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SEPTEMBER 1951

NOTES AND COMMENTS

**FINANCIAL PROCEDURE IN THE HOUSE OF
REPRESENTATIVES - - - N. M. Perera**

**TWENTY-TWO YEARS OF THE UNITED
STATES ECONOMY - - - Theodore Morgan**

**PARLIAMENTARY CONTROL OF FINANCE
I. D. S. Weerawardana**

**THE EXTERNAL VALUE OF THE
CEYLON RUPEE - - - D. R. Siriwardene**

THE BUDGET DEBATE - - - N. K. Sarkar

**GAL OYA SCHEME—FACTS AND FALLACIES
R. Kahawita**

**A STUDY OF THE GAL OYA PROJECT
S. T. Senewiratne**

TRADE AND BUSINESS STATISTICS

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Notes and Comments

The Middle East Political Scene

The nationalisation of Persian Oil has kindled a flame, which is now spreading across the vast Arab world of the Middle East, and which can have only the logical result, the complete demobilising of Anglo-American domination in this area.

The history of this part of the world, like that of Asia, has been the unhappy story of a cultured people with an ancient Civilisation, originating along the river banks of the Euphrates and the Nile, who have, during the course of the last century or more been brought under the stranglehold of British Capital backed up by military force. During the more recent years, the British yoke has been supplemented and to some extent supplanted by the even heavier yoke of American Finance Capital. This contradiction and the resulting conflict between Anglo-American Imperialism provides part of the key to the understanding of the Middle-Eastern Political Scene today.

The Anglo-American conflict was clearly in evidence in Persian Politics. The American Standard Oil and Socony - Vacuum Companies had been gradually infiltrating into the Middle East, which Britain regarded as her exclusive oil-empire. This however; did not satisfy the Wall Street financiers, who were dreaming of monopolising the oil resources of the Middle East, and were exerting pressure on the former Anglo-Iranian Oil Company, demanding more privileges for themselves. But the Anglo-Iranian stubbornly refused to give way. When Kavam, an American follower, was in Office, the Majlis enacted an U. S. dictated law giving American Oil Companies a foothold in Southern Persia. The British retaliated by a new "Supplementary Agreement" which they signed with their follower Mohammad Saed who replaced Kavam. By this agreement Saed repudiated the former concession to the Americans in exchange for a paltry increase in Iran's share of the profit of the company. But due to the pressure of public opinion on one hand, and the camouflaged machinations of the American rivals, on the other, the Majlis refused to endorse this "Supplementary Agreement", Prime Minister Razmara who favoured this supplementary agreement was killed by a terrorist's bullet. Evidently, the tour made by George McGhee, Assistant U. S. States Secretary for the Middle East, South Asia and Africa, bears a direct relation to this event.

Mossadek who succeeded Razmara was soon forced by popular pressure to nationalise the oil industry. But, under

cover of nationalisation Mossadek and his supporters were helping the American Oil magnates in the struggle against their British rivals. They had implicitly agreed to the interference by Harriman, Truman's personnel envoy and Grady, U. S. Ambassador, in domestic affairs of Iran. A number of British newspapers, "the Sunday Graphic", "the Sunday Chronicle" and others, reported that the purpose of the Harriman mission was to ensure participation by American Companies in exploiting Iranian oil. Mossadek's repeated statements that they will sell oil only to their former customers—the Western Countries—employ only their specialists, show that he intends to restore the oil to the Imperialists. The events of July 15, 1951, when, on Government orders, a 100,000 strong demonstration of the Teheran citizens against Harriman's meddling in the domestic affairs of Iran, was subjected to gunfire, clearly demonstrate Mossadek's real intentions. If in Persia, the Anglo-American conflict developed on the question of monopolising Iranian oil, in Egypt it took the form of a tussle for control over the Suez Canal was clear to anyone that Britain's role in the Suez, for some time, was that of an overseer for the Americans. But the American militarists now felt that they must have more direct control over this vital area, and they therefore decided to sack the overseer. This is the significance of the recent American proposal to replace the British forces in the Canal Zone by a joint command constituting of American, British, French, Turkish and Egyptian troops. The Egyptian people however have seen through their manouvers and have refused to allow their country to become a pawn in the Anglo-American conflict. They have rejected the American proposal, which should have meant the substitution of the American for the British Yoke in Egypt. But it still remains to be seen whether the more reactionary elements among the Egyptians may not be, partly coerced and partly bought over by the Americans, into accepting the joint command over the Suez Canal.

And now Syria going even one step further, in anticipation of an American proposal to her, to take the place of Egypt in such a joint Middle East command, has refused to have anything to do with it. The statement of the Syrian Foreign Minister, in this connection also focuses attention on the fact that the Arab countries will never forgive the Anglo-American bloc, for having planted Israel, the "white" policemen, in their midst. To overemphasise the Anglo-American conflict in the Middle East, important as it is, would be to give a completely disproportionate picture of the motive forces in the recent upheaval in this part of the world. The basic explanation of the events now taking place in this area is the rapidly developing struggle of the Middle Eastern people for national independence, for the liberation

of their countries from oppression and plunder by the Anglo-American imperialists, and for the right of nations to self determination and democratic freedom. In Iran, for instance this popular movement is represented by the "National Society for struggle against Imperialist Oil Companies in Iran", which is supported by the workers, peasants, progressive intelligentsia and the overwhelming section of the middle class. The popular movement in Iran, however, is not confined only to the demand for nationalisation of the oil industry. It also demand the annulment of the military agreements with the U. S., and refusal to join any of the aggressive blocs which are being concocted by the Anglo-American Camp, civil liberties, freedom for democratic parties and organisations, freedom of the press, the right to strike, an 8 hour day, higher wages and improvement in working conditions; all of which are demands of vital interest to the Iranian people, and without the realisation of which it would be impossible to win their independence.

This mass movement of the Iranian people is developing with a militancy and tenacity expressed in the numerous strikes in the oil industry. Despite the savage terror of the Mossadek police, the Khuzistan workers continued their strike for more than a month, and thousands of people demonstrated in Teheran under the slogans. "Harriman, War Monger, clearout of our country"; "don't barter Iran's independence for American dollars!" It is this popular pressure which has brought about the end of the British exploitation in Iran, and which is also exposing the pro American machinations of Mossadek and his reactionary clique.

In this situation of the resurgence and growth of the popular movement in the Middle East for national independence and freedom from economic exploitation, it is interesting to note the reactions of some of the countries in the Asian part of the world. The attitude of the Australian Government to the Egyptian abrogation of the unequal treaties imposed on her by Britain, is indicative of the real role which Australia is playing in Asia. It is the same role as that of Israel in the Middle-East, that of the "white" policemen over the coloured nations. Prime Minister Menzies has asked the Australian Parliament to intervene in the Egyptian dispute, on the ground that the Suez constitutes the life line of Australia. Granted that this is even the case, one may indeed ask how does the withdrawal of British troops from the Canal Zone endanger the security of Australian supplies? It is the argument of Australia that we cannot trust in anyone but the British to occupy any territory through which ships to Australia must pass. This is indeed, a novel theory in international relations and one besides which the American

"Monroe Doctrine", the precious South African "Apartheid-Policy", and even the equally objectionable "White Australian Policy", must seem comparatively mild and harmless. For these policies, racially discriminatory as they are, and therefore intolerable in a civilized society, nevertheless relate to questions within definite political boundaries. But here is a claim that British troops must be stationed in all countries in the world through which goods and passengers to Australia must pass. According to this argument the Islands of Sicily in the Mediterranean through which ships to Australia must pass even before they reach the Suez, should also be occupied by British troops. But the Australian Premier is not demanding that? Does it then boil down to this; that it is coloured Egyptian troops guarding their own country to which exception is taken by the Australian Government? The Egyptian action has cut off this "white" policeman of Asia from his guardians in the West, and now he is threatened with being trampled under by the fast developing national movements of the Asian peoples for independence from foreign domination and exploitation, if he dares to oppose them.

The suppressed note of appreciation, approval and even delight, with which the Egyptian action has been received by the Asian countries, is the measure of the disapproval and censure which the British in Egypt have earned. It was, therefore, the most aristocratic thing to find the prime Minister of Ceylon, halting at Singapore in the midst of a flight to Australia, to utter a warning to Egypt that she should not "precipitate a crisis."

