some measure on a "what the-traffic-will-bear" basis. It should be the endeavour of the Railway at the same time to adopt a new classification of goods embodying the cost principle more than the principle of "what-the-traffic-will-bear." In the United Kingdom the need for this has been accepted by Sir Cyril Hurcomb, Chairman of the British Transport Commission, who has said that greater attention shall be paid to the factor of "loadabality" on the railways in devising charges schemes. The "value" principle is based on a monopoly concept which is no longer tenable. If the Ceylon Railway could scale down some of the rates which are based on value at the same time as road rates climb up owing to restrictive licensing, it should be possible for road and rail to meet in some half-way house built on a common foundation of "Cost" and "Value", judiciously mixed and wisely administered. These "mutually destructive" partners could certainly be made to live in harmony.

1. G. J. Ponsonby: "An Aspect of Competition in Transport" in Economica, November 1935.

An Estimate Of The Future Population of Ceylon*

By N. K. SARKAR.

A government interested in the welfare of the people, must have correct information about the size of its population, both present and future, not only to gauge the future needs of the community, but also to train and mobilize the future human resources of the country into productive channels. A stable social equilibrium is only possible where, firstly, training and education is according to aptitude, and secondly, the trained personnel do not find themselves superfluous and unwanted in society. Such planning *for* the population, requires an estimation of the future population of the country and its age and sex composition.

The method used by the statisticians to estimate the size and age composition of the future population is known as population projection. The population projections are based on certain assumptions with regard to the future fertility and mortality trend. The accuracy of the projections depends on the correctness of these trends. Unfortunately, an exact quantitative estimation of the fertility and mortality trend is not possible. We can only make broad qualitative statements about their future tendencies by utilising the vital experience of the demographically more advanced countries. For example, we can say that with the decay of the feudal, self-sufficient agricultural village economy, the spread of education, the growth of urbanisation and the evolution of the individualistic society, fertility and mortality rates are likely to decline. This conclusion is based on the experience of the western world. We assume that the western way of life will be imposed on us and that we will follow their pattern of demographic trend. Whether we will inevitably follow that trend cannot, of course, be predicted with absolute certainty. Moreover, even if we do, we cannot say exactly to what degree fertility or mortality will fall. Thus we have to select, more or less arbitrarily, certain quantitive values from amongst the

* The results arrived at in this paper are tentative. I have not been able to obtain yet the necessary computational assistance to present the results in a final form.

infinite values which conform to the general trend. So far as the actual values of mortality and fertility deviate from the assumed values, population projection will be off the mark.

The best that we can do, then, is to utilise the vital experience of the other countries of the world and to combine with it the experience of Ceylon for the last three or four decades.

In projecting the future population of Ceylon, I have taken into account the vital experience of the world in general, and of Ceylon in particular, by assuming a gradual decline in mortality on an exponential trend, the rate of decline being derived from the linear growth rate that has been evidenced in the mortality rate of this country for the last 40 years. In other words, an equation of the type $q_x = ae^{-bx}$ has been used to obtain the mortality rates for the future. In this equation a is taken to be the mortality rate of the age group x in 1946, b is the linear rate of increment of the mortality rate of the age group x during the period 1911 to 1946, and q_x is the mortality rate for the age group x. Similarly, the projection of the age-specific fertility rates are based on the assumptions that the fertility rates will continue to increase upto 1951 linearly at a rate which prevailed during the period 1921 to 1946; thereafter they will remain constant upto 1960; and then they will decline following an exponential trend of the form $F_x = Ae^{Bx}$ where A is the fertility rate of the age group x for the year 1946, B is the rate of linear increment in the age specific fertility rate during the period 1921 to 1946, and F_x is the age specific fertility rate for the age group x.

In making the projection I have ignored the immigration factors which are likely to be small in future. The calculations are based on Life Tables constructed by the writer.

AN ESTIMATE OF THE FUTURE POPULATION OF CEYLON

1971			1976		
Male	Female	TOTAL	Male	Female	TOTAL
756454	724381	1480835	848779	813192	1661971
678611	649267	1327878	700552	670415	1370967
632898	602942	1235840	658660	627257	1285917
574585	544726	1119311	623025	592089	1215114
510966	480139	991105	562749	530073	1092822
369750	347069	716819	497476	461270	958746
370911	339581	710492	357918	330410	688328
352120	324657	676777	356631	321346	677977
312800	277871	590671	336204	306022	642226
271702	242937	514639	295221	260810	556031
231891	205306	437197	252465	226685	479150
194177	165939	360116	210998	189231	400229
159072	135677	294749	171225	150125	321350
118627	102584	221211	133684	118066	251750
75783	56405	132188	89077	82519	171596
41059	41803	82862	53177	41700	94877
22186	22781	44967	26775	29153	55928
11186	11192	22378	13804	14384	28188
4609	4056	8665	6702	6424	13126
2135	1452	3587	2578	1927	4505
5,691,522	5,280,765	10,972,287	6,197,700	5,773,098	11,970,798.

Age Years	1951 Male	1951 Female	1951 Total	1956 Male	1956 Female	1956 TOTAL	1961 Male	1961 Female	1961 TOTAL	1966 Male	1966 Female	1966 TOTAL	1971 Male	1971 Female	1971 TOTAL
0 —	591243	565155	**1156398**	650609	622798	**1273407**	704859	676081	**1380940**	733079	702290	**1435369**	756454	724381	**1480835**
5 —	406341	392011	**798352**	546427	520677	**1067104**	601618	574531	**1176149**	652136	624293	**1276429**	678611	649267	**1327878**
10 —	408585	389154	**797739**	394110	378330	**772440**	530089	502610	**1032699**	583750	554767	**1138517**	632898	602942	**1235840**
15 —	397248	386337	**783585**	402088	381994	**784082**	387883	371407	**759290**	521767	493462	**1015229**	574585	544726	**1119311**
20 —	362171	341726	**703897**	388906	375751	**764657**	393684	371566	**765250**	379815	361342	**741157**	510966	480139	**991105**
25 —	324761	306161	**630922**	352429	328023	**680452**	378483	360759	**739242**	383212	356815	**740027**	369750	347069	**716819**
30 —	289122	264179	**553301**	314174	291067	**605241**	340975	311950	**652925**	366258	343226	**709484**	370911	339581	**710492**
35 —	256282	219440	**475722**	277731	249543	**527274**	301890	275058	**576948**	327711	294949	**622660**	352120	324657	**676777**
40 —	227899	187212	**415111**	244365	206405	**450770**	264900	234845	**499745**	288033	258995	**547028**	312800	277871	**590671**
45 —	191529	153245	**344774**	214635	175305	**389940**	230265	193381	**423646**	249748	220167	**469915**	271702	242937	**514639**
50 —	152232	98742	**250974**	177432	142610	**320042**	198988	163244	**362232**	213640	180192	**393832**	231891	205306	**437197**
55 —	108377	93387	**201764**	137907	90685	**228592**	160913	131101	**292014**	180661	150201	**330862**	194177	165939	**360116**
60 —	81390	69254	**150644**	94992	83974	**178966**	121069	81671	**202740**	141475	118253	**259728**	159072	135677	**294749**
65 —	58828	50802	**109630**	67757	59482	**127239**	79271	72369	**151640**	101274	70621	**171895**	118627	102584	**221211**
70 —	32030	28945	**60975**	43550	39646	**83196**	50343	46794	**97137**	59112	57374	**116486**	75783	56405	**132188**
75 —	19963	18721	**38684**	21537	20085	**41622**	29179	27990	**57169**	34606	33575	**68181**	41059	41803	**82862**
80 —	12287	11941	**24228**	12096	11502	**23598**	13310	12794	**26104**	18374	18429	**36803**	22186	22781	**44967**
85 —	8043	6297	**14340**	6938	6267	**13205**	7017	6373	**13390**	7917	7440	**15357**	11186	11192	**22378**
90 —	4970	2978	**7948**	4218	2785	**7003**	3781	3005	**6786**	3959	3274	**7233**	4609	4056	**8665**
95 +	2520	1101	**3621**	2332	980	**3312**	2086	1033	**3119**	1958	1229	**3187**	2135	1452	**3587**
	3,935,821	**3,586,788**	**7,522,609**	**4,354,233**	**3,987,909**	**8,342,142**	**4,800,603**	**4,418,562**	**9,219,165**	**5,248,485**	**4,850,894**	**10,099,379**	**5,691,522**	**5,280,765**	**10,972,287**

	1956			1961			1966			1971			1976		
tal	Male	Female	TOTAL	Male	Female	TOTAL	Male	Female	TOTAL	Male	Female	TOTAL	Male	Female	TOTAL
6398	650609	622798	**1273407**	704859	676081	**1380940**	733079	702290	**1435369**	756454	724381	**1480835**	848779	813192	**1661971**
8352	546427	520677	**1067104**	601618	574531	**1176149**	652136	624293	**1276429**	678611	649267	**1327878**	700552	670415	**1370967**
7739	394110	378330	**772440**	530089	502610	**1032699**	583750	554767	**1138517**	632898	602942	**1235840**	658660	627257	**1285917**
3585	402088	381994	**784082**	387883	371407	**759290**	521767	493462	**1015229**	574585	544726	**1119311**	623025	592089	**1215114**
3897	388906	375751	**764657**	393684	371566	**765250**	379815	361342	**741157**	510966	480139	**991105**	562749	530073	**1092822**
0922	352429	328023	**680452**	378483	360759	**739242**	383212	356815	**740027**	369750	347069	**716819**	497476	461270	**958746**
3301	314174	291067	**605241**	340975	311950	**652925**	366258	343226	**709484**	370911	339581	**710492**	357918	330410	**688328**
5722	277731	249543	**527274**	301890	275058	**576948**	327711	294949	**622660**	352120	324657	**676777**	356631	321346	**677977**
5111	244365	206405	**450770**	264900	234845	**499745**	288033	258995	**547028**	312800	277871	**590671**	336204	306022	**642226**
4774	214635	175305	**389940**	230265	193381	**423646**	249748	220167	**469915**	271702	242937	**514639**	295221	260810	**556031**
0974	177432	142610	**320042**	198988	163244	**362232**	213640	180192	**393832**	231891	205306	**437197**	252465	226685	**479150**
1764	137907	90685	**228592**	160913	131101	**292014**	180661	150201	**330862**	194177	165939	**360116**	210998	189231	**400229**
0644	94992	83974	**178966**	121069	81671	**202740**	141475	118253	**259728**	159072	135677	**294749**	171225	150125	**321350**
9630	67757	59482	**127239**	79271	72369	**151640**	101274	70621	**171895**	118627	102584	**221211**	133684	118066	**251750**
0975	43550	39646	**83196**	50343	46794	**97137**	59112	57374	**116486**	75783	56405	**132188**	89077	82519	**171596**
8684	21537	20085	**41622**	29179	27990	**57169**	34606	33575	**68181**	41059	41803	**82862**	53177	41700	**94877**
4228	12096	11502	**23598**	13310	12794	**26104**	18374	18429	**36803**	22186	22781	**44967**	26775	29153	**55928**
4340	6938	6267	**13205**	7017	6373	**13390**	7917	7440	**15357**	11186	11192	**22378**	13804	14384	**28188**
7948	4218	2785	**7003**	3781	3005	**6786**	3959	3274	**7233**	4609	4056	**8665**	6702	6424	**13126**
3621	2332	980	**3312**	2086	1033	**3119**	1958	1229	**3187**	2135	1452	**3587**	2578	1927	**4505**
2,609	**4,354,233**	**3,987,909**	**8,342,142**	**4,800,603**	**4,418,562**	**9,219,165**	**5,248,485**	**4,850,894**	**10,099,379**	**5,691,522**	**5,280,765**	**10,972,287**	**6,197,700**	**5,773,098**	**11,970,798,**

infinite values wl
actual values of r
values, populatio

The be
experience of the
with it the expe

In pro
taken into acco
and of Ceylon
mortality on a
derived from th
the mortality r
words, an equa
the mortality r
to be the mort
linear rate of i
during the per
the age group
fertility rates
rates will con
prevailed duri
remain consta
an exponenti
fertility rate c
linear increm
1921 to 1946,
group x.