What was the necessity for this intervention in the internal affairs of another country, and that, too, a country which has been on the most friendly terms with Ceylon? Surely the Egyptians best know what is best for themselves without this gratuitous advice from the Prime Minister of Ceylon. One is inclined to ask, who are the aggressors in Egypt; is it the Egyptians who are in their own country, or the British, whose troops are in forcible occupation of a foreign territory? Would it not have been more to the point if our Prime Minister had asked the British to quit Egypt and not "precipitate a crisis there"? Would this also not have been an excellent opportunity for Mr. Senanayake to draw the obvious parallel between the Anglo-Egyptian Treaty, which allowed the British to have troops and bases in Egypt and the Defence Agreement with Britain, which Ceylon had to enter into, as a necessary pre condition for the granting of Dominion Status, and which allow the British, to station troops and occupy the air and naval bases of Ceylon? Indeed Mr. Senanayake could have seized this opportunity to tell the people of Ceylon that our defence agreements with Britain are not mere "Gentlemen's Agreements", which could be repudiated

at will by us, and that the moment we attempt to do so, a similar situation as in Egypt would develop here too, where the British will remain in forcible occupation of our territory, and turn their guns on the people of this country, as they are now doing on innocent Egyptians.

It is indeed, a matter for deep regret, that instead of saying things, which he should have, Mr. Senanayake, when he reached New Zealand, again asked the Egyptians not to precipitate a crisis, and implied that he was prevented from sending a Ceylon Army into Egypt only by the fact that we did not yet have an army of sufficient strength.

We would like to apologise to the Egyptian people and the Muslim people of the world, for these rash and insulting remarks made by the Prime Minister of this country, and assure them of our sympathy in their first fight to free themselves from foreign bondage.

Ceylon and the San-Fransisco Fiasco

The dominant political philosophy of the Ceylon Government, if it could even be called that, seems to be that the lower we bend and bow before the Americans, the greater will be the benefits accruing to Ceylon. Indeed so deep rooted has this politics of the begging bowl become, that it is even regarded by the government as an effective substitute for a foreign policy, which it seems to lack.

It was the San-Fransisco fiasco of the Japanese Peace Treaty which clearly demonstrated this foolish and dangerous role which the government is playing in International politics. While India took up the firm moral stand that she could not be a party to a treaty, which under the pretext of restoring Japan to her independence, imposed upon her new shackles which subjected her to playing the humiliating role of being a colonial vassal of America, the Ceylon Finance Minister became the laughing stock of all Asia by his Don-Quixotic utterances about American "democracy."

Shameful as this exhibition of clowning in International politics was, it is of minor significance besides the dangerous policy on which Ceylon seems to have embarked, of toeing the American line in opposition to her Asian neighbours, particularly India. The isolation which Ceylon has brought upon herself as a result of this lack of elementary political foresight, is clearly reflected in the conference between Nehru and the Burmese

Premier, Thakin Nu, with the support and co-operation, if not the participation of Indonesia, for the conclusion of a separate Peace Treaty with Japan. What more reasonable demand could there have been than that of India, namely that, American troops be withdrawn from Japan and Formosa handed back to the Chinese in accordance with the solemn agreement entered into at Potsdam. Indeed, Britain has repeatedly acknowledged the obvious justice of the Chinese claim to Formosa. Dean Acheson, the American Secretary of State, himself admitted it, though later he ate his own words in true American political style. But to the Ceylon Finance Minister this is a model of Democracy. It is on the above lines that our Asian neighbours led by India, would be concluding their honourable Peace with Japan, while Ceylon alone would be a shameful partner to the ignominious American dictated Peace Treaty signed in San Fransisco.

One may well ask, what have we got in return for all this political begging by which we have continuously humiliated ourselves? The American arbiters have graciously rewarded the Ceylon Government with a threat to remove the Trojan horse of Point Four aid. When one becomes a little more inquisitive and inquires, how much of this much talked of aid have we received so far? the answer is, only two technicians. It is now time to call the bluff of the Americans, for not only have they not sent us any material aid, but have never intended to do so and what they have now stopped, on the pretext of our having exported rubber to People's China, is not any real aid, but merely the talk of giving aid. It is just as well, for now we know exactly where we stand.

The recent news that India has invited financial, industrial and agricultural experts from Japan to help in preparing a five year plan for her economic development and also to sign a trade agreement whereby Japan would undertake to provide the capital equipment necessary for the carrying out of such a plan, suggests that India has now called the bluff of American aid and has realised that experts and capital equipment are also to be found in parts of the world outside America and Western Europe. The trade offer made to the countries of South Asia by Mr. Migurov, the Soviet representative to the Trade Promotion Conference held recently in Singapore, is another reminder that there are profitable trade channels and sources of capital equipment, which have so far been unexplored, open to us immediately.

What is desperately needed today in Ceylon is a foreign policy and not a mere apology for one. It should be a foreign policy guaranteeing the political and economic independence of the country. This can be achieved only by concluding pacts of

friendship and non aggression not only with America and Britain, but also with the Soviet Union, People's China, India and our other Asian neighbours, by demanding and securing the withdrawal of all foreign troops from Ceylon and the return of our air and naval bases to the people of this country and by concluding mutually beneficial trade agreements with the Western as well as the Eastern half of the world, without any discrimination whatever.

For War or Peace

The most notable event of 1951, which demonstrated the will of the world for peace, was the World Youth Festival held in Berlin. The significance of the Picasso Peace Dove, may be lost if the war propaganda of the American dominated "free" world is allowed to gather velocity. The most dangerous thing has been the readiness with which America attributes to the Soviet Union the troubles that manifest themselves in various parts of the world. However, it is no secret that if by any stretch of one's imagination the existence of a country could be considered a threat to world peace the building up of war bases and instalment of soldiers in all parts of the world is a greater threat to the peace of the world. The re-militarisation of Germany and Japan and the frenzied war propaganda by leaders of nations in the West would certainly have produced war long ago if the supposed aggressor was only awaiting an opportunity for provocation. Provocative acts still continue, the latest being the provision in the Mutual Security Act, for 100 million dollars aid to "any selected persons who are residing in or escapees from" the countries of the New Democracies. This is a clear case of assisting subversive activities within other Governments. And this was very naturally described as "an unheard of violation of the norms of international law."

Apart from these open violations of International Law by means of diplomatic and military manoeuvres there are also attempts to block the normal channels of trade with countries bringing in its wake, economic and social depression. Such Acts as the Kem Amendment and the Battle Act were deliberately designed to cripple New China and the New Democracies of Europe. The Kem Amendment prohibited American Aid, financial or otherwise, to any country shipping arms or any other commodities which may be used in the manufacture of arms to these countries. This has been superceded by the Battle Act which will be much more stringent in its application. Even the *London Economist* which has been the constant supporter of American diplomatic piracy could not constrain from pointing out its adverse effects.

The effects of such American unilateral decisions will be to cripple the economic development of the Asian countries and further reduce to extremely low levels the living standards of the peoples of Western Europe. The political significance of this will be to increase artificially the dependence of West European countries upon the United States and cripple the national aspirations of the peoples of Asia. The imposition of rearmament and the American policy of stockpiling created a world shortage of such materials as non-ferrous metals, sulphur and cotton, etc; all of which are in great demand in the world today. Through the American dominated organisations these commodities are being rationed out to the begging bowls of the various representatives of the "Free Democracies" on a system of priority based upon obedience capacity of these representatives. Says the *London Economist*, "the conclusion of the burden-sharing exercise may be that in carrying out its present programme, Britain is entitled to a bigger share of American aid next year." (Dec. 15, 1951.) For us in Ceylon who have to depend upon imports for our very existence it places an unbearable burden for progress. It does not, however, mean that we are at a dead end from which there is no escape. It can be seen that this present impasse is the result of a slavish dependence upon a defunct colonial economic policy.

Our primary products such as tea, rubber and coconut are no doubt fetching high prices today. But this fades into insignificance in the light of the rises that have been recorded in the prices of our imports, not to mention the prices that have to be paid for hired technical advisors. While the export of our primary products is subject to destination control, whether direct or indirect and the import trade left in the hands of private traders whose interests in most cases do not tally with the interests of the country, the Government's loud claims of free trade are not substantiated. The private traders in this country even if he does wish to furrow out new channels of trade are subject to various governmental controls of a legislative nature and numerous frowns of a personal nature. As such the trader who has his own interest at heart must court the Government in power for fear of falling out of the select few. In so far as this is true, the trade of the country is in the hands of the Government. It is therefore this two dimensional policy of the United States, on the one hand the so called containment of Communism and on the other the economic infiltration and ultimate control of those countries which are still within the British Commonwealth of Nations, which urge the American Statesmen to commit such shameless acts, which threaten to hurl the world into a dreadful and disastrous war of annihilation.

Financial Procedure in the House Of Representatives

N. M. PERERA

The consideration of the financial proposals of the government forms the most important task of the Parliament. Historically, finance bills are at once the cause and the consequence of the birth, growth and extension of the power of the legislature.

Every action of government involves directly or indirectly the expenditure of money and if Ministers and their departments are to be supervised, controlled and checked there is no surer means except through the control of finance. And financial control can be adequate and satisfactory to the degree to which the procedure adopted in Parliament in the discussion of financial proposals provides suitable and reasonable facilities for all concerned and interested to question and ferret out all relevant information, lay bare the facts and focus the attention of the public to all items of doubtful validity or wasteful expenditure.

Let us see how far the procedure in the Ceylon Parliament fulfils these requirements.

The procedure in the British House of Commons is the result of centuries of experience. It has grown from incident to incident even as its freedom got broadened from precedent to precedent. It has grown round its own peculiar traditions. It had been conditioned by the quarrels and struggles of the Commons against the Chief Executive and the House of Lords. Later as the rigidity of the party system and the power of the Cabinet imposed themselves modifications in procedure crept in that whittled away the earlier freedom of discussion. The slow ingress of the positive state saw no radical change in the procedural technique that strengthened and widened the control of Parliament. On the contrary the House of Commons became more slack and more lax.

The Donoughmore Constitution was built on a different model and therefore could not, even if it willed, adopt the pattern of procedure peculiar to the Commons. But the State Council strove hard to imitate the mother of Parliaments. The second reading of the appropriation bill became the presentation of the budget and the taxation proposals therein embodied became the budget secrets of the British Chancellor of the Exchequer. Only the Chairman of the Board of Ministers instead of the financial secretary made the budget speech. Yet tax and fiscal policy was a prerogative of the financial secretary.

Although the Appropriations Bill did not originate in the Committee of the whole House, it went into such a Committee after the second reading, all supplementaries originated in the Committee of the whole as motions, though the expenditure proposals as a part of the Appropriation Bill did not. There was no Committee of supply. Indeed there was no such distinction between ways and means and supply; only a Committee of the whole House.

As a result the discussion on the second reading of the appropriation bill was neither the one nor the other. It was a jumble of both. The concentration was on the expenditure side. The overall financial picture got blurred and most members resorted to the parish pump advancing their pet schemes or deploring the absence of them.

The Committee stage of the Appropriations Bill was largely a repetition of the second reading discussion in a little more detailed manner. It cannot be gainsaid that some, and these were a handful, strove hard to keep the distinction between the two stages and raise the level of the debate to its proper height. But the looseness of the party concept, the flabbiness of the internal organization and the nature of the Executive Committee structure militated against their efforts. The tradition of the old Legislative Council days was dying hard.

With the second State Council which began in 1936, a new tradition was however created in the Committee stage of the appropriations bill. The appropriations, the itemised votes and heads received a degree of detailed examination unparalleled in the history of any legislature. The minutiae of expenditure was scrutinised with a closeness that stumped the Ministers and threw them into dismay. And on a number of items the Ministers had to yield ground.

It was not unusual to hear the financial secretary and the minister bitterly complaining against this innovation as foreign to the British system. For it meant an end to the easy-going, smooth-sailing appropriations discussions. It meant for them a study of details, a careful preparation for the most unexpected criticisms of waste and extravagance on items which had been traditionally approved and taken for granted. It kept the ministers awake and alert.

The debate on the appropriations bill got more and more prolonged and this tradition of detailed examination continued ever since 1936 got more and more firmly established as peculiar to the Ceylon State Council. Although sustained in fact by a few

progressives, it is a practice that must command high commendation. It is a glaring contrast to that which obtains in the British House of Commons whose expenditure items receive scant attention. All debates are on general policy of the Government. Whatever detailed examination there is, is left to the Estimates Committee, a body about which we dealt in a previous article in this Journal.

The Soulbury Constitution inaugurated in 1947 provided for a Parliament which came as close as it was possible to the British Parliament. Even to the details of the seating accommodation we imitated England and was proud of our imitative capacity.

The procedure in the Ceylon Parliament was closely modelled on that of the British Parliament, and to ensure this an expert was obtained from the Commons to touch up and give the final "look over" before the new Parliament commenced operations.

The Standing Orders of the House of Representatives followed word to word in some cases the Standing Orders of the Commons. And to remove all further doubts S. O. 139 provided for the adoption of the usages of the House of Commons. (1) "In all cases for which these Orders do not provide resort shall be had to the usages and practices of the Commons House of Parliament of Great Britain and Northern Ireland which shall be followed so far as the same may be applicable to this House, and not inconsistent with these Orders, nor with the practice of this House. In cases of doubt the Standing Orders of this House shall be interpreted in the light of the relevant practice of the Commons House of Parliament of Great Britain and Northern Ireland. (2) Notwithstanding anything contained in the preceding paragraph of this Order, no restrictions which the House of Commons has imposed by Standing Order shall be deemed to extend to this House or its members until this House has provided by Standing Order for such restriction."

This provision must not be presumed as a mere sop to sentiment. It was meant seriously and used seriously. The practice of the House of Commons was frequently referred to; May and Campion became the procedural bibles.

Herein lies the anomalous situation that has been created. The procedure of the House of Representatives is neither the one nor the other. The framers of this procedure may have plunged either for the old State Council procedure and practice or completely jettisoned them for the pure Commons procedure. They strove, however, to preserve the old with an admixture of the new. The result has been confusion, uncertainty and dissatisfaction.

We have now a Minister of Finance, the equivalent of the Chancellor of the Exchequer; there is also a budget speech. But we have no finance bill, only an appropriations bill. We have no Committee of Ways and Means and a Committee of Supply; only one Committee of the whole House. Consequently the budget speech is the second reading of the appropriations bill and is made in the plenum, as was the practice in the State Council.

There is, however, a slight difference in the substance and content of the budget speech. It has tended more nearly to approach the budget speech of the House of Commons. The Finance Minister has concentrated less on an itemisation of the expenditure proposals under the various ministries than on a general review of the financial structure of the country and on the broader aspects of fiscal and financial policy.¹

But the debate that followed this budget speech degenerated to the State Council standard. With the exception of a few members, those who participated returned to the old practice of harping on the expenditure needs and deficiencies of their constituencies. This was not merely because old habits die hard, but also because it was inevitable from the nature of the appropriations bill.

This is borne out by an analysis of the debates on the appropriation bills. In 1947-48, 58 participated in the second reading debate; of these 37—nearly 64 per cent—devoted their speeches entirely to questions of supply. Only 3 speakers dwelt mainly on the ways and means aspect; while 8 stuck partly to the revenue side and partly to the expenditure proposals. Of the 58, 10 were Ministers; and if we exclude the Minister of Finance, the other 9 confined themselves to an exposition of their departmental doings and intentions. The figures for the other two years are even worse. In 1948-49, 54 participated, with 46 on the expenditure side—nearly 85 per cent, in 1949-50, 78 participated with 63 on the expenditure side—nearly 80 per cent.

The Ministers cannot be blamed for the nature of their speeches. These are conditioned by the criticism that is levelled at them by the various members on both sides of the House. And strictly the appropriations bill is the one occasion they have for rendering an account through Parliament to the public of their stewardship in the preceding twelve months.

1. Vide 1 H.R.D. 1292: "He (Minister of Finance) followed a very healthy tradition in confining his speech to the question of ways and means, and not meandering about in the details of supply. It is.....a very healthy convention, which I think both sides of this House should follow with respect to future budgets."—Mr. G. G. Ponnambalam.

Nor can the members be blamed for this deviation from the high standards of financial discussion. In a country where party loyalty is still in its incipient stage, and where the individual contribution of the member to the welfare of his own constituency is the criterion of his selection, it is not to be wondered at that each member should utilise to the full the only opportunity he has for airing the grievances of his constituency. This explains also the very large number of participants in these appropriation debates. Compared to other legislatures the percentage of those participating to the total membership is high.

This wrong emphasis in the second reading debate is unfortunate in so far as it blurs the general financial discussion on the only occasion when attention should be focussed on this aspect. But to avoid this, the discussion on the budget should not be confused with that on the appropriation bill. In England, the basis of the budgetary discussion is the series of ways and means motions moved in the Committee of Ways and Means. This discussion is quite distinct from the debates on the supply resolutions originating in the Committee of Supply. These supply resolutions are combined to form the Appropriation Bill.

In Ceylon, on the other hand, there are no ways and means resolutions at all. Such taxation changes as are envisaged by the Finance Minister in his budget speech come up separately by way of an amendment to the income tax act, the estate duty act, the excess profits tax act, to the schedule of the customs duty act, or some such act. These are specific legislative proposals which have to be debated within the narrow confines of their titles and their enacting clauses. It would be irregular and therefore out of order to range over the whole gamut of the fiscal and financial policy of the government on any of these specialised legislative proposals.

Procedurally, therefore, the appropriations bill in Ceylon performs the functions of both the finance and appropriation bills in England. And it is inevitable that the one should get merged and blurred in the other.