In r
factors whicl
are based on

Land and Agriculture in Ceylon—I.

By P. KANDIAH.

The absence of comprehensive statistics makes difficult anything better a very general study of our agriculture. It was expected that the agricultural statistics collected during the census 1946 would contain reliable and detailed information. It is indeed possible that such information was collected, but there is no evidence of it either in the statistics published in the various issues of the Government gazette or in the published part of the Census report (Census of Ceylon, General Report, vol. 1. part 1. 1950), which is a most disappointing document. It is to be hoped that the detailed census report on agriculture which is promised will contain material from which a comprehensive study of the country's land economy would be possible. What is attempted in this article is a brief statement of the general features of agricultural production in Ceylon. It would be useful, at the beginning, to bring together whatever information is available on the subject. Part of this information, that which relates to the entire island, is presented here. In a subsequent essay, I shall study the question in some detail, by various regions and districts, and try to assess how the population in the different parts of the country is affected by what must now be charaterised as a grave agrarian crisis. It will be proper, also, to raise the larger questions that arise from the prevailing agrarian economy in relation both to the development of the country's agricultural wealth and to the direction and scope of the nation's economic progress towards a state of full employment of available resources.

In one sense, as the statistics reveal, the position of our agriculture is very easily stated. It is confined to the examination of what happens in a cultivated area of a mere 3,210,000 acres out of a total land area of 16 million acres It is simpler still when it is appreciated that out of the cultivated area, nearly 3 million acres are given exclusively to the cultivation of four crops—tea, rubber, coconut and paddy. Animal husbandry and pasture farming, which are an integral part of the more prosperous European agriculture, do not enter the picture. The cultivated area is only 20 % of the total land area. This works out at less than ½ an acre per person; a ratio which is less than the more impoverished India, as seen below:[1]

Country:	Burma	India	Thailand	Ceylon
Ratio. (hectares per person)	42.	28.	28.	23.

1. E. C. A. F. E. Econ. Survey of Asia & Far East, 1947.
Also see Econ. Survey of Asia & Far East, 1948, where it states "Population density in terms of cultivated area is for Phillippines 494 per square kilometre; Java and Madura, 452; Indo-China 451; Ceylon 444; China 425; Pakistan 408; India 345; & Burma 240. p. 8."

It is not known what the cultivable area is. The census report speaks of an "aggregate cultivable extent, by which is meant land which had at some time or other in the recent past carried some form of cultivation" of 4,267,398 acres. An altogether novel and unhelpful definition, this at best indicates that a million acres which could immediately be brought under cultivation is now allowed to lie waste.

On the correct assumption that in Ceylon agricultural produce constitutes about 80 % of the wealth produced annually, the clear inference would be that the area under cultivation is much too narrow base for anything but a dying economy. The figures below show the extent of land under the six main crops, tea, rubber, coconut, paddy, cocoa, cinnamon, and tobacco for the year 1911, 1921 and 1946.

	Population	Area under the 6 crops	Area under paddy
1911	4,106,350	2,410,366	644,763
1921	4,498,605	2,497,342	798,514
1946	6,657,339	3,075,099	912,500

The population has since 1911 increased by over half that year's figure, there being an increase of 2,550,989; yet the cultivated area has not increased by more than half a million acres. From about .58 acres per person in 1911 the cultivated area has shrunk to .44 acres in 1946. There has been a net increase in paddy cultivated area of a more 347,740 acres over a period of 35 years, that is, an average annual increase of 10,000 acres. The increase of population has been roughly 55% since 1911, and the increase in cultivated area has been 25%. The base has kept on shrinking over the last 35 years. The picture of our agriculture is the simple one of inadequacy of cultivated land, of its continuing shrinkage in the face of an increasing population, of a resulting pressure on land which stands unrelieved either by extension of cultivated area, or by the movement of the population out of agriculture on to productive *industry* (transfer of population to what are called the tertiary industry, the provision of services, will not help except where it follows increased production in agriculture and in industry).

This fact is the core of our agricultural problem. The other factors like the primitive methods of production, absence of capital, fragmentation of cultivation, subdivision of holdings, low productivity of land, are largely a consequence, most often direct, of this oppressive land hunger. The absence of animal husbandry is also, in the words of Tawney, "a question, not of climate or soil, but of resources and population. The relation between them has been...that land capable of growing food for human consumption cannot be spared for raising beasts. Milk and meat will support fewer human beings than can be fed from the land which, if cattle were reared, would be required to grow fodder." It must be flatly asserted, therefore, that there can be no solution, even a partial solution, to the deepening crisis unless successful attempts were made to remove this basic cause of our agricultural stagnation and decline, at the same time as steps were taken to remedy and correct the other minor defects. The facts given below show that the important question is less a matter of correcting obselete forms of tenure, or of providing cheaper credit or better marketing facilities etc., important though they are, than of appeasing the prevailing land-hunger, of either providing the cultivator with the necessary minimum of land or of taking him out of agriculture. It must be remembered, however, that such removal can only be into industry which assures the villager of something more than a bare subsistence, and where, consequently, the output per unit of labour is higher than in agriculture; this would naturally exclude rural industries, as the value of these lies in their association, as a subsidiary, with agriculture.

Cash Crops

The ways in which the cultivated land is utilized present a satisfactorily clear picture of the rural framework. The cultivation of crops is as follows:—

	Acres	Percent of cultivated area
Coconut	920,093	27.8
Rubber	573,243	17.3
Tea	533,830	16.1
Cinnamon	33,077	1.0
Citronella	30,107	.9
Cocoa	19,700	.6
Cardamoms	6,000	.2
Tobacco	2,656	0.7
Arecanuts	69,000	2.0
Palmyrah	50,000	1.5
Paddy	912,500	27.6
Chenas and vegetables	140,000	4.2

Of these crops, the bulk of the cash crops, mentioned as the first 7 items above, is for export. These crops are cultivated on 2,187,706 acres; the balance of 1,029,395 (roughly a million) acres is given to food crops. 70% is used for export crops, and only 30% for food production. In this respect, Ceylon and Malaya differ from all the other east Asian countries, as the following figures show. Food crops claim over 95% of the total cultivation in Burma, China, Korea, Indo-China and Thailand, between 81% and 92% in India, Japan, Indonesia, Pakistan and Manchuria, 63% in the Philippines, whereas it is only 30% in Ceylon and 21% in Malaya.[1] Ceylon and Malaya are obvious instances of the colonial economy *par excellence.*

The distribution of labour among the various types of agricultural production is a most revealing study and is dealt with later on. But here it will be useful to separate out the labour employed in the cultivation of export cash crops. This division is necessary, partly because it is easier to find accurately their total, and partly because it will reveal the extent of the population that is engaged in the cultivation of paddy and vegetables and thereby show the character of the agrarian problem as it affects the mass of the rural population. In the cultivation of cash crops were engaged, as owners, employers and employees the following numbers (Census 1946 figures).[2]

	Owners	Employees	Total
Coconut	41,000	29,000	70,000
Tea	14,000	453,000	467,000
Rubber	16,000	188,000	204,000
Tobacco	18,000	3,000	21,000
Cocoa	7,000	3,200	10,000
Cinnamon	700	6,700	7,400
Total	96,700	682,900	779,600

Two points should be noted. First, the 2,187,000 acres under cash crops are owned by 96,700 persons. The degree of concentration of ownership is greater in regard to the land under tea, rubber and coconut; 2,027,000 acres are owned by 71,000 persons.

Second, a total of 779,600 persons were engaged in the production of the six cash crops, of whom 299,092, that is, 38%, were women in tea, rubber and coconut estates alone. It may be noted in passing that about 50% of the employed females worked in the plantations. The total rural population in 1946 was 5,624,546. If we assume that the proportion of employable population in the rural areas was the same as for the entire country, (the employable population, that is, those between the ages 15 and 59, for the country was 57.4% of the total), we get a total rural employable population of 3,106,000. Of this number we have just found that only 779,600 were engaged in the cultivation of cash

1. I.L.O. Agricultural Wages and Incomes of Primary Producers, 1949 p. 13.
2. Sessional Paper 2 of 1950.

crops, using up roughly ⅔ of the cultivated land. We reach the most disquieting conclusion that the rest of the rural employable population, comprising 2,326,000 persons, look for work and livelihood to the million acres of land which is all that is left free from the intrusion of the cash crop. The result, indicating the distribution of work between the sexes, is shown more clearly below:

	Total	Men	Women
Employable rural population	3,106,000	1,593,000	1,513,000
Employed in cash crops	779,600	481,000	299,000
Balance	2,326,400	1,112,400	1,214,000

Allowing for slight errors in this estimate, which is based on the census figures, we could say that the balance was 2,300,000 constituted of 1,100,000 men and 1,200,000 women. It appears clear that at least 90% of this big *adult* rural population of over 2 million (allowing 10% as the proportion engaged in handicrafts) depend, directly or indirectly, on the cultivation of food crops on about a million acres for their livelihood and work. Of this number, there are, as shown above, slightly over a million men. This is the core of the country's agrarian problem. The gravity of the situation stands undiminished even when allowance is made for minor non agricultural occupations of small fractions of the rural adult population.

Estate Cultivation

It was stated earlier that the position of our agriculture is, in a sense, a simple one in terms of the land, and of the crops, cultivated. But it ceases to be simple when on this land are concentrated, and on its cultivation are dependent, a total rural population of 5,624,646, of whom 3,106,000 are employable adults. The picture takes on a necessarily complicated pattern, because there must somehow hang on to this earthly 3-million-acred paradise this vast collection of people. The result is a veritable jigsaw puzzle, and the larger pieces are the estates. These are units of land over 20 acres in extent.

Preponderance of cash crops is the first important feature of the country's agriculture. The dichotomy of cultivation into estate cultivation and small-cultivation is the second important feature. It is necessary to isolate the facts regarding estate cultivation from the rest of agricultural production. Estates are capitalist farms and are usually cultivated by the owners themselves with hired labour. Whatever problems estate cultivation presents, they have little in common with those of small-scale cultivation.

Moreover, once the known facts about estate cultivation are isolated, the study of the problems and features of small-scale cultivation, which is really *the* essential question in Ceylon's agriculture, is reduced to its proper perspective. Under estates, there are:

A estates	Tea	456,580 acres
	Rubber	340,715 ,,
	Coconut	107,436 ,,
	Other crops	67,290 ,,
B estates		369,604 ,,
	Total	1,341,623

This estimate which is based on the census figures would need correction if the estimates provided by the Rubber Controller in his 1949 report[1] and by the report of the Coconut Commission[2] is accepted. According to the former, rubber estates of over 10 acres in extent comprised 479,605 acres, leaving only 149,000 acres in small holdings of under 10 acres. According to the latter, cocount estates of over 20 acres in extent had 920,000 acres, and the extent of small holdings "below 20 acres is approximately 155,000 acres." If these two sets of figures are accepted, the total under estates is increased considerably. A safe estimate of the area under estates would be a minimum of 1½ mln. acres.