This significant difference between the basic procedure of England and Ceylon seems to have escaped the authors of the Standing Orders of the Ceylon Parliament. The neglect of the general financial considerations is the least of its sins. More deplorable has been the resulting confusion in debate and the patent contradictions in the rulings of the chair.

(To be continued)

Twenty-two Years of the United States Economy

THEODORE MORGAN

I.

The late 1920's were notable in the United States for the easy confidence with which professional economists and the public viewed the economic future. President Hoover's Committee on Economic Trends reported in 1929, just before the stock market crash, that nothing but the rolling uplands of increasing economic prosperity were to be anticipated. Even after the downswing was well under way, optimism continued. At the meetings of the American Economic Association meeting in December 1930, a group of well-known economists were asked when the depression would be over. All but two agreed that it was in fact already over, though the man in the street, who didn't understand economics very well, hadn't yet realized the fact! Of the two mavericks, one thought the depression would be over by spring, the other that it would be over by fall.

The U. S. came into the depression, plainly, with a heavy backlog of assumptions that prosperity and high employment was the normal economic state, and that any deviation would be temporary. This frame of mind persisted while incomes and employment were collapsing. The net national income fell in money terms, between 1929 and 1933, from 87 billion dollars to 40 billion dollars, or by 55 per cent. The fall in the volume of goods and services produced was of course less—about 40 per cent—since prices were also declining. The quantity of employment in this same period dropped from 47.9 millions to 39.0 millions (or by 18 per cent); and unemployment rose from 3 per cent to 25 per cent of the civilian work force.

How should the United States meet this problem of depression and unemployment? There were two main weapons adopted: monetary policy and fiscal policy.

Monetary policy is concerned with the supply of money in the economy. In the 1920's there was rather general confidence among economists and government officials concerned with the matter that monetary policy was sufficient to control the business cycle. Attention was centered mainly on the movement of prices; if prices should rise unduly in a time of business boom, it was argued that the Treasury and Federal Reserve should use their powers to raise interest rates, and so discourage businessmen through higher costs from borrowing and investing—that is, ordering the production of equipment, inventories and buildings.

In other words: "To avoid a depression, slice the top off the boom." In time of depression or threatened depression, it was argued conversely, the interest rate should be lowered to encourage investment.

The Federal Reserve followed this reputable prescription. As the recession appeared and deepened in 1929 and 1930, the interest rate charged by it on the advances it made to commercial banks through buying their commercial paper was lowered sharply, from 6 per cent in 1929 to below 2 per cent in 1931. Also the Federal Reserve went into the open market in early 1930 and bought government bonds from all comers in the effort to increase the quantity of money at the disposal of individuals, businesses and banks.

These measures did not succeed in maintaining real investment, or in preventing contraction of the money supply. The money supply by 1933 fell 25 per cent below its 1929 level, mainly through the paying off by businesses and individuals of their debts at commercial banks—in other words through paying off debts by drawing down their checking accounts. (Even a policy that succeeded in maintaining the money supply would not necessarily have averted the depression, since more of the existing money might have been kept in idle balances. But such a policy would probably have made the depression less severe).

During the 1930's the whole range of interest rates fell. Among them were many that were only distantly related to the direct lending of the Federal Reserve. The rates charged by large-city banks on loans to customers fell from 6 per cent in 1929 to below 3 per cent in the late 1930's. Bankers' acceptances fell to between a fifth and a third of their 1920's level. Best grade corporate bonds fell from their pattern of $4\frac{1}{2}$ to 6 per cent in the 1920's to under 3 per cent by the end of the 1930's. Treasury bills, nearly 5 per cent in 1929, fell to less than 1 per cent, with the shortest term bills dropping to as little as 1/100 of 1 per cent per year.

Neither the United States nor any other country had ever before experienced such a drastic fall in interest rates. Federal Reserve policy was one factor in causing the fall, but only one.

The price of a good or service in any economy tends to fall when there is an excess of supply over demand. Some of the would-be sellers, who cannot get rid of their stuff at the going price, prefer to offer it at a lower figure rather than not sell it at all. Interest rates are the price of a loan of money: they fall when there is an excess of money available for lending at the current rates over the quantity of money wanted for borrowing at those rates.

People wanted to have cash on hand during the 1930's: with the prices of other kinds of property uncertain or falling, money seemed the safest form in which to hold one's assets. But there is a limit to the proportion of cash anyone wants to have on hand compared to other kinds of assets. A great increase in money supply during the later 1930's gradually came to satisfy, and more than satisfy, the anxiety of persons and businesses to hold cash for the sake of security. Hence more and more funds came to be available for lending at any given interest rate.

The swollen supply of money available for lending flowed only partly from actions of the monetary authorities—open market operations and other policies of the Federal Reserve that increased the reserves of member banks and so made them able to lend. In part it came also from a huge inflow of gold into the United States (about \$15 billions came in between 1934 and 1941), which increased bank reserves and so made banks more able to lend; in part in the form of an increased volume of silver certificates printed and issued; and finally, in part in the form of funds supplied by lending agencies of the Federal Government, especially the Reconstruction Finance Corporation, which altogether had by the end of the decade loaned or invested 13.5 billion dollars.

The huge supply of money being lent, or potentially available for lending, can be contrasted with a shrivelled-up demand for loans from gloomy businessmen and apprehensive consumers. So the interest rate fell.

The test of an "easy money" policy that the United States undertook in the 1930's was extravagantly thorough. If the recovery record of the economy can be looked on as significantly a result of that policy, then it was a failure. It is true that there was a rapid recovery from 1933 up to 1937. But in that year, when interest rates were much lower than in 1932, there was a sharp setback; and until the defense expenditures of 1941 the economy bumped along with 8 to 10 millions of unemployed. Low interest rates did not bring the economy back to any adequate prosperity.

We turn to the second major anti-depression weapon, fiscal policy, which aims at stabilizing the economy through use of the government's revenues and expenditures. Its basic logic is simple. Taxation is depressing on expenditure by consumers and by businesses; government spending is stimulating. Hence if there is need to raise total expenditure, government should spend more relative to tax revenue. Fiscal policy was not a weapon against depression that economists and officials first thought out carefully, then applied. The Government did not "plan it that way."

The Hoover administration, in office until March of 1933, wanted to balance the budget—that is, to have tax and other revenues at least equal to expenditure. It made serious efforts to economize on its spending. But as the national income dropped by over half between 1929 and 1932, the revenues of the Federal government also dropped by about the same proportion. In addition, there was an unavoidable increase in some expenditures, for relief of individuals in distress and for shoring up shaky banks and other businesses. It is a curious thing to remember, in view of later expenditures from the Federal treasury, that the main charge of the Democratic campaign of 1932 against the Republican administration was extravagance. The Democrats were particularly vocal about budget deficits and the loans of the Reconstruction Finance Corporation in support of large banks.

After the Roosevelt administration came into office in 1933, the deficits continued. But influential administrators, research economists, and legislators viewed these deficits as an unfortunate necessity, not as desirable. There was no significant thought that recovery might be effected through a higher rate of government spending into the income stream of the economy, than of taxation out of it. The deficits continued—and grew in size—because of apparent necessity, not because of policy: tax yields continued low, and relief and other emergency expenditures grew. But the influence toward recovery of the Federal government deficits was more than offset, in the early years of depression, by a continued fall in state and local government spending for public works as their tax receipts and credit declined—from a total expenditure of \$ 3 billion in 1929 to a little over \$ 1 billion in 1935.

Official views continued to be dominated by the emphasis on monetary policy and the price level that had characterised the 1920's. Officials announced repeatedly that the Government intended to raise prices to their 1926 level. The two principal means to this end were: (1) the National Industrial Recovery Act (whose codes of fair competition encouraged price fixing at higher levels), and (2) devaluation of the dollar from the old level of \$ 20.67 an ounce of gold to \$ 35. This latter policy was curiously enough, again, not undertaken—as we might reason now—on the plain grounds that a cheapened dollar would encourage foreign buying in the United States. Instead it followed a much more roundabout and uncertain theory propounded to President Roosevelt by Professors Warren and Pearson, who had found a historical case for believing that a cheapened dollar in terms of gold (that is, a higher price for gold) would stimulate gold production, which would expand the money supply, which would raise prices.¹

1. G. F. Warren & F. A. Pearson: **Gold and Prices**, Wiley, New York, 1935.

In the summer of 1934, J. M. Keynes visited the United States and achieved some attention with a claim that if the Federal government spent in excess of tax revenue only \$200 millions a month, the country would slump back to the trough of the depression as in 1933, that spending \$300 millions a month would hold the economy where it was, and that \$400 millions would bring complete recovery. Many government economists and administrators agreed in general with this prognosis (even if they were surprised at its precision). But the official government policy continued to aim at a balanced budget, hopeful that once this elusive goal was attained, businessmen and consumers would be so encouraged by the plain evidence of judgment and fiscal morality as to expand their own expenditures sufficiently to bring about high employment and production. The annual budget messages sent to Congress by the President regularly promised that the budget would soon be balanced.