It is difficult to be accurate about the number of workers in the estates. Mr. Rajanayagam estimates the total at 673,200, in tea, rubber, coconut and cocoa estates.[3] With owners and other employees, the total number working in the estates would be about 680,000. This is the extent of the estate cultivation. They take up about a million and a half acres, and in them there work 680,000 persons.

Small-scale Cultivation

If we deduct this area and this working population from the total cultivated area and from the total rural employable population, we get the following result:

	Area (acres)	Employable population
	3,210,000	3,106,000
	1,500,000	680,000
Small cultivation:	1,710,000	2,426,000

The essence of the agrarian problem of the country is defined by these figures given at the bottom. 2,426,000 employable adults cultivate somehow, or depend on the income from the cultivation

1, Rubber Controller's Administration Report for 1949.
2. Report of the Coconut Commission. Sessional Paper 12 of 1949.
3. Sessional Paper 2 of 1950.

of, 1,710,000 acres. This is the total extent of the land under small-scale cultivation:—53% of the total cultivated area. Further analysis would have been possible if information was available on such points as ownership of land, distribution by extent of holdings, terms and types of tenancy etc. It is to be hoped that material will be published in the forthcoming census reports.

With the meagre information now available, it is possible to note only some general points. In terms of crops cultivated, the area is distributed as follows:

Paddy	899,000 acres
Chena and vegetables	140,000
Arecanuts	69,000
Cinnamon & minor cash crops	85,000
Palmyrah	50,000
Tea, rubber, coconuts	600,000

In terms of the size of holdings, the distribution is as follows:

	No. of holdings	Area in acres	Extent of average holding
Small holdings (1—20 acres.)	394,785	903,191	1.3 acres
Town & village gardens (under 1 acre.)	858,892	309,381	·35 ,,
Paddy lands	771,908	899,970	1·16 ,,
Chenas	91,996	46,322	·5 ,,

If the average holding appears so dwarfed, the actual size of the majority of holdings must be smaller still. While information of the further distribution of small holdings is not available, the position in regard to paddy land shows that the impression created by the arithmetic average size of a holding is misleading. While the average paddy land holding is given above as 1·16 acres, in actual fact 64·3 % of the paddy land holdings are below one acre, and 32 % are under ½ an acre. It is probably true to say that this pattern prevails over all small scale cultivation in the island. This excessive division of land is the natural consequence of the relation existing between existing resources and population.

In such a context, systems of land tenure would appear to be a secondary factor. The various types of tenancy farming are found only in the non estate land, and in view of this extreme parcelisation of holdings, it is a question whether, *in general*, the tenant is worse off than a landowner, This is not to say that questions regarding tenancy are unimportant; their significance is perhaps secondary, except in certain districts. The majority of owners of holdings are themselves, so to say, a propertied proletarial, and, *in general,* are not better off than the tenants. Indeed, it would be true to say that, in the non-estate sector of cultivation, the bulk of the cultivators, whether they are owners, tenants, or paid workers, are more or less an undifferentiated lot *in respect of the income they derive from their work as agriculturists.* There is differentiation, undoubtedly; but this, as will be shown later, is confined to a few of the more favoured districts.

The main division in small scale cultivation appears to be, not between owners, tenants and regular workers (this last category is largely absent), but between these on the one side and the landless poor on the other side. Details of ownership of land are not available, but we found earlier that about 2 million acres under cash crops are owned by 97,700 persons. That is to say, out of a total rural adult population of 3,106,000, as few as 97,700 own about ⅔ of the cultivated area. We also know from the census figures that of 282,854 paddy cultivators, there were only 82,014 owner-cultivators. We conclude from these facts that (a) of all those engaged in agriculture, those who own land were only 179,714 persons, and (b) 3 million adults in the rural areas owned between them only about 1,200,000 acres. What this maldistribution means is shown by Prof. Das Gupta's rural economic surveys which give the extent of landlessness in villages in certain districts. These are given below:

District	No. of families in selected villages	No. of families owing no land	Percentage
Chilaw	340	181	53
Puttalam	173	89	51
Matale	692	256	37
Matara	645	355	55
Hambantota	311	110	35
Galle	1249	706	56
Kurunegala	2040	755	37

The result can only be increasing landlessness. Though no comprehensive figures are available to show its extent or its spread over a number of years, there is little doubt that, except in three or four districts in the dry zone, about 40 to 55 per cent of the families are landless.

[*To be concluded.*]

Overall Budgetary Policy in an Export Economy *

By GAMANI COREA.

In this essay I wish to discuss in general terms, the problem of budgetary policy in an export economy. The need for a so-called full employment policy consciously pursued by the government is now familiar to everyone and is indeed a common place in the manifestos of most political parties. The declaration in 1945 by the coalition government of Britian that the maintenance of full employment was the responsibility of the state, was then regarded as the crowning point in the influence of Keynesian economics on practical policy. In the light of these developments it is interesting and obviously necessary to ask how far public finance in a country like ours can benefit by these recent improvements and what changes in theory and practice will arise in the application to this country of the essential premise of Keynes' system—that public finance should be conducted in relation to the needs of the national economy as a whole and not merely to the limited requirements of the government. We will not discuss here the more detailed problems of public finance such as the suitability of various kinds of taxes and various patterns of public expenditure.

If we are to consider intelligently the applicability of some of these new ideas to our conditions, and also to appreciate the significance of these ideas themselves, it is necessary first to understand the arguments of the older school of thought.

When we observe the results of the practical application of what used to be orthodox theory—for in recent years new orthodoxies have emerged—we are tempted to conclude that this theory tended to view the problem of the budget in isolation from the problems of the rest of the economy. The policies of stringent retrenchment and economy in public expenditure which were pursued by a number of countries like Britain—and even this country—during the difficulties of the depression, afford us ample evidence in support of this view. Nevertheless an examination of the classical theory will convince us that such a conclusion is unjustified. We shall see that when orthodox economics proferred the rule that as far as possible, the ordinary expenditures of the Government should be balanced out of ordinary revenues—meaning primarily tax revenues, it did so not out of concern for the solvency of the Exchequer as such, but through a conviction that in this manner the interests of the economy as a whole will best be

* Revised text of a lecture delivered to the University Economic Society.

served. For classical economics placed a great deal of faith in the effectiveness of various automatic instruments in the economy in securing a state which permanently tends towards full employment. It believed for instance in the effectiveness of supply and demand elasticities and in the flexibility of prices and wages in the economy to bring about a fairly rapid adjustment of supply and demand not only for finished goods and services but also for factors of production such as labour. Above all it relied on the rate of interest to equalise investment with saving so that there can never be unemployment due to an excess of savings or to put it another way—a deficiency of spending—by the community. Thus if the community as a whole was to reduce its spending and increase its savings, the rate of interest will fall. This fall in the rate of interest will stimulate businessmen to increase their borrowing for purposes of investment. Investment will therefore increase and the labour that has been thrown out of employment by the reduction in spending will now be absorbed in the production of capital goods, so that a state approximating to full employment will still prevail.

Once a state of permanent full employment is assumed, the way is clear for a theory of balanced government budgets. If the labour and other resources of the community are always fully employed, the government can secure a part of these factors of production by leaving less to the private sector. Now, unless the disposable incomes of the private sector are to be cut down to an extent equivalent to the government expenditure necessary for the employment of these resources, aggregate outlay in the community, both public and private, will be in excess of the amount needed to secure full employment. In other words, unless government expenditure is balanced by tax revenues as against created money, there will be a condition of inflation in the economy, because there will be more money in circulation than is needed to employ its resources fully. It should be noted that the objection to inflation applies to budget deficits financed through an expansion in the money supply. That is, either through the printing of notes or borrowing from the banks. A budget deficit can also be financied through borrowing from the public. This will not lead to inflation because these monies, since they have been lent to the government —will not be available to the private sector. But all the same, according to classical theory, borrowing from the public as a method of financing government expenditure should also be avoided unless the government were to invest these borrowed monies in productive works. This is because the savings of the public which are lent to the government will not be available for private investment.

Hence the rate of progress or capital accumulation in the community would be reduced unless the government was to effect the reduction in private investment by utilising its borrowed funds in productive ventures. We have so far mentioned only budget deficits. It will readily be seen that assuming full employment, budget surpluses too would in ordinary conditions be undesirable because of their deflationary effect. But one does get the suspicion that the dread of inflation loomed much larger in the minds of the classical economists than the fear of deflation.

Keynes and his followers have devoted, in their penetrating criticism of the classical position, a great deal of attention to this question of a self-generating tendency towards full employment in a private enterprise economy. In doing so they have succeeded in laying bare the shortcomings inherent in the assumption of full employment which is, as we have seen, so fundamental to the whole classical theory. On the analytical side, one of the most important contributions of the "New Economics" is that it has shown us that there is in effect no satisfactory mechanism in the economic system which will by itself ensure the attainment of a permanent state of full employment. The orthodox theory argued as we saw, that there can never be unemployment due to inadequate spending because even if spending is reduced and saving is increased, the rate of interest will so change as to induce business men to utilise the increased savings for expanding investment activities which will absorb the displaced labour. The critics of the classical theory were able to demonstrate convincingly that in practice the rate of interest does not fulfil this assumed role of equalising investment and saving. Decisions to invest were made independently of decisions to save and even if changes in savings reacted on the rate of interest there was nothing to guarantee that investment would respond faithfully to changes in the rate of interest. On the contrary, the chances are that an increase in the desire to save, will, other things remaining unchanged, lead to a reduction in investment through the effect of lowered spending on the profitability of capital. In other words, what Keynes and the other critics argued was that it was not savings which played an active role in determining investment, but that on the contrary, the economic system worked the other way round, with investment determining savings. We need not, however, go into the reasons for this here.

If there is no mechanism that ensures for instance, that an increase in savings will be matched by an increase in investment, there is nothing also to ensure that a position approximating to full employment will always prevail. If the community cuts down its demand for goods of various kinds, labour will be thrown out of employment, and if businessmen do not at this point, absorb this labour in capital investment, it will obviously remain unemployed. Now, it will be apparent that if we drop the classical assumption of full employment, which, as we have seen is untenable in the theory and is certainly untrue in real life, we must also rule out of court the principle of permanently balancing the budget in public finance. For, if there are resources which are lying idle or unemployed it will not be necessary for the government to acquire them by bidding them away from the private sector. It follows also that it will not be necessary for the government to curtail the expenditure of the private sector by taxation or other means merely for the purpose of getting the private sector to release resources for governmental use.In other words, government expenditure, even if is is not financed by taxation will not be inflationary because unemployed resources can be used to satisfy the increase in aggregate demand. Indeed, if in conditions of unemployment, the government did attempt to cover its expenditure by taxation, it will in no way be helping to relieve the unemployment position, since its taxes will be cutting down the expenditure of the private sector. And, if in difficult times the government actually reduces its expenditure, simply because its tax revenues have fallen, it will, in fact, be aggravating the problem or unemployment. For these reasons the Keynesians argue that the principle of balanced budgets as a hard and fast rule should be discarded, and that the question of whether the government should incur a balance or a deficit or a surplus in its budget should be determined entirely in accordance with the requirements of the economy. A deficit, financed through the creation of money or through borrowing from the banks, will not be harmful as long as it used only up to the limit of full employment. Further, since there is nothing in the economic system to ensure that the savings of the public will be utilised by the private sector for investment, nothing will be lost if the government makes use of its borrowing from the public to meet its ordinary, though not necessarily productive, expenditures.