There was also considerable unofficial talk, 1933 to 1935, of the possibility and merits of "pump-priming." If a well-pump has no suction, one can generally get it to working by pouring a little water into it, and wetting and swelling the leather valve. So with the economy. It was reasoned that a little added spending by the government would expand consumer buying, necessitate more investment spending, and increase confidence in the future. Businessmen would be encouraged to invest more heavily. Soon the economy would find itself well on the road to recovery. Government deficits would disappear as tax revenues swelled out of the rising income, and relief and salvaging needs declined. The government budget might, it was thought, be balanced in the long run, with deficits in depression just about equalling the surpluses of prosperity.

In the spring of 1938 came the shift of official policy from balancing the budget to stimulating the economy through spending in excess of tax revenue. Just before the sharp downswing of 1937-1938, the budget had temporarily come into balance, partly because regular Federal revenues were increasing with better business conditions, and partly because a social security reserve was now being built up. At the request of the President, and for the purpose of offsetting the downswing, a new spending program was put together hurriedly in the spring of 1938 and passed by Congress. The Federal government's net contribution to income which had fallen from 4.3 billion dollars in 1936 to 1.1 billion dollars in 1937, rose in 1938 to 2.4 billion dollars.

Once again the pattern of economic discussions followed—with a long time lag—the course of economic events. Talk of pump priming died out after 1937. It was obvious that the pump had not been primed: the deficits of government had not initiated

an upward movement of private consumption and investment spending that kept going on its own momentum. It was best to let the matter drop in an embarrassed silence. Instead discussions grew, after the recession of 1937-1938, as to whether the U.S. economy was not in for "secular stagnation"—a persisting, decade after decade era of inadequate private investment and consumption. There would, as a result, be persisting heavy unemployment unless government spending compensated for the deficiency in private spending. And if, for this purpose the government should tax less than it spend, its debt would continue to rise—and many people were already worried by the growth of Federal debt from 14.8 billion dollars in 1930 to 31.4 billion dollars by 1937. The debt increase was a favourite target of Republican orators viewing with alarm the policies of the Democratic administration.

But soon any preoccupation with the possibility of secular stagnation became academic. First defense and then war expenditures of the Federal government swelled national income and production to levels that no economist had seriously thought possible. A favourite catchphrase of the early months of the war period was Goering's "Guns or Butter"—the choice before the U.S. economy was said to be more armaments *or* more consumer goods and services; you could't have both.

But it turned out that it was possible to have more of both. Production expanded so hugely that not only did the Government 1939 to 1944, increase greatly its take of goods and services mainly for war purposes (up to 444 per cent), but consumers at the same time did a little better (by 20 per cent).² Consumers did suffer a bit through reduced supplies of "durable" consumer goods (mostly those containing metal), but they more than made up for this through increased supplies of non-durable goods and services.

Total national income in this period, of all goods and services together, rose by 79 per cent. Under pressure the U.S. economy proved its ability to produce phenomenally. How was such an increase in production possible within five short years? (1) More people went to work. (a) The most important cause was a major reduction in unemployment, from 9.5 million to .7 million. (b) Also, the work force was growing (from 55.6 million to 65.9 million, or by 19 per cent), through more people's coming into the work force than were retiring from it: part of this reflected the normal growth of population; part reflected an unusual addition to the work force, through the wives of servicemen

2. Calculated from the **Economic Report of the President**, January 1951, p. 179.

taking jobs when their husbands were away, through some people's looking for and taking jobs because they were easy to get, well-paid, and attractive in other respects; and finally part reflected through delayed retirements. (2) Hours of work increased—in manufacturing, from 37.7 hours a week to 45.2 between 1939 and 1944. (3) Productivity per employed person rose, by about 26 per cent, for a number of reasons. To some degree, the increased hours of work were a factor. Increased use of mass production methods was another factor, often more than compensating for the lesser skills of a considerable proportion of the larger work force. A reduction in development work in some areas, better "load" factors in others, favourable growing seasons in agriculture, the spread of superior techniques and—probably not least—a sense of co-operation and the good morale that comes from united purpose: these were also influences toward higher productivity.

Meanwhile, the national debt was expanding vastly, passing 263 billion dollars by the end of World War II. But little was heard during the war about the menace of a huge public debt: the preoccupations of economists and the public were elsewhere.

What would happen to the economy—this was the question asked more and more by businessmen and economists during the war years—once peace came again? In retrospect, it is plain that a depression neurosis afflicted both groups, a hangover from the bleak experience of the 1930's. It just did not seem possible either to businessmen or to economists that the 200 billion dollars of gross production which the economy would produce at full employment could be absorbed. Where was the purchasing power coming from? In no one year of the 1930's did the economy buy half so much; in each of four years it bought less than 75 billion dollars' worth.

The clearest indication of this depression neurosis is in the forecasts made by government agencies and by private economists and businessmen. The Office of Price Administration differed from its sister agencies only in the degree of the pessimism with which it estimated business conditions six months or a year after the end of the war. Private businessmen, according to a survey made by *Fortune* magazine, were on the average even more pessimistic than the New Deal economists in Washington. The great Montgomery Ward mail order house geared its postwar policies explicitly to the expectation of deep depression. Professor Sumner Slichter, who of course made a forecast, also hit way below the mark.

Only very slowly did this depression frame of mind wear off, as year after year the economy remained at full employment levels of production. Between the years 1944 and 1950, the

fall in government purchases of goods and services (54 billion dollars) was more than made up by increased purchases of goods and services by consumers (up by 79 billion dollars) and by businesses for investment (up by 41 billion dollars).³ A minor recession in 1949 was already over by the first quarter of 1950, so that even before the Korean outbreak in June, the persisting post-war problem, creeping inflation was again upon the economy.

In the fall of 1951, it appeared that the main weight of the post-Korea rearmament drive of the United States would be felt during 1952. In that year inflationary pressures would be heaviest, and consumers would put up with some moderate cuts in goods and services available to them. But by 1953, barring all-out war, the rearmament program would be tapering off. That, together with increased productivity and production in the economy, would enable consumer supplies to return again to their pre-Korea level.

II.

What caused the Great Depression?

There are many doubtful or wrong explanations floating about. (1) One of the common erroneous theories is that of "crime and punishment"—that in the 1920's the U.S. people were spending wildly, on night-clubs and silk shirts, instead of being thrifty and prudent. This theory forgets that, whatever his moral status, the prodigal son evidently stimulates business activity by his spending.

(2) Another erroneous view is that the U.S. economy produced more goods than its public *wanted*. "It is a glorious thing to contemplate", said a banker in 1932, "that we can at long last produce more than we care to consume." But the average per capita weekly money income in 1929 was \$ 13.40 and in 1932, \$ 6.20—not princely amounts that could buy all one fancied.⁴ The limitation on what the U.S. public consumed, in both years, was not that they had run out of wants but that they had run out of money.

(3) A third wrong theory argues that the U.S. suffers from chronic deficiency of purchasing power. Some commentators (among them Foster and Catchings) have suggested that the existence of savings inevitably causes purchasing power to be less than the total value of goods coming on the market, and Marx has added his thesis that consumers under capitalism cannot buy as much as the capitalist machine can produce. But those who

3. At current prices.

4. The 1929 income was equivalent, in 1929 prices, to approximately \$ 7.80.

complain that "labour gets paid too little to buy what it produces" forget that profits, rent and royalties, and interest are also purchasing power, that not all the products of labour are to be consumed by labour (try to consume a drill press or a turret lathe), and that money for spending can be dis-hoarded by individuals or created by banks.

A variant (from Major Douglas) of this general argument of chronic deficiency of purchasing power reasons that part of the value of goods coming on the market goes into certain payments made to other businesses rather than to individuals. Hence the total purchasing power of individuals is said to be always less than the total value of goods coming on the market. But it is always possible for money withdrawn from the income stream, no matter what the cause, to be matched by new money put into the income stream.

(4) A common error holds export demand to be crucial. Thus Albert Einstein has asserted in a published article: "The United States cannot succeed in keeping the purchasing power of the people in balance with the productive capacity of the country. The United States is compelled to emphasize her export trade. Without it she could not keep her total productive machinery fully utilized."

Unfortunately, Professor Einstein just did not know the relevant facts. His statement illustrates the danger of swallowing uncritically contentions from outside one's field of special knowledge if only they sound plausible.