This argument, as we have phrased it, goes to show that budget deficits are not necessarily harmful in certain conditions. In fact however, the critics of the orthodox theory claimed much more, for they believed that in conditions of general unemployment and depression a policy of budgetary deficits can positively be beneficial. This position of course follows from their general analysis. For if there is no infallible mechanism in the economy which sees to it that the whole of the incomes of the community are either spent on consumption goods or used for investment in capital goods, there can be a situation in which total spending or total investment or both will fall short of the amounts necessary to maintain employment. Or, to put it another way, unemployment can be caused by a general deficiency of demand as well as

by the traditional forces of frictional and structural maladjustment or which were to the classical economists the sole cause of unemployment. And, of course, if a general deficiency of demand is a cause of unemployment, the government can step in to correct the situation by supplementing total demand out of its own expenditure. It is not however necessary that the government deficit be equal to the whole of the gap in total demand. This is where the concept of the "Multiplier" comes in. A given amount of government expenditure, apart from directly increasing employment for government purposes, will also indirectly stimulate employment through the increased outlays of the recipients of government funds. The total increase in employment caused by a given initial increase will, of course, depend on the size of the multiplier. The larger the multiplier the smaller the compensatory budget deficit needed to cover the general deficiency of demand. Moreover, once the beneficial effort of a budget deficit takes material from in an increase in prosperity the size of the deficit itself may eventually be reduced through the expansion in ordinary government revenues.

Before we proceed to consider the applicability of these theories to the Ceylon economy, it is I think, extremely important to note the particular institutional framework or background which is implicit in the whole argument. Keynesian economics has in recent years become so much an integral part of the science that one is apt to treat its conclusions as general laws of universal applicability. There are in particular two fundamental assumptions which condition the validity of the Keynesian analysis. The first of these was made explicit by Keynes himself. He prefaced the "General Theory" with a warning that his analysis was confined to a closed system in which external trade was either non existent or could be ignored. The second assumption was perhaps too obvious to be stated outright but is of vital importance to us. The background to the Keynesian analysis was an advanced and complex economic system in which the various factors of production like labour, land and machinery, were mutually co-operative. Such a system moreover was so subtly interconnected that it was as a whole responsive to stimulants that may be applied at certain vital points. The significance of these assumptions will, of course, be readily apparent. In the first place, a closed economy implies that employment is entirely determined by internal demand. An increase in incomes at home may, therefore, be expected to directly benefit employment at home. In the second place, since the real capital stock in the economy is, by and large, fully adapted to the entire labour force, this labour force is more or less fully employable. In other words, there is no lack of factories, raw materials and so on, to prevent in the short period the absorption of the entire labour force, once the prospects of profitability emerge. This means generally that the point of inelastic supply of physical output in the economy corresponds roughly to the point of full employment. And since inflation generally arises after the point of maximum physical output, it becomes a danger only in a period of full employment.

How far then, would these ideas apply to Ceylon? Will it be correct in the conditions of the Ceylon economy to discard the principle of a permanently balanced budget and to embrace the new philosophy of a compensatory budgetary policy attuned to the requirements of the economy as a whole? Or, are there in an export economy, certain intrinsic merits in a cautious policy which seeks continously to balance expenditure and revenue?

I have so far, discussed the question of budgetary policy in terms of its effect upon employment. I have more or less assumed that full employment will be assured as long as total demand or total spending is sufficiently high. In fact, however, both the classical economists and the Keynesians recognised that unemployment can sometimes arise through causes unconnected with total demand or total spending. In particular they identified seasonal, frictional and structural unemployment which they pointed out could prevail even if there was "full employment" in the sense that total demand was adequate. Now it is easy to see that in an agricultural economy like Ceylon a considerable amount of unemployment can exist because of seasonal and frictional factors. There can be seasonal unemployment in the rural areas, for instance, even if the price of rice is booming. Again rubber plantations may be closing down because for example, their relative efficiency has declined, even though incomes and spending in the rest of the economy are buoyant. Obviously no amount of increase in aggregate spending in the community will cure this type of unemployment. Now in an underdeveloped area in addition to temporary factors of this sort, there can be a more long term kind of unemployment which is essentially the result of economic backwardness itself. For in a backward economy numerous technical bottlenecks are likely to arise which impede the absorption of labour even where the total effective demand is generally adequate. Thus a great scarcity of a certain type of labour or a certain type of skill can exist side by side with unemployment. And this scarcity cannot be met in the short period because the necessary training institutions and so on are absent. Again a certain type of productive activity for which there is a high demand cannot be undertaken because the necessary facilities like machines, transport and power are lacking. These bottlenecks when they exist together with rapid population growth and a drift of surplus labour to the towns from the rural areas prevent an unemployment problem of considerable dimensions. But it is

supremely important to note that this type of unemployment so sometimes termed "Backward Area" unemployment is fundamentally different from the so-called "Keynesian" unemployment caused by a general deficiency of demand. I think it is true to say that today unemployment is largely of the backward area variety. For in every other respect, the economy is booming and there is evidence of inflationary pressure. Now it will be obvious that this backward area unemployment cannot be met by an increase in aggregate spending. Budgetary policy which seeks to increase aggregate spending by the general technique of deficit finance will clearly be of no avail. That is why the Keynesian analysis is valid only in an advanced system. The solution to backward area unemployment is a long term one. It is intimately linked to the problem of economic development. It is through development that the various bottlenecks and rigidities which impede the absorption of surplus labour may be removed.

It does not follow that in the Ceylon economy unemployment cannot arise through a general deficiency of demand. Apart from the subsistence sector in which produce is not exchanged, productive activity in the economy is for purposes of exchange. So clearly, if demand falls, this productive activity will suffer and labour will be thrown out of employment. Thus, whilst recognising the possibility of backward area unemployment, let us see whether budgetary policy can at least be used to deal with unemployment arising through a general decline in demand. This is the type of unemployment which arose in the last depression and may arise again in the event of another slump.

The effective demand which determines employment in the Ceylon economy is composed of the spending of foreigners for the purchase of Ceylon's export products and the spending of residents within this country on various goods and services that are internally produced. There again the classical economists were self consistant. They did not admit the possibility that general unemployment can arise from a failure of effective demand in the export industries. On the one hand, they argued, for reasons we have already mentioned, that there cannot be a general failure of demand in the importing countries. On the other hand, even if the foreign demand for the products of an exporting country were to fall there are certain instruments such as international interest rate and flexible prices and wages which will tend to restore equilibrium and aggregate incomes in the country concerned through offsetting short-term capital movements through a reduction in its cost structures. Compensatory budget deficits, therefore, will not be needed to supplement any initial decline in incomes. Now once again recent analysis combined with empirical observation, has succeeded in exploding this view. If the foreign demand for the exports of a country declines, it need not necessarily follow that either foreigners will thereby have an export surplus which will be available for lending to this country or that wages will be sufficiently flexible to restore full employment. For the classical economists tended to ignore both the multiplier effects of a reduction in external demand and the unflexibility of price and wages. Thus if the demand for the exports of a country were to fall, the incomes and employment of those producing for export in this country will also fall. Consequently, they will spend less on both home produced goods and imports. When they spend less on imports the incomes of foreigners will fall and the export surplus the foreigners initially enjoyed will be reduced. So that the foreigners instead of having more to lend as the classical economists assured, will have less, even to spend on their own requirements. They may in turn, react to this by cutting down their imports still further so that a downward spiral of declining demand and unemployment may be set in motion throughout the world.

Obviously, we need not in a small country like Ceylon be worried about the effects of a decline in our expenditure on imports on the incomes of foreigners. We can safely assume that our expenditure on imports does not effect the foreign demand for exports. What we are really concerned with is the effect of a decline in the foreign demand for our exports on incomes and employment at home. And the question we have to ask is how far budgetary policy can be used to offset the effects of a decline in the foreign demand for our exports on employment and incomes in this country.

We can safely view the problem from the point of view of a decline in external demand because the characteristic institutional properties of the Ceylon economy make it fairly certain that depressions or slumps will be foreign generated. This is because the relationship between the external and internal determinants of employment and incomes in Ceylon is not quite symmetrical. Thus a reduction in the spending of Ceylonese will only affect employment in industries producing goods for home consumption. Whereas a reduction in the spending or foreigners on Ceylon's exports will affect both employment in the export industries and employment in the home industries through a decline in the spending of those engaged in production for export. In other words, the multiplier effect of a decline in foreign spending is greater than the multiplier effects of a decline in home spending. So that although deflationary forces that are internally generated in the Keynesian sense, are not theoritically impossible, for instance, savings may tend to exceed investment at home, their importance is not very great because the bulk of employment in Ceylon is externally determined.

Let us imagine that the foreign demand for Ceylon's export products—for her tea and rubber and coconuts—has fallen and that we are facing a period of depression. The chain of events will probably be somewhat as follows: The price of tea, rubber and coconuts will fall and their producers will be thrown out of employment. Some may hang on in production but their incomes will nevertheless fall. Now, since the incomes of these people have fallen, they will probably cut down their expenditure. Normally people in Ceylon spend their incomes both on imported goods including food and clothing and on home produced goods, such as houses, transport, domestic service, entertainment and so on. When expenditures fall, therefore both the incomes of those who produce goods for the home market, as well as the demand for imports will fall. The reduction in imports, since it affects foreigners will have no further deflationary effects in Ceylon. But producers of goods for the home interests whose incomes have now been lowered, will in turn cut down their own expenditure, which, again is partly on imports and partly on home produced goods. Thus a given initial decline in the external demand for exports will set in motion, both once and for all, decline in employment in the export industries, and a cumulative decline in incomes and employment in the sector producing goods for internal exchange. However, since imports figure so prominently in the expenditure patterns of Ceylonese, only a relatively small part of a given reduction in expenditure will fall on producers of home produced goods. Hence the secondary unemployment that will be caused by initial unemployment in the export industries will be restricted or, to put it another way, the high propensity to import in Ceylon, sets substantial limits on the size of the employment multiplier in the economy.

Is it possible that the government can do anything to offset the effects of an externally generated depression? Perhaps the obvious line of approach is to see what will happen if the government through deficit spending attempts to replace the reduction in external demand. Now the first point to note is that although the dificit spending of the government may in quantitative terms, be exactly equal to the reduction in the spending of foreigners, this will not in itself be sufficient to restore employment in the country. This is because the resulting increase in aggregate spending in the community will not be directed towards the products of the export industry where workers have been thrown out of employment. This again is another reflection on the small size of the employment multiplier in Ceylon. The secondary effects of a given increase in employment or expenditure is limited because the consumption and investment requirements of the country are only in small degree out of local resources. In a closed economy on the other hand the very fact of a deficit is sufficient to stimulate employment because the multiplier is relatively large. Now let us suppose that the deficit spending of the government instead of being general, is actively and directly aimed at employment in the export industries. This can be done for instance, by offering a government subsidy to producers in the export industries to enable them to maintain employment at a loss. In this way the effect of a depression on the Ceylon economy can be completely neutralised as far as employment is concerned. The secondary effects on employment in industries producing for the home market will also be thwarted in this manner.

But what else will such a policy imply? Since external demand has fallen the prices of export products will have dropped. Now the government subsidy may help to prevent the output of these products from falling as well. But since prices have fallen, total foreign exchange receipts will fall. But incomes and employment in the Ceylon economy have been maintained through the deficit financed government subsidy. The effect of this is of course, to sustain the demand for imports—but since export receipts in foreign exchange have fallen, the whole scheme will result in a deficit in the balance of payments on current account. This of course, will lead to the exhaustion of the foreign exchange revenues of the country—without doubt a disastrous consequence.