Since World War I, net exports from the U.S.—that is, the excess of the value of exports over imports—contributed at the most 8.9 billion dollars, or 3.8 per cent, to gross national income. This was in 1947, when the economy was already suffering from excess spending, and the foreign buying was decidedly unwelcome from a domestic point of view. The second place for maximum stimulus to domestic income from foreign trade goes to 1920, when the amount of net foreign spending was 2.2 billion, or 2.6 per cent of gross income. Both years were unusual, dominated by the after effects of war, with foreign nations importing heavily in industrial equipment and foodstuffs. In ordinary peacetime years, the effect is much less. In 23 of the 32 years, 1919 through 1950, net exports averaged less than 1 billion dollars. Over the whole period, they contributed six-tenths of 1 per cent to gross national income—a negligible fraction that could have only negligible influence towards sustaining income.

The overwhelmingly large proportion of total purchasing power in the U. S. economy, therefore, comes from domestic

sources—consumer, business and government spending. It is here that one should look to explain past variations, and it is here that policy proposals for the future should be focused.

(5) A fifth wrong explanation of unemployment and depression in the United States is that wages were too high, and should have been lowered. The basis of reasoning in this argument goes: a surplus of labour is to be explained just as one would explain a surplus of unsold goods of any kind, namely, that the price is too high. To avoid an oncoming depression, the argument suggests, cut the wage rate. If this reasoning is sound we could expect also to *raise* wages in time of inflation. But we find that although businessmen (and classical economists) have often urged a drop in wage rates as a cure for depression, they never in time of inflation urge that a rise in wage rates is a cure for rising prices. We are inclined suddenly to ask: is a selfish interest involved? Since businessmen are normally disposed to regard lower wages as a blessing, perhaps they seize upon the catastrophe of depression as a convenient excuse for emphasizing what is their normal preference. Side by side with this view we should put the contrasting labour purchasing-power argument that "money in the pocket is money to spend", which would seem to urge that the way to get out of depression is to raise wage rates. But suppose that the higher wage rates make people economize on hiring labour; they might reduce their hiring of labour by a greater proportion than wage rates are raised, so total wages (and total spendings of labour) decline.

Wages are costs, it is true. The businessman's view is correct as far as it goes. But the labour view is also right; wages are income and purchasing power. Any wage rate change has a two edged effect: both on costs and on spending. To give briefly the conclusion of much discussion among economists: the net effect on income and employment of a wage rate change is uncertain. This was no road out of depression for the United States.⁵

What then were the causes of the U.S. depression? They can be grouped, partly arbitrarily under four headings:

(1) The speculative fevers of 1927-29, both in the stock market and in real estate. These markets were sustained, beyond a moderate point, by buyers who expected to unload their purchases on to someone else at a higher figure. They did not buy

5. Though there is a case for a wage rate cut—as one possible measure among other alternative or supplementary policies—for an economy dependent in large measure on foreign markets for sustaining its income. The costs, and hence the prices of exported goods will tend to fall, and hence the volume—and value—of exports is likely to rise considerably.

because they had any special faith in the *long-run* value of what they bought. Prices under such conditions are bound to collapse, once people come to doubt whether they will move upward forever. Once the collapse began in fact, the vulnerable mortgage situation of farmers and holders of urban real estate piled despair upon distress: few experiences unsettle a person more than the loss of a roof over his head.

In addition, as foreclosed properties were unloaded on the market and their prices fell, construction was discouraged further and the soundness of banks holding mortgage loans was undermined.

(2) The banking system was weak both in policy and in structure. We have already seen that the monetary authorities allowed, despite some countermeasures and the best intentions, an unexampled contraction of the money supply between 1929 and 1932—about a one-quarter decline. You can't buy goods with money that has ceased to exist, even if your frame of mind is optimistic. As the depression deepened, three waves of bank failures spread economic paralysis, and intensified the growing conviction that all was lost. Almost as solid a body blow as to lose the roof over one's head is to lose the money one has in the bank. At the same time any property not in the form of a fixed claim on money was falling in value day by day.

The banking failures were probably in the main avoidable, had government operations to sustain the banks been adequately prompt and energetic. But the banking system of the U. S. is peculiarly subject to distress, through possessing multitudes of small banks. These have the advantage of dispersing financial power, but they have the weakness of depending on the fortunes of a particular community, and of often suffering from poor management.

(3) It may well be that a number of major industries had exhausted, at least temporarily, the possibilities of expansion inherent in their existing technology: this might be argued of the automobile industry, possibly of the telephone industry and some others. If a large part of the public already possesses a particular gadget, then a considerable rise in sales may require a sharp reduction of price—which may not be practicable in view of rigid costs. And during a time of contraction even industries with possibilities of rapid growth—like the chemical and electrical industries—face the general shrinkage of demand and are influenced by the general pessimism of outlook.

(4) Also there were foreign events and policies, that had some depressing influence on the U. S. After the middle 1920's the raising of tariffs by European nations forced a number of raw

material producing countries off the gold standard; and the gathering collapse of the gold standard had its effect on confidence abroad and in the United States. This in turn led to lessened lending abroad and to a shift from long-term to short-term lending; and in connection with other causes is related to the crisis of the banking system of Central Europe in 1931.

All these causes of depression can be brought together as sub-sections of the heading; what caused expenditure of businessmen (on plant, equipment and inventories) and of consumers to fall?

And if a fall in domestic spending is to be identified with the onset of a modern depression, then the road out of depression is to be identified with a rise in domestic spending. When central policy—that is, government—is called on to devise means of raising domestic spending, all its measures can be gathered under three headings: ways of stimulating consumer spending, ways of encouraging and supporting business investment and net exports⁶ and the most socially useful channels in which to increase government spending. There is no lack of policies that will increase domestic spending. The real problem is to choose, of the total possibilities, those that will fit in best with other social policies, like increasing productivity and achieving a desired balance between the areas of government and of private enterprise in the economy.

III.

What generalizations can one make, and what forecasts, out of this remarkable twenty-two years of economic history? Three things stand out.

(1) One is the persistence of attitudes after their causes have disappeared. We are always looking at today's events with minds that are filled with the habits and presuppositions of yesterday. In the late 1920's economists assumed permanent prosperity; in the late 1930's they were inclined to take seriously the possibility of permanent depression; in the defence and early war period, they could not imagine, against the background of the depression decade, how huge a flow of production the economy would be capable of, when pressed; toward the end of the war, they could not imagine how an economy proved so productive could possibly sell to its citizens the abundance it could produce.

The facts of the current day stared them in the face. But their interpretations of those facts repeatedly assumed, wrongly, that the experience of previous months and years was typical and

6. Though as we have seen this line of policy is of negligible importance for the U.S. economy.

normal. Professor Schumpeter once generalized that: "Economists are dogs who bark after the retreating chariot of progress." But we should probably not pick out economists for special distinction: the charge holds for most of us, in every occupation.

(2) Another is the variability of production, income and employment, from the high level of 1929 to the depression bottom of 1933 (with real national income down 40 per cent), to the heights of the middle and late 1940's (up from 1933 by 220 per cent). The great increase of total production through the 1940's merits attention. The increase in *productivity* throughout the 22 years merits still closer attention. Production per employed person rose 51 per cent over the twenty two year period: or 2.3 per cent per year. The most urgent economic need of most of the world is increased production, and an urgent practical problem for economists is: How has the U. S. economy achieved its productivity advance?

(3) Finally, and this is a prediction growing out of recent history rather than found in it: it is extremely unlikely that within the visible future the U.S. or other like economies will again experience deep depression. There is, in fact, and entirely aside from any conceivable defence or war expenditures, the probability of "secular exhilaration" rather than secular stagnation—of a decade-after-decade tendency toward such excessive demand as will cause some degree of persistent inflation. (a) One reason is that any tendency for employment and prices to fall will be seized on gladly by legislatures as an excuse for increasing government spending. Legislatures have always liked to spend (politically popular) without taxing (politically unpopular). Now out of the post-Keynesian discussions they have a rationalization for what has always been their desire. (b) Errors will be more likely on the side of too much, rather than too little, spending. The political cost of deflation and unemployment is severe: no sensible politician will want to face it if he can avoid it. On the other hand, the political cost of the inflation and over full employment that accompany too much spending is light. There may in fact be net public sentiment—and votes—in favour of inflation as opposed to stability of prices when decisions are made, as they will be made, on a succession of concrete issues. (c) Finally, there is the growth of state enterprises, found in many countries. These will often be inefficient and lose money. But they will not be closed down (and the resources they absorb released to more effective uses). Instead, the State will finance the deficit and in so doing persistently expand the money supply. The financial losses in government enterprises, and in enterprises which the government backs, are the initial causes, persistent expansion of

the money supply follows; and persisting inflation with its concomitant of full or over-full employment the final result..... In these three factors we have a central explanation of continuing high employment and inflation in a number of fascist and communist countries; not so much "economic planning", as the logic of political decisions on economic matters. The same factors exist in varying degree for less centralized economies throughout the world.