Theoretically, it may be possible to correct the deficit in the balance of payments by exchange control.[1] Exchange control will directly act on the Balance of Payments by cutting down the volume of imports. But since money incomes in Ceylon have not fallen, such a reduction in the supply of imports will lead to an inflationary rise in prices.

It could be said that a policy of deficit finance in periods of depression, is likely to come to grief either through disequilibrium in the balance of payments or through inflation.

The root of the problem is that in times of slump, real incomes in the economy will fall. For real incomes in Ceylon consist largely of goods and services that are imported. The volume of imports that we can bring into the country is almost entirely dependent on the world prices for our export products. No amount of manipulation with the budget can materially change these world prices. Through budgetary policy we do not allow money incomes in Ceylon to decline together with the reduction in real incomes; we will obviously be inviting either balance of payments difficulties or inflation. Now inflation may not be harmful if it can be controlled. After all, if the government subsidises employment in the export sector in a depression it will be helping to secure a better distribution of the reduced total of real incomes in the community. Workers in the export trade, instead of being unemployed with no incomes will now, at least have money to spend even if things are expensive. But unfortunately the type of inflation a budget deficit will give rise to, cannot be easily controlled and will in fact tend to be cumulative. A rise in prices will put up cost, in the export industries which will mean an increase in the government subsidy. This in turn will lead to a further rise in prices and costs and so on along the vicious spiral.

1. Exchange depreciation is a possible alternative. But its effectiveness is limited in Ceylon by the low price elasticity of demand for an important proportion of imports. In any event, exchange depreciation will be frustrated, if it leads to retaliation by other countries or if it stimulates uncontrolled capital movements.

This problem of the balance of payments is in fact made even more difficult by the normal behaviour of the economy in times of depression. For there is a tendency for this country to incur an adverse balance of payment in depression and a favourable balance in booms, even when the budget is balanced. This is because Ceylon's imports are made up of essential requirements. People will try to keep up their purchases even at the expense of past savings when their current incomes fall. In times of prosperity on the other hand, they tend to restore their savings by not spending up to the hilt of their incomes. Now obviously if the government wants to protect the balance of payments the last thing it should do is to incur a budget deficit in times of depression. For such a deficit, as we have seen, can only aggravate the balance of payments disequilibrium. The least it can do is to follow a neutral policy and balance its budget. And this may seem paradoxical in the light of everything we have been saying. Indeed if the need for stability in the *balance of payments* is the overriding concern budgetary policy should in fact aim at a surplus rather than a deficit in periods of depression, because it is only a budgetary surplus that will correct the normal tendency of the economy to incur an adverse trade balance.

That Budgetary policy in an export economy like Ceylon faces a fundamental dilemma. If it seeks to neutralise the effect on employment of a fall in external demand the government must increase its expenditures and reduce its taxes. But if it does this it aggravates the problem of the balance of payments and thereby weakens Ceylon's international financial position. If on the other hand, the government attempts to neutralise the effects of a depression in the balance of payments it must reduce its expenditures and increase its taxes. But if it does this it aggravates the problem of unemployment and declining incomes.

Are there any ways of resolving this problem? One possible way is to adopt a compromise and to stick to the old classical rule of always balancing the budget in good times and bad. Within the confines of a balanced budget the government may try to do whatever it can to relieve the problem of unemployment. It may, for instance, rearrange the distribution of its expenditures in favour of employment creating activities. And it may rearrange its tax system to try and curb consumer expenditure on imports. But obviously the effectiveness of such measures will be very limited. Nevertheless I think that the disadvantages of a policy of balancing the budget are smaller than the dangers and risks inherent in a sophisticated policy of deficit finance. There is however, a further alternative which seems to be more hopeful. I mentioned that it is the normal tendency for our economic system to incur an adverse balance of payments in times of depression. Now this means that the economy is able to cushion a decline in real incomes caused by a reduction in foreign exchange earnings, by drawing on its reserves. It is able to do this precisely because it had accumulated reserves in the past by incuring a favourable balance in periods of boom. Now you will see that it will be possible for industrial policy to reinforce this tendency. If budgetary policy is aimed at increasing foreign exchange reserves in times of boom, the country will be able to afford a larger deficit in the balance of payments in times of depression. In other words, the larger the foreign exchange reserves we accumulate in good times, the more fitted we shall be to carry out expansionist policies which will help employment in the slump. For, as we saw, the greatest danger that faces a budget deficit in times of depression, is that a deficit will cause an adverse balance of payments which will exhaust our exchange reserves and weaken our international financial position. If we have ample exchange reserves we need not fear this adverse balance of payments and we can therefore carry out a policy which sustains employment at home through subsidising the export sector.

How can the government help the economy to increase foreign exchange reserves in good times? It can do this by a policy of heavy taxation which will cut down consumption and therefore cut down imports, provided it does not offset this by an increase in its own expenditures. In other words government policy must aim at a budget surplus in good years. The purpose of the budget surplus is however to accumulate, not rupees but foreign exchange and its effectiveness must be measured by its influence on the size of the favourable balance of payments. For instance the demand for imports and therefore the balance of payments may not be substantially affected by a budget surplus, if people pay the extra taxes imposed on them out of their savings. It may therefore be necessary to impose taxes which directly act

on consumption. But it may well be that the scope for taxes of this sort in Ceylon is limited.

It is the writers view that the government can help the accumulation of foreign exchange reserves in other ways than through budgetary policy alone. You will of course appreciate that the banking system can help by putting brakes on credit expansion in good years. But in addition I think that there is a considerable possibility of using a rational *commodity policy* for this purpose. After all, all the trouble arises because the prices of our tea, rubber and coconuts tend to rise steeply in the boom and drop disastrously in the depression. Now world prices are determined by external conditions over which we have no control. There has in recent years, been a lot of talk about international stability schemes for primary products but so far nothing has come of it. Now, although we cannot control the world prices of tea, rubber and coconuts we may be able to do something to stabilise the internal prices of these products. For instance, the government can establish Marketing Boards which will purchase the entire exportable surplus of our commodities at a price adequate to cover costs (including normal profits) and maintain employment in the export industries. The Marketing Boards can then proceed to sell these products abroad. When the world price is higher than the price the Board pays to local producers the Boards will make a profit and accumulate larger reserves. The reserves you will notice, will be foreign exchange reserves. When the world prices falls, on the other hand, the Marketing Boards will be able to draw on its previously accumulated reserves and pay the local producers a price higher than the world price. In this way the export industries can continue production and maintain employment in the depression.

In this way the problem of budgetary policy can be greatly eased. It will not be necessary for the budget to subsidise the export industry in the slumps because this will be done by the Marketing Boards. And it will not be necessary for the government to cut down incomes and accumulate a larger surplus in good years by imposing burdensome taxes, because the Marketing Boards will prevent an extravagant rise in incomes in the boom. Budgetary policy of course, must supplement these measures as far as it can and make whenever possible its own contribution to the accumulation of reserves in good years and to the maintaintence of employment and incomes in bad years.

It will be seen that all these suggested policies do imply a certain type of deficit financing in the sense that in bad years current expenditures whether of the Marketing Boards or of the government will be in excess of current reserves. But unlike the deficits envisaged in Keynesian policies, these deficits are compensated by surpluses in good years so that over a period there is some sort of balance. In real terms the difference may be expressed like this: Keynesian policies aim always at maintaining real incomes at a maximum by ensuring continued full employment and maximum production. In an export economy, all a practicable policy can do is to maintain stability by averaging out fluctutions in incomes by cutting down the peaks to fill up the troughs.[1] But the suggestions we have made for even this limited purpose are tentative and require a good deal more thought and analysis, particularly in regard to practical questions.

What I have been discussing in this essay is essentially a short period problem—the problem of stability. But stability is only one of two important problems that concern an economy. The other problem is the long term one—the problem of development. Now the government will undoubtedly be concerned with development, and budgetary policy will be adjusted to their requirements. We cannot, of course, discuss these problems here except perhaps suggest that the government should plan out its development programme in such a manner as to avoid drastic fluctuations in investment between good and bad years. If this is done the unpleasant consequences of a curtailment of investment in the depression can well be avoided.

1. This is actually an understatement. Such a policy of stabilization would increase the average value of real incomes by maintaining, in good times and bad, a high level of output in both the export sector and the sector producing for home consumption.

Thoughts on Full Employment

By H. A. DE S. GUNASEKERA

The phrase "full employment" is often used in current discussions of economic problems. The term has now been widely accepted in the public mind as the ideal of economic policy. Yet no logically satisfying definition of this idyllic state has been provided outside of Keynes' General Theory and the purely academic writings provoked by it. One may assume that when economists use the words "full employment" they know what they mean—that they are aware that like the famous "Homo Oeconomicus" or the equally famous "Robinson Crusoe" it is "a purely expository device." Every science is, of course, entitled to its special jargon. No one demands that an article in the British Medical Journal or in the proceedings of the Royal Society of Atomic Physicists should be intelligible to that elusive person called the man in the street. Still both medicine and atomic energy may shape his future existence or determine whether he is to exist at all. Economics, however, enjoys a wider appeal probably because it "studies mankind in the *ordinary* business of life." The numerous books on "Everyday Economics" or such extraordinary achievements as "Economics in One Lesson" are ample testimony to the insatiable thirst for economic know-how. Full employment is today a live issue. Some governments are pledged to maintain it, and others promise to achieve it. It would, therefore, be of some use to examine its exact connotation and consider how far such a concept is relevant in the context of our own economic structure.

Clearly, even in the most rigidly and faultlessly planned economy, there must be certain persons unemployed during the period when it is adjusting itself to changes in the pattern of demand or to changes in production plans. In a controlled economy such transitional unemployment is bound to be less than in a price economy. For in the former, various lines of production can be effectively co-ordinated while under the latter arrangement individual firms are largely ignorant of what the others are doing. There is, then, a greater likelihood that in an unplanned economy, individual decisions may not fit, while in a planned system the impact of even sudden and unpredictable shifts in demand may be softened. It is apparent that "Full Employment" cannot mean the total absence of unemployment. For the United Kingdom an unemployment rate of 3% has been regarded as consistent with "Full Employment." What is necessary is that the same persons should not be continuously unemployed. There should always be "more jobs than men," so that, a person need remain idle only while he moves from one industry to another or from one region to another. Unemployment, thus, resembles a stream rather than a stagnant pool. Should the same persons be seeking jobs, over a fairly long period, it would be a sign of more serious maladjustments in the economy.

In text book discussions of "Full Employment," one often finds a reference to a "point of Full Employment." This, however, is highly unrealistic. In practice, one cannot discern any such crucial "point." In a typical process of economic expansion in an advanced industrial country what one finds is a series of instances where various types of raw material, skill and equipment become increasingly scarce. Their prices begin to rise until industries which use such resources are compelled to stop expanding. Such scarcities often develop in the very early stages of a so called boom. As scarcities or "bottlenecks" become increasingly general one industry after another begins to feel the pinch, and curtail their activities. In a planless economy, such action has unpleasant repercussions in their spheres which had expected the expansion to continue. This is, perhaps, one of many factors which serve to explain the instability of the capitalist economy at high levels of employment—a partial explanation of why booms always insist on "breaking."

It is not possible for any one to say where exactly the "point of Full Employment" is. On the other hand, booms have always come to an end long before all the available labour force (making allowance for transitional unemployment) had found jobs. Except during war or in the period of preparation for war, capitalist economies have never experienced a shortage of labour. At the height of the boom of the 'twenties the U.S.A. had 3-4 millions unemployed and the United Kingdom 1½-2 millions unemployed. What corresponds to the theoretical notion of a "point of Full Employment" therefore, is a period of varying length during which scarcities become intensified and competitive bidding for the productive factors drives up their prices, and hence the prices of goods coming on to the market. The essential characteristic of this period is not that labour is "fully employed" but that production has become inelastic to increased monetary demand. The inelasticity is due not to the exhaustion of the labour supply but to shortage, perhaps of particular grades of labour, or of key raw materials or of some special kind of capital equipment.

The Keynesian analysis of the factors determining employment and indeed, the whole concept of "Full Employment" as developed in the *General Theory* is applicable only to the type of industrially developed economic structure which Keynes had in mind. Furthermore, his analysis and conclusions have to be considerably modified when one removes the simplifying assumption of a closed economy. The extremely realistic chapter on

the "Theory of Prices" in the *General Theory* shows us that Keynes, at least, was aware of how the type of economic system with which he was concerned behaved in the face of monetary expansion. Subsequent writers have tried to give to Keynesian propositions a degree of mathematical exactness which their author never claimed for them. In the process, economic theory has tended to forget the assumptions of the *General Theory* and people have sought to apply his propositions dogmatically and mechanically to various kinds of situations for which they are entirely inappropriate.

It is to be feared that the use of Keynesian propositions in the analysis and attempted solutions of the employment or unemployment problems in economically backward areas is a blunder arising out of this process of simplifying and watering down what Keynes wrote. For our present purposes it is immaterial whether Keynes' analysis of the problems in advanced economies is wholly on the correct basis. What is pertinent is that, the analysis is irrelevant in the context of a backward economy.

The type of unemployment discussed in the *General Theory* can justly be labelled "monetary unemployment." It arises, according to Keynes, owing to an insufficiency of monetary demand for the goods and services which the economic system is *able* to produce making use of all the material and capital resources at its disposal. In other words, the analysis assumes the existence of capital equipment, technical skill, entrepreneurial ability and man-power, which are compelled to remain idle owing to the absence of monetary demand. Given these conditions and under favourable circumstances, deficit spending, governmental loan expenditure or even a policy of "cheap money" might serve to stimulate employment and investment activity. Such monetary expansion is likely to provide a market for the products of the idle factors and also to induce more investment outlay for capitalists who are tempted by increased consumer demand and low interest rates and the availability of funds.

Public works are a stock anti-cyclical measure. Government expenditure on Roads, Bridges, Parks, Hospitals and the like may in a developed capitalist economy, increase incomes and consumer demand and thus usher in a revival.

The test of what we have called "monetary unemployment" is whether total output will increase in response to an increase in the quantity of money and bank deposits. It is possible and likely that under the circumstances postulated above, (roughly the conditions prevailing in the United States or Great Britain,) the national product will increase. This is likely because the additional money expenditure will induce firms to re-employ labour and bring their idle or partially utilised equipment into use.

When as in Ceylon, there is no capital equipment or idle plants and all we can boast of is idle man-power, monetary measures aimed at so called "Full Employment" are bound to be futile. Increased spending by government on unemployment relief or public works and the like does not lead to an increased flow of consumable output. It merely serves to drive up prices. The same amount of real wealth will change hands for a larger sum of money. Indeed, any kind of investment activity is likely in the short run to reduce the amount of goods available for consumption and to drive up prices. For investment creates incomes which appear on the market as an increased demand for consumable output. Since the production structure in Ceylon is inelastic this increased demand leads to larger quantities of imports and to higher domestic prices. In a developed economy monetary expansion can normally proceed for some time before production becomes inelastic and prices begin to rise. Increased monetary expenditure is thus able to evoke a supply of additional consumable goods and services without an appreciable time-lag owing to the existence of a unused equipment and a developed capital structure. In an undeveloped economy, however, monetary expansion leads almost immediately to inflation because additional goods cannot be produced quickly and in sufficient quantities to meet the increased money demand. The Keynesian definition of "Full Employment" is that it is a situation where the supply of output as a whole ceases to be elastic. We can, of course, say that the so-called level of Full Employment is reached quite early in a backward economy—that the domestic supply of goods is entirely inelastic with respect to increased money demand. We can speak of the early appearance of "bottlenecks" in the form of a scarcity of capital, technical skill and entrepreneurial ability. But then the term "Full Employment" loses all significance, for we can have "Full Employment" with a considerable army of unemployed. On this definition, we may be said to be enjoying "Full Employment" just now, for total output certainly seems to be inelastic. But the use of such terms to describe the present situation is meaningless and nonsentical.

It is far better that we abandon the term altogether as its use tends to confuse the problems peculiar to backward countries with those arising in more mature economies. Our problems of "Full Employment" are entirely of a different order and require other methods for their solution. They can in no sense be discribed as "monetary unemployment" of the type envisaged in Keynesian theory.

In Ceylon, apart from the 90,000 or so persons registered at the Unemployment Exchanges we have a considerable volume of disguised unemployment, which has so far not been estimated. It is generally agreed that this latter problem arises owing to the

pressure of population on the land. We have a large host of "hangers on" in the rural areas who, far from increasing the productivity of the land actually decrease it. The pressure on the land is merely a reflection of the absence of avenues of employment. If all such persons were taken off the land by flood earthquake or atom bomb there would be no diminution of the National Income.

Our primary problem is to create avenues of productive employment for the mass of the population. In a country with a developed capital structure this task is relatively easy and monetary measures may have some success. But a backward economy has to start from scratch. New fields of employment have to be found and capital has to be invested in them, and the degree of capitalization has to be such that they are able to produce as cheaply and as efficiently as foreign industries. Backward economies lack both the capital and the enterprise required to venture out into new lines of employment. Monetary policy of the type utilised in advanced economies is able to provide neither.

Most of us are aware of the difference between money and capital. The abundance of money and credit does not mean the abundance of capital. A country's stock of capital can increase only if a part of its current production is devoted to the making or purchase of capital goods and equipment. If additional money created by the Government or the banking system is used to buy capital equipment it must automatically drive up prices and reduce the real consumption of the population.

The conclusion is inescapable that, in the absence of foreign loans, capital investment can take place only at the expense of consumption. The problem which faces all backward economies is that the bulk of the population is at or near the starvation line and cannot reduce consumption. The use of "created money" to finance investment is thus a forcible reduction of the living standards of the masses.

The attempt to "create money" for investment purposes is sometimes justified by the glib repetition of the Keynesian proposition that "investment creates its own saving." The book-keeping identity between saving and investment obscures the fact that savings can only increase at the expense of consumption unless there is a simultaneous increase in the available output. In a backward economy, one can safely assume that there will be no such increase for the simple reason that a considerable interval must elapse before new investment can add to the flow of consumable goods. In an advanced economy which has large unused capacity the new investment would be primarily in working capital and the increased flow of commodities would be likely to materialise much earlier. Thus the "creation of money" would not impose intolerable hardships. In any case, with a higher level of real income such economies will be more capable of temporary reduction in their standards of living.

The above reflections might seem unprovoked, but for the fact, views rather similar to those objected to, appear to be prevalent in the minds of framers of policy. The most glaring confusion, and misrepresentation of economic realities has been the Budget Speech for 1949 of the Hon. The Minister of Finance. He referred to his proposals as a "Full Employment Budget." Over two years have passed and the employment situation shows no visible sign of improvement. In true Keynesian style he breakes up total outlay into five main heads: private consumption, private capital expenditure, Central and Local Government expenditure on goods and services, Central and Local Government Investment and the balance of payments surplus or deficit. He then goes on to say that "A Government which wishes to secure full employment must be prepared to influence one or more of these five types of expenditure in order to see that the necessary expenditure is incurred......The Government, after estimating private expenditure must then propose public expenditure which will suffice, together with the estimated private expenditure to secure full employment." "Expenditure" is here regarded as a magic wand which will secure Full Employment. If by Full Employment we mean a situation where nearly everybody has a job and is adding to the National Product in a manner consistent with available technical knowledge it is apparent that the measures proposed by the Minister cannot achieve it. Far from doing so the money outlay required would generate a colossal inflation owing to the inability of the economy to produce more goods without prior capital investment. Nor can these proposals achieve even the more limited aim of preventing a decline in employment. When men and women producing paddy, tea, rubber or cinnamon are thrown out of work, Government expenditure on building roads, dams, hospitals or cutting down earth in Narahenpita or Thimbirigasyaya or even Peradeniya, can do little to produce the wherewithal to purchase the means of sustenance of the masses which are mainly imported. To the extent that Government succeeds in creating jobs it merely achieves a redistribution of the lower real income of the country.

In this connection we often hear of the "multiplier" effect of government expenditure. The argument runs somewhat as follows. When government spends money on its "schemes" it generates incomes which creates a demand for goods and services. Employment will be "multipied" in the attempt to meet these demands, and the ripple once started will spread in ever-widening circles. Unfortunately, since the bulk of our expenditure is on imports, the demand will create employment primarily in the countries from which we obtain our imports and its effect on domestic employment will be negligible. At least, 75% of our ordinary expenditure is on imported articles and every additional Rs. 100/- of money income is likely to increase our imports by about Rs. 75/-. The main result of such a policy is the emergence of a larger and larger deficit in our balance of payments. At the end of the process we shall have a few more public works and "projects" and little or nothing left of our international currency reserves. Our new monetary arrangements which do not prescribe any reserve of international assets against the rupee circulation seems ideally suited to enable the pursuit of the kind of financial policy propounded by the Minister of Finance.

The same kind of fallacious reasoning underlies the recent pronouncement made in preparation for the floating of two new government loans by the Central Bank. The funds raised are admittedly to "finance government projects of economic development." As long as these bonds are bought out of savings, the expenditure of the proceeds by the government are not directly inflationary. What is perturbing, however, is the hope expressed by the Bank Governor, that the new floatations will mobilize the money lying idle in the commercial banks. The fact is, of course, that there is no such "idle" money. The banks have no more "idle money" than their cash reserves. What exists is a potentiality to inflate credit on the basis of these reserves. To the extent that banks invest in the new loans without contracting their other assets they will be creating more money for the Government. The invitation to the banks to subscribe to these loans is an invitation to expand the money supply and add to the already existing inflation. Such creation of credit would, of course, be harmless if the government did not spend it. But that certainly is not its intention. The expenditure of the proceeds of these loans can only add to the inflation which is daily eating into the living standards of the middle classes and working classes.

Loan expenditure of this kind would not be so obnoxious if we were not living through a period of world-wide inflation generated of the rearmament drives and the outbreak of hostilities in various parts of the world. We could then have hoped for a sufficient elasticity in the supply of our basic needs from abroad, which would have kept living costs from rising appreciably. Under present circumstances, governmental expenditure out of "created money" would be a wanton act of cruelty.

Granted the correctness of these remarks, the schemes of development often flaunted before the public would be cause for less rejoicing. Every act of "development" means a further tightening of the belt. No government can increase employment in a backward country without causing present sacrifice. But governments can decide on who is to bear the burden. Economic development must be financed by a ruthless cutting down of all forms of non-essential expenditure, both on imports and on domestic production, and by a progressive system of taxation.