Parliamentary Control of Finance

I. D. S. WEERAWARDANA

I.

The Ceylon financial procedure is, in its legal forms, an adaptation of the English system. The Ceylon (Constitution) Order in Council of 1946, provides that all revenues of the Ceylon Government shall be paid into one fund called the Consolidated Fund.¹ This is in the fashion of the Westminster Parliament. We have an Auditor-General to report on the expenditure of government departments. We have a Public Accounts Committee performing functions similar to its counterpart in Great Britain. An attempt has been made to place the Ceylon Treasury on a par with the British.

Laws may be transplanted; but not always their spirit. To argue with Montesquieu, the latter is, if not more, at least as important as the laws themselves. The British system works on a basis of practices, usages and understandings which give flesh and blood to the whole structure. The study of the financial organisation of Ceylon is one long essay in the difficulties of recapturing the spirit of the English system.

The new financial procedure of Ceylon was also made to be radically different from the old. But practices die hard. What the members of the State Council learned for fifteen years cannot be unlearned in a few years. Some features in the present system still look back to the days gone by.

The change-over from the Donoughmore regime has had one obvious result—the increase of the financial control of the Treasury. This again, follows the English practice. The British Chancellor of the Exchequer places before Parliament, estimates of Expenditure of the various Ministries under 'Heads' and 'Votes.' Expenditure under a 'Head' is generally that for a whole department. Each head is divided into a number of 'Votes', each 'Vote' providing for a particular service. Separate schedules are prepared analysing the 'Votes' further into sub-heads and items. Parliament passes money on 'Heads' and 'Votes.' The 'sub-heads' and 'items' are for information. If it happens that there is a saving in one sub-head, but also a need for more money in another sub-head (both under the same 'Head') the Treasury could sanction a transfer of moneys between these two sub-heads. That is, if this occurred in the Civil departments. In the Service departments, the Treasury could sanction transfers even between 'Votes.'² This practice is called 'Virement.' Treasury

1. Sec. 66 (1) Order-in Council.

2. Pp. 132-7—W. I. Jennings—Cabinet Government.

sanction is, of course, not automatic. Queries are raised and justification demanded.

Under the Donoughmore Constitution, the Ceylon Treasury, did not possess the power of 'Virement.' The result was a multitude of Supplementary Estimates. If, for instance, under sub-head 3 of Head 41, there was a saving of Rs. 4000/- and also under sub-head 4 of Head 41, there was a need for an additional Rs. 4000/-, the Donoughmore Treasury could not sanction a transfer. Legislative sanction was necessary. This could be obtained only through a Supplementary Estimate. The result was that legislative approval was necessary for incredibly small sums, e.g., Rs. 7/96 on September 18, 1935.

The new system is different. It permits transfers between sub-heads of the same Head and Vote of course, under certain conditions. The total of the Head and Vote must not be exceeded; due regard ought to be paid to economy; the excess should be within the ambit of the vote.³

Even in Ceylon, it is not correct to say that the sanction of the Treasury is given automatically. But it is true that few claims for virement are turned down. The latter happens generally when the action contemplated goes beyond the ambit of the vote.

In the Donoughmore days, the Ceylon Treasury was given lesser powers because it was not trusted. It was not trusted because it was presided over by an officer of State. The State-Councillors knew how the Treasury control over transfers between 'items' was used to collect moneys for holiday warrants and passage allowances. In fact an attempt was made to insist on legislative sanction even for such transfers.

Today the words of the Treasury weigh heavily with the Cabinet. Its head is a member of the Cabinet, in fact a leading member. He is, what he is, because the Prime Minister trusts him and the Party in power supports him.

On the basis of that trust, today, the Treasury is able to control supplementary estimates more successfully than in the Donoughmore era. It is consistently discouraging Supplementary Estimates. On July 17, 1948, it wrote to the heads of departments expressing its concern about "the large number of applications for Supplementary Estimates that are still being received. In a number of cases it has been found on a close analysis, that the applications were not justified. Heads of departments should realise that they should keep expenditure within the amounts sanctioned in the Annual estimates and

3. Amd. to Sec. 66 in Financial Regulations.

supplementary estimates should not be resorted to except in unavoidable circumstances".⁴

This is a salutary development indeed. For supplementary estimates were the bane of the Donoughmore regime. Several reasons lay behind this plethora of claims for supplementary provision. Firstly there was the initiative of the Executive Committees in executive matters. New policies were decided on, after the budget was prepared and passed. There were times when Executive Committees prepared their annual estimates without being aware that there would be a surplus of revenue.⁵ Naturally supplementary estimates were presented when this information became available.

There was also a tendency to over-estimate. As Sir Ivor Jennings put it, the departments "almost invariably over-estimate so that actual expenditure is very often less than estimated expenditure. This is so, because, instead of having a global vote for education with the possibility of transferring from sub-head to sub-head, there are separate votes for the 26 sub heads. In the British system, the estimating officer knows, that what he loses on the swings he will probably make up on the roundabouts, so that his estimate of £50 million is a close estimate. The Director of Education, however, knows that if he loses on the swings he cannot count on what he gained on the roundabouts, but must ask for a supplementary estimate for the swings. The Ceylon system is a bad one, but it is due to suspicion of the Treasury."⁶

The result was that as the year came to an end unspent balances accumulated. These were devoted to new ventures. The most dangerous practice was also followed, of getting financial provision for commitments, the plans and over-all estimates for which were not ready—an unending source of claims for supplementary provision.

The Treasury now fortunately, frowns on frequent demands for supplementary provision. It has advised that over-estimation is as bad as under-estimation.⁷ Because the financial proposals presented in the budget are generally now an over-all plan, new policies are rarely decided upon in between. The Treasury requests postponement of items not provided for in the Annual Appropriation Act, unless exceptionally urgent.

4. Treasury Circular of 27-7-48.

5. Mr. Wickramanayaka referring to 1934-35 budget said that when each Executive Committee considered estimates of departments under it, the members were not aware that a large surplus balance would be available. 1728.....1934.

6. P. 127—W. I. Jennings—Economy of Ceylon,

7. Treasury Circular of 2-4-48.

The Donoughmore Constitution also suffered from the absence of a co-ordinating authority for financial purposes on an administrative level. Each head of a department submitted his estimate to his Executive Committee. There was little co-ordination because, the political level was not the one for such a purpose. The Executive Committees, besides, lacked the administrative staff for a task of that nature.

The new system makes the Permanent Secretary the co-ordinating authority.⁸ Heads of departments submit their estimates to him. He scrutinizes and coalesces them. Co-ordination consists not merely in cutting down estimates submitted by departments, but also of requesting heads of departments to spend more on definite lines of expenditure. The treasury also has a tendency to delegate more and more administrative functions to Permanent Secretaries.

Much the more important development however, is the fact that the Annual Appropriation Act, has now become a reliable guide to the policy and purposes of government. It is a statement of the proposals of the government as it rarely was in the Donoughmore era. This is because supplementary estimates do not loom large in the picture now. The reasons are not far to seek. A good percentage of such estimates are avoided by the Treasury power to transfer from sub-head to sub-head. If it happens, that there are excesses in a number of sub-heads requiring legislative sanction (because, say, the total of the vote under the head will exceed) there is provision for these to be considered under one supplementary estimate.⁹ (Where a new proposal is contemplated, however, a separate supplementary estimate is necessary). Nor is it a regular practice now for Ministers to come to the House with new plans and deviations from the budget policies. The change is too conspicuous to fail to be noticed. In 1948, there were 864 supplementary estimates whereas in the 1st session of the House of Representatives less than 1/20th of the number came up for parliamentary approval.^{9b}

This is not to argue that the estimates are now an exact statement. At the best they are successful guesses. It is only necessary to consider the process by which estimates come before Parliament to see that this is so. The financial year begins in October, Estimates are laid before Parliament in or about the 1st week of July. But the departments have to work on them much earlier. By the 1st of March each head of department

8. Manual of Procedure, Sec. 16.

9. Financial Regulations, p. I, Sec. (IV).

9b. Nos. of Supplementary Estimates; passed.

1948-49—100. 1949-50—87. 1950-51—95 to 26-9-51.

would have submitted to his Permanent Secretary, the estimates of his department classified into Heads, Votes and sub-heads.¹⁰ To do this the department must begin even earlier. In fact early in October in the previous year, a Treasury circular is sent out requesting heads of departments to prepare the draft estimates. It is true that the Permanent Secretary is expected to co-ordinate them and the Treasury to report on them. It is also true that if the Permanent Secretary and the Treasury and/or the Minister concerned and the Minister of Finance, fail to agree on any subject, it may reach Cabinet level.

But Cabinet decides only matters of policy. The exactitude of the estimates is a matter for the departments and the Treasury. The position is therefore, that for the financial year 1949-50, the departments are preparing draft estimates from October 1948; that is just when the final accounts for the year 1946-47 are expected to be completed. Perfect estimation is thus not possible. In a country like England, however, large errors are not frequent because the Treasury has been following the various trends of expenditure. For each 'Vote' the Treasury has what is called a 'blue note'.¹¹ This gives the history and trend of that 'vote' and it is continually brought up to date. That is why British estimates are fairly accurate guesses.

The Ceylon Treasury does not maintain a system of 'blue notes'. When draft estimates are sent up, the Treasury Officials look up those subjects of expenditure showing a marked increase from the previous year. Estimates of the past 3 or 4 years are considered, Queries are raised. The department may have already sent up an explanation. If its information were already analysed and tabulated the Treasury would be in a position to exercise a stronger control. It could also avoid some waste of time. The same item may also increase year by year. The Treasury officials now have to undertake a fresh investigation every year. Apart, however, from this system of 'blue notes' the Ceylon Treasury, in general follows the practice in the United Kingdom.

II.

From the time the estimates leave the hands of the Treasury and are placed before Parliament, the significance of the difference between the United Kingdom and Ceylon practice is clearly seen. In the British system, financial initiative lies in the House

10. A Head corresponds as a rule with a department of the Public Service. (F. R. Part I, Sec. 26 (II)). A Head may correspond with a vote but generally a Head is divided into a number of votes. Each vote will provide for either a particular service or a group of services administered by a single department.

11. P. 126—W. I. Jennings—Cabinet Government.

of Commons. By long standing practice, all financial proposals begin in a Committee of the Whole House. When estimates are being considered, it is called a Committee of Supply. This is the most important stage from the point of view of Parliamentary control of finance. A number of days is allotted for this. But all the estimates cannot be adequately considered in this period. Government and Opposition have therefore come to an understanding. The opposition chooses the subjects it will debate. The Government expects the others to be voted on without discussion. On any allotted day, the Minister, one or more of whose departments are to be debated brings in his estimates. He will make a general survey of his Ministry's work and policy. An Opposition Member will follow him. And so a general debate ensues.

Nor do the members discuss details of expenditure. As Mr. Harold Mac Millain said while speaking on 1947-48 Appropriation Bill, "It has become customary in recent years for supply days to be largely, if not exclusively, used for discussions of major questions of policy—the future of an industry or the fate of a nation—and many new honourable members must have observed with surprise, when they first joined our body, the calm almost casual way in which vast sums of money are voted to the Crown with scarcely a word either of commendation or explanation."¹²

This is not surprising. The opposition, to repeat, chooses the subjects of debate. And more, it decides for how many days it will discuss a particular policy. To quote Sir Ivor Jennings again it "asks to have put down a vote on a department whose policy it wishes to criticise. Since it may want to raise the question again later, it asks that the vote be not put. If for instance, a slump is in process and the Labour party is in opposition, there will be a series of debates on unemployment by getting the Ministry of Labour vote put down time after time."¹³

In Ceylon the estimates are presented as a bill and the usual second reading precedes the committee stage. At the second reading M.P.s tend to follow the footsteps of the M.S.C.s. There is not much to remind one of the change of constitution. The Minister of Finance delivers his "budget speech"; thereafter each member makes his own contribution. In the first two years, a member of the opposition was not necessarily followed by a member of the government party. Recently some such arrangement has been made. The opposition, for instance, arranges as to who would wind up the debate for them as does the government.

12. H. C. Debates, 5th series, C. 1288.

13. P. 296—W. I. Jennings—Parliament.

Thus 'see-saw' debate is becoming common unlike in the earlier years. This is a useful development because it enables a comparison of government and opposition policies.

Except in a few cases, however, the form and content of the speeches do not differ from those of the earlier regime. An M.P. would start from one Ministry and run his eye through practically every other. Choosing at random for example, from the second reading debate on the 1948-49 appropriation bill, consider the speeches delivered on 26th July 1948. The member for Maskeliya started with unemployment assistance, and went on to agriculture, industry, education, rubber and ended up with reference to parochial needs. The member for Nikaweratiya began with a disquisition on the plight of the peasantry, went over to nationalisation of bus services, grants to local bodies, milk-feeding centres and the headmen system.

Thus although the British form of debate has been copied, the type of second reading debate in Ceylon leaves much to be desired. It does not focus on one aspect at one time. And as the member for Ratrapura said in 1949 "it struck me that if this debate had been arranged so that each Ministry was taken up at a time, the opposition could have arranged and the government also could have arranged that criticism be made regarding a particular ministry and replies made by the government on behalf of that ministry. That would have helped the public and most of us in this House to follow the debate. Just now criticisms are made on various subjects and when replies are given they are mixed up."¹⁴

But the second reading debate as it is now practised gives one grand opportunity for the opposition. The latter has not been slow to accept it either. Opposition winding speeches try and fairly successfully too, to focus full attention to the main strands of the total budgetary policy. It gives its views and criticisms with one broad sweep.¹⁵ Such a development is heartening amidst its many other failings.

The second reading debate still bears the marks of "parish-pump" politics, although not as intensively as in the Donoughmore era. In the United Kingdom members would protest if parochial politics become the subject matter of debate. If 625 members discuss parochial politics, debates will lose their vigour. In the United Kingdom, the electorate does not vote for the number of bridges and hospitals it expects to get. It votes for the party ticket. Up till the new constitution in Ceylon parties were at a discount. At the last general elections, party politics counted

14. Hansard, 1949, C 356.

15. Dr. Colvin R. de Silva's speech of 4-9-50.

for much, but they were not the only deciding factors.¹⁶ Most Members of parliament in Ceylon still seem to make the assumption that public works in their constituencies is the deciding factor in their being returned. There is however, in the economic situation, signs of a change for the better. The time when Ceylon constituencies could be won by the sharing of the pork-parcel is slowly disappearing. When nation wide problems like inflation and unemployment impinge on their daily lives, parish pump politics are bound to attract less attention.

In the United Kingdom party alignment is to a considerable extent stratified. The Conservative party, for instance, can expect-say 7 to 8 million votes whatever its policy (of course within reasonable limits.)

So can the Labour party. In between is what is called the "floating vote". It may swing this way or that. How it votes will be decisive in bringing a party into power. If it votes Labour, Labour will form the government and vice-versa.

Several consequences follow from this. Both parties woo the floating vote. Every speech of theirs is an attempt to justify themselves to this sensitive body. No party can do this if its members insist on speaking of parochial needs. Precious parliamentary time is more usefully devoted either to defending its own or criticizing the other party's policies.

In Ceylon, we do not have such a sensitive and also influential "floating vote." Nor is the electorate consistently educated. Few read reports of Parliamentary Debates. Verbatim reports are not known to local papers. Hansard does not reach the public till the debates are stale. (Note: Mr. Speaker has been able to improve the position recently. Members now get their uncorrected copies of Hansard within 24 hours. It is hoped to make the corrected copies available to the public within 3 to 4 days.) And few could and would read Hansard in English.

Few, therefore, intelligently follow Parliamentary debates. Even if they did their votes are not vital. That is why the M.P. is more concerned about roads and bridges, schools and hospitals.

Nor does the Committee Stage show much difference from the Donoughmore era. In the State-Council, the Estimates were presented under Heads and sub-heads. It was thought that the presentation of the Estimates under "Heads" and "Votes" would make the members concentrate on policy. For the private-members are by no means competent to control details of

¹⁶ P. 124. University of Ceylon Review, July 1948.

expenditure. They have neither the time nor the expert assistance. Nor are they technically equipped to see the implications of the vast mass of figures presented to the House.

Such a development has not taken place. Some constitutional lawyers argue that the reason partly lies with the Speaker's ruling of 25th December 1947. What he did was quite simple. He explained Standing Order 128 and gave its literal implications. The two significant parts of his ruling are as follows:— "The Standing Order requires me to call the title of each Vote and Debate on the sub-head will be in respect of amendments to that Vote. Amendment to a vote may be either in respect to a sub-head or where a sub-head is further sub-divided into items in respect of an item....."

Hon. Members intending to move such amendments must be careful to request permission to move them at the correct place, that is to say before a sub-head or item later than the sub-head or item to which their amendment relates, is taken up."¹⁷

Mr. Speaker's ruling had two consequences. Firstly, it was based on the assumption that debate takes place after an amendment is moved to the question proposed. That has come true partly because the assumption was made. Secondly, as debate