Cost of Living Index

Cost of Living Index—Working Class—Colombo Town

Group	Average Price, Nov. 1938, to April, 1939=100					Average Price, November, 1942=100											
	Weight	Average				Weight	Average							1949	1950	1950	1950
		1939*	1940	1941	1942†		1943†	1944	1945	1946	1947	1948	1949	July	May	June	July
Food	52.40	112	115	129	183	63.66	103	102	111	113	128	138	144	142	151	154	155
Fuel and Light	6.28	102	103	108	171	7.26	94	94	94	111	121	101	97	96	95	96	96
Rent	15.96	97	97	96	93	7.06	105	106	112	124	136	140	129	129	129	129	129
Clothing	8.36	112	128	153	194	8.78	138	156	165	180	213	189	156	153	151	151	153
Miscellaneous	17.00	104	111	116	144	13.24	118	127	158	155	157	157	148	151	153	154	155
Total	100.00					100.00											
							107	109	121	125	138	142	139	140	146	148	149
Index Nos.		108	112	122	162	Index No, Nov. 1938 April 1939 =100	197	200	221	229	252	260	254	254	266	271	272

* *Five months' average* † *Eleven months' average*

Export Volume Index

(Base 1948 = 100)

Month	All Export Products	Tea	Rubber	All Coconut Products	Desiccated Coconut	Coconut Oil	Copra	Other Coconut Products	Other Export Products
	1950	1950	1950	1950	1950	1950	1950	1950	1950
January ...	106	99	167	81	209	62	9	166	98
February ...	85	70	123	97	326	64	13	137	131
March ...	89	81	130	74	317	21	2	161	125
April ...	75	74	82	77	154	83	4	122	65
May ...	111	116	115	97	303	85	3	82	72
June ...	143	167	115	90	331	40	45	91	108
July ...									
August ...									
September ...									
October ...									
November ...									
December ...									

Source: Department of Statistics, Colombo.

Volume, Price, and Terms of Trade

(Base 1948 = 100)

Period	Import Volume Index	Import Price Index	Export Volume Index	Export Price Index	Terms of Trade
	1950	1950	1950	1950	1950
1st Quarter ...	96	99	93	134	74
2nd Quarter ...	149	98	110	129	76

Source: Department of Statistics, Colombo.

Export Price Index

(Base 1948 = 100)

Month	All Export Products	Tea	Rubber	All Coconut Products	Desiccated Coconut	Coconut Oil	Copra	Other Coconut Products	Other Export Products
	1950	1950	1950	1950	1950	1950	1950	1950	1950
January ...	127	126	120	138	84	138	168	140	119
February ...	139	141	128	148	84	153	178	143	115
March ...	139	138	128	154	87	135	236	146	115
April ...	133	130	132	149	90	138	206	155	111
May ...	133	122	151	161	104	157	207	153	117
June ...	128	115	180	134	114	143	124	149	112
July ...									
August ...									
September ...									
October ...									
November ...									
December ...									

Source: Department of Statistics, Colombo.

Finance Indices

(1934—38 average = 100)

Month	Note Circulation (Gross)		Note Circulation (Active*)		Total Savings†		Bank Clearings		§Government Revnue		§Government Expenditure	
	1949	1950	1949	1950	1949	1950	1949	1950	1949	1950	1949	1950
January ...	903.3	1002.0	621.7	637.4	725.0	724.0	485.1	581.6	645.1	613.2	403.4	533.7
February ...	878.3	928.7	620.9	646.6	723.1	725.0	402.7	497.1	449.5	406.6	412.4	466.3
March ...	812.5	787.8	608.8	645.6	721.1	725.3	475.3	631.2	541.8	500.0	405.6	456.2
April ...	763.3	745.9	595.9	653.4	715.9	724.7	449.1	545.2	454.9	480.2	368.5	434.8
May ...	706.9	752.8	599.6	665.7	718.5	727.6	526.3	592.2	480.2	593.4	438.2	493.3
June ...	685.1	806.0	604.9	677.4	715.9	734.1	562.3	638.7	624.2	692.3	380.9	494.4
July ...	671.5	823.6	616.7	692.8	715.3	739.0	527.0	642.1	592.3	640.7	447.2	477.5
August ...	698.7		615.0		717.2		503.3		533.0		476.4	
September ...	934.3		632.1		722.4		524.1		618.7		1640.4	
October ...	998.9		624.5		722.7		548.6		453.8		355.1	
November ...	1030.7		632.6		722.4		541.1		558.2		437.1	
December ...	1024.9		641.9		725.0		562.3		467.0		529.2	
*	*	*	*	*	*	*	*	*	*	*	*	*
January—July												
1938 ...		108.0				123.4		111.8		103.3		100.0
1948 ...		816.5		602.9		710.4		472.0		493.4		493.3
1949 ...		774.4		609.7		715.3		489.7		540.7		407.9
1950 ...		835.2		659.8		739.0		589.7		560.4		479.8

* September, 1938, to August, 1939—100

†Net values of savings deposists plus Savings Certificate.
§From June, 1950, figures are provisional

Government of Ceylon Securities

RUPEE LOANS	DATE REPAYABLE	Current Closing Prices 31-7-50 B.	Current Closing Prices 31-7-50 S.	Yield* per cent. Earliest Redemption	Yield* per cent. Latest Redemption	Comparative Prices: Six months ago B.	Comparative Prices: Six months ago T.	Comparative Prices: One year ago B.	Interest Payment due	TOTAL LOAN Outstanding Rs.
Ceylon Govt. 3½ % Loan 57/62	Between 15-11-1957 & 15-11-1962	103½	—	3.08	3.23	104¼	—	103½	15th May & November	27,941,000
Do. 3½ % Loan 59/64	Between 1-10-1959 & 1-10-1964	104	—	3.13	3.24	104¼	—	104½	1st April & October	10,793,700
Do. 3 % War Loan 59/69	Between 1-4-1959 & 1-4-1969	100¾	—	3.03	3.02	100¾	—	101¼	do	9,608,400
Do. 3 % War Loan 56/60	Between 1-3-1956 & 1-3-1960	101¾	—	2.90	2.94	101¾	—	101¼	1st March & September	21,669,300
Do. 2½ % War Loan 1954	1-4-1954	100⅜	101	2.55	—	101¼	—	100½	1st April & October	27,359,200
Do. 3½ % Home Def Loan 62/67	Between 1-6-1962 & 1-6-1957	103	—	3.26	3.31	103¾	—	103¾	1st June & December	11,216,000
Do. 3½ % do. 63/68	Between 1-6-1963 & 1-6-1968	103	—	3.27	3.32	103¾	—	103¾	do	4,113,000
Do 3¼ % do. 1952	1-6-1952	101	—	2.97	—	102½	—	102½	do	1,691,000
Do. 3¼ % do. 1953	1-6-1953	101⅛	—	3.03	—	102½	—	102½	do	817,700
Do. 3½ % National Loan 1964/69	Between 1-8-1964 & 1-8-1969	102½ xd	—	3.27	3.32	103 xd	—	103*xd*	1st February & August	48,799,700
Do. 3¼ % do. 1956	1-8-1956	101 xd	—	3.06	—	101½ xd	—	101½*xd*	do	9,706,200
Do. 3¼ % do. 1957	1-8-1957	101 xd	—	3.09	—	101½ xd	—	101½*xd*	do	15,093,200
Do. 3 % do. 1953	1-8-1953	100 xd	—	3.00	—	101½ xd	—	101½*xd*	do	82,979,100
Do. 3 % do. 1954	1-8-1954	100⅛ xd	—	2.97	—	101½ xd	—	101½*xd*	do	18,421,800
Do. 3 % Victory Loan 1965/70	Between 15-7-1965 & 15-7-1970	100	—	3.00	3 00	99⅛	—	100¼	5th Jauary & 15th July	22,827,500
Do. 2½ % do. 1955/60	Btween 15-7-1955 & 15-7-1960	—	—	—	—	—	—	100	do	20,073,600
Do. 3 % National Development Loan 1965/70	Between 1-11-65 to 1-11-70	100	101¼	3.01	3.01	99⅝	99¾	100½	1st May & 1st November	64,834,400
Do. 2½ % National Development Loan 1955/60	Between 1-11-55 to 1-11-60	—	—	—	—	—	—	100	do	35,165,600
Do. 2½ % National Development Loan 1967/72	Between 15-12-67 and 15-12-72	—	—	—	—	—	—	—	15th June & 15th Dec.	26,830,100
Do. 2½ % National Development Loan 1962/67	Between 15-12-62 & 15-12-67	—	—	—	—	—	—	—	do	7,147,700
Sri Lanka Government 3 % Loan 1969/74	Between 1-3-69 & 1-3-74	100½	102	3.00	3.00	—		—	1st March & 1st Sept.	58,399,900
Do. 2½ % Loan 1959/64	Between 1-3-59 & 1-3-64	—	—	—	—	—	—	—	do	19,148,300

* Yield calculated on transfer price if available; otherwise on middle market Price. If only the buyer's or seller's price is available, then yield calculated on that price.

According to the Rules of the Colombo Brokers' Association, the buyer of Government Stock shall be entitled to interest accrued to the date of payment unless otherwise arranged.

	Rs. c.
Gross Public Debt (including sterling loans, but excluding War Loans re-lent to the United Kingdom Government)	561,423,833 33
Less Value of Sinking Funds as at 30-9-49	105,162,115 91
Nett Public Debt ...	456,261,717 42

(Scource: Bank of Ceylon Monthly Circular for July 1950)

Quarterly Share Indices

Base—Jan.-June 1939.

1949	Tea	Rubber	Tea cum Rubber
1st Quarter	167.99	95.98	139.84
2nd ,,	157.02	79.19	133.07
3rd ,,	163.16	95.56	134.52
4th ,,	193.26	114.62	164.89
1950			
1st ,,	206.61	134.31	181.84

THE STATE OF EUROPE—HOWARD K. SMITH—*London, The Central Press, 1950. Price Rs. 15/-.*

An outstanding fact of contemporary history is the acute crisis that has set in in West Europe. It is a crisis that does not lend itself to easy, piecemeal solutions, such as are envisaged by Tories like Churchill or Bevin. Also, it is not a crisis that has ended in a slush of moral decay, as is supposed by the chilly, cynical, intellectuals of Europe, who live without roots, out of place and out of time. It is a crisis, in the words of the author of this excellent book, which shows "Europe in the middle of a new pulsation, with the momentum of centuries behind it and it is to a great extent independent of individual wills. By democratic consent if we are wise, by force if we are not, the pulsation will be completed."

The deep crisis has arisen, according to Mr. Smith, because the single outstanding historical consequence of World War II has been to reverse the trends of development in the two halves of Europe. Western Europe has fallen upon a period of social contraction. Eastern Europe has fallen upon a period of social expansion. The forces behind these movements are profounder than current politics or the cold war. The causes of the contraction of Western Europe are stated to be in the main three. The first is over-population in relation to current resources and potential resources. The second is the dwindling of colonial resources. ("Mass discontent is inevitably chronic in colonial areas for the simple reason that colonialism means exploitation, the taking away of much more than is given.") The loss has been enormous to the European countries of the Atlantic Pact. India alone was the indirect source of employment and enrichment for six million Englishmen. "30% of Holland's prewar standard of life was derived from the wealth of Indonesia." Indo-China once yielded France a surplus wealth of £50 million a year. All this is lost now and "whether the war be long or short in coming, Asiatic colonial wealth can be definitely counted out as a continued source of sustenance for Western Europe."

Third, the spread of Communism is having the same effect of removing Eastern European countries from the field of Western European investments. Fourth, while these sources of unearned increment for Western Europe are disappearing for good, its earned income is also in jeopardy. It is able to sell less abroad both because of its technical lag and because of other cheaper goods becoming available from competitive producers in U.S.A. and Japan. "It is factors of this order, the rise in population to be provided for, and a decline of means of providing for them due to colonial defection, the spread of Communism and the narrowing of markets that account for the paradox of Western Europe since the war." And with this there arises a position of acute danger to the tradition of liberal democracy in Western Europe, which was to a large extent based on the existence of surplus of wealth as a means of compromise between classes.

The story of this collapse of political freedom and economic well being in all the Western European countries is told in some detail. This story contains a fund of information which is not available to the ordinary reader of the newspapers which are fed by news agencies whose main occupation today in capitalist societies is to cover the facts with lines of multiple untruths. This information is all the more valuable because it is presented by an experienced American journalist, who is today the head of the Columbia Broadcasting system in Europe. Mr. Smith is obviously a well-meaning liberal, terribly anti-communist, but still loyal enough to the demands of honest journalism to set down, without prejudiced interpretation, most of what he saw.

There is space enough only to refer to a few observations he makes, which I think it best to quote. Of Italy: "A certain left victory at the last elections was changed by three factors: Italy's big money re-entered politics on a grand scale, the Vatican gave up its non partisan attitude; and the most important factor in the turning of the tide was the frank open entrance of America into the campaign." Of Greece: "In Greece, governments are mere figure-heads. They pass tax laws, but cannot collect them. They declare amnesties but cannot enforce them. Real power lies in the bureaucracy, the army and the police, and nothing has been done to purge these instruments even of the most vengeful pro-nazis, not to mention reactionary monarchists. At the end of the war, the Greek Government listed 22,000 nazi collaborators for investigation. Of these, less than half, some 10,000, was actually investigated. Of these, only 7,000 were brought to trial. Of these, only 3,000 were found guilty. Of these, only 121 were sentenced to be executed. Of these,at the end of 1948, only 18 have been executed." And it is these pro-nazis who rule today, as the British-American sponsored government of Greece. Of the Vatican: "For it's size, it is the richest state on earth. By the Laker treaty of 1929, Mussolini agreed to pay it a lump sum of 750 million pre-war lire plus 1000 million lire in Italian state 5 percent bonds. In addition, it owns the controlling interest in thirty one Italian industries with a capital of over 300 million pre-war lire, and minority holdings in Italian banks, shipping companies, insurance firms, mines and chemical, textile and hydro electric industries. Its foreign holdings are legion. In France, it owns entirely the Franco-Italian bank, and the Semaine Sociale, a publishing house which issues some forty periodicals; with 70 per cent of the great Societe'

Textiles du Nord, its total invested capital in France is around 200 million pre-war francs. It has holdings of similar proportions in Belgium and Holland. In the United States, it is said to have investments totalling around 700 million pre-war lire. Its investments over the whole world are estimated at 3,000 million pre-war lire, or roughly around 240 million dollars. These figures refer only to Vatican city holdings; those of individual churches are not included."

Of Germany: "The most glaring failure of the peace anywhere in the world is the unhappy truth that in Germany, which needed change more than any other nation, nothing essential has been changed." It was only in the Russian Zone that real changes were made. The Junkers were removed by the land reform. Labour virtually dominates industry.

Of U.S.A.: "Since 1942, America has displaced Britain as ruler of the seas, including even that most British of all waters, the eastern Mediterenan. America is said to have a lien on some 400 world wide naval and air bases. This means that any empire linked to its motherland by water exists on American sufferance, a fact which need never be expressed to have a profound influence on its policies".

More revealing is the observation that "pacts to standardize arms tie virtually the whole of North and South America to the U.S. The same arrangement is being made with Western Europe. It is a highly important arrangement, for it means that it is nearly impossible for attached nations either to enter or to keep out of war, which is the chief and final arbitration of power politics, without the consent of the principal supplying nation."

Those who boast of the virtues of friendship with American 'democracy' are answered thus: "American influence is like an iceberg, only the smaller part can be readily seen by the naked eye. American economic penetration of the world has been tremendous. To mention but one area, America has now concessions on nearly half the wealth of that vital land bridge of three continents, the middle East." Also this comment. "What is not widely known about the sequel is that as Russia moved out (of Persia) America moved in, not with troops and noisy revolution, but silently with dollars in support of the status quo. The Persian government received American funds and a set of American satellite. If America does not already have military bases in Persia, she can have them any time she wishes."

This is adequate comment on the American intervention in the Asian lands, where as in Korea and Formosa and in Indo-China, she cannot any longer hide the fact that she is guilty of open armed aggression.

Mr. Smith dislikes communism. He deplores the fact that it is victorious in all East Europe. But he admits that the Russians have "applied every pressure to induce the East Europe countries to industrialise themselves, which is the opposite of a colonial policy." He believes that all over this area, the economic expansion has been very great, and the immediate possibilities of further social and economic well-being are greater still. The crisis that paralyses West Europe has been overcome in East European countries including the Soviet Union. He advocates that West Europe must in the interests of its own survival, come to friendly agreement with its eastern half.

The crisis in Europe is neither superficial nor is it temporary. It is deep and profound, and in Smith's excellent words: "The European civilization is undergoing a pulsation not dissimilar to that which destroyed feudalism and opened a new horizon for progress under the broader principles of commercialism." The outlines of this crisis, both its pangs and its hopes, are told in this book and told well and simply. It is a book that no one will wish to miss because its main virtue is a vast collection of actual historical facts since 1945. Not the least of its merits is that its author sees nothing to despair of in the physical state of Europe, because he appreciates that big changes must come and that modern man has the intellegence to foresee these changes and the competence to accomplish them—an attitude so different from that of any sensation hungry journalist scribe or that of the morbid and decadent intellectualism of individuals like Sartre.

A further observation on the U. S. A. is most accurate. "With this preponderance of power there need be no crude conquests. They can be carried out gently and invisibly by the almost surreptitious means of wealth by investments that bring silent control, and by aid—grants accompanied by polite hints regarding the direction of the receiving nation's policy. When Russia extends her security zone abroad it almost inevitably requires an overthrow of the status quo, for the status quo of the world is capitalist, which means a lot of noise and ugly scenes. If America extends her zone of influence abroad, for the same reason that the rest of the world is capitalist—it only involves supporting the status quo—no scenes, no noise."

P. K.

EMPIRE & AFTER—Rita Hinden—*Essential Books Ltd., London.*

In "The Man of Destiny" Shaw makes one of his characters say that the Englishman is never at a loss for an effective moral attitude. As the great champion of freedom and national independence, he conquers half the world, and calls it colonization............. He does everything on principle. "At various times of Britian's imperial adventure the dominant opinion in Britian took various effective moral attitudes" towards the Empire. In the earliest days of the Empire this moral attitude was based on the balance-sheet of colonial trade. Of course this "balance-sheet" morality was not universally observed in Britain at any time although throughout her imperial history it was a factor deciding the shape of her colonial policy. There were other strands of thought on colonial affairs. Not everybody was interested in the "sneaking arts of underling merchants." There were those who opposed colonial exploitation on radical and humanitarian grounds. There was Hobson who in his brilliantly written "Imperialism" exposed colonial rule. There too were the socialist and communist attacks on Imperialism which came both from continental and British writers. In our own day we see the anti-imperialist attitude adopted by socialists as well as non socialists on economic, political as well as on humanitarian grounds.

Side by side with this anti-imperialist line of thought one finds a strand of thought whose objective was to buttress imperialism. Imperialists found various moral justifications for the continuance of the empire. It was the duty of the British to propagate the "Glory of God." As a 'superior race' the British had been ordained by God to civilise the 'inferior races.' "The White Man's Burden" had to be born however heavy it may be. It is a moral obligation. The British had to fulfil the sacred mission of civilising the natives. Even today when many of the colonies are free or are on the way to freedom one finds lurking in the rusty brain of some British Scholar or the other this idea of the British civilising mission.

It has been Dr. Rita Hinden's task to survey all these imperial attitudes in less than 200 pages. Considering the magnitude and the nature of this task it can be said that Dr. Hinden has done a magnificient job of work. Her survey, specially of the early period of British imperial relations is well-documented. She carries the reader from the time when a publicist could say that "The colonies were acquired with no other view than to be of convenience to us," to the time when the officially accepted goal of British colonial policy is " a brother-hood of nations and of men."

Coming to our own times Dr. Hinden shows how the old economic basis of empire was radically altered by modern developments and as such a new concept of empire had to be formulated. Her analysis makes it quite clear that it is idle to talk of changing the heart of the imperial masters without changing the economic basis on which imperialism rests. Colonies can no longer be retained as sources of raw materials for metropolitan countries. Enlightened world opinion wants to see the colonies developing into self-governing nations. Moreover world economic forces make it difficult for a metropolitan country to keep the colonial living standards low. Colonial countries have to be raised from that poverty and ignorance which had been their lot for centuries if we are to have a peaceful and stable world. A benevolent paternalism will not be able to bring about progress in the colonies. The new nationalism in the colonies looks askance at any paternalistic approach to colonial problems. As Dr. Hinden rightly points out "it is no longer just a matter of social advance. Powerful emotions are stirring, with the slightest provocation they erupt" (pp. 167.)

The Trusteeship system comes under heavy fire from Dr. Hinden. She says that this system too is another form of paternalism which has ignored the "psychology of a subject people."

Dr. Hinden lists the main problems of colonial rule under four heads. In the first place she says that metropolitan powers have destroyed the indigenous social structure of the colonies (African specially) without putting a new social structure in its place. It is up to them now, therefore to help colonial countries to mould a coherent society. In the second place there are the colonies whose populations are multi-racial. Independence for such colonies Hinden fears would mean oppression of one racial group by another. She cites the example of South Africa and says that the *racial question in Africa is a potential danger to the Commonwealth.* In the third place Hinden considers the minority problems in the colonies. Under the fourth head are listed the social evils like the colour bar and racial discrimination. One would have expected Dr. Hinden to discuss these problems in greater detail. Her treatment of the solution to these problems too is not as comprehensive as they ought to have been. She suggests that Conventions or Constituent Assemblies should be called in all the colonies to decide their future relations with Britain.

In the economic sphere, Dr. Hinden discusses the Colonial Development Fund which she considers to be inadequate. She wants overall regional planning for colonies. She is however too realistic to ignore the obstacles to such a programme. Lack of Capital and the "know-how" is the main headache of the colonial planner. Britain can ill-afford to give technical and financial aid to the colonies at the present juncture. It it a pity that Dr. Hinden has not discussed the implications of the 'Fourth Point' for the colonies. It is hoped that Dr. Hinden would discuss this aspect of the problem as well as possible future international planning for the colonies under the U. N. O. aegis, in a later edition of this work.

The book ends in an optimistic note. "Even if, in the end the Commonwealth structure should dissolve a tradition of collaboration on the basis of freedom will have been woven, as a guide to the generation of the future" (pp. 192.)

Empire & After "Is a study of British imperial attitudes......written wholly from the British angle." Dr. Hinden hopes that "a book might well be written on colonial attitudes towards imperialism as a counter part to this book by............... someone who has himself experienced what it is to be a member of a subject race". It is hoped that some scholar in India or Ceylon would take up this hint.

K. H. J.

We acknowledge the receipt of the following Journals:—

India Quarterly—Vol. V., No. I—July-Sept. 1949.

New Lanka—July 1950.

Danish Foreign Office Journal—Nos. 1 & 2, 1950.

PRINTED AT
ROKEBY PRESS
294, UNION PLACE,
COLOMBO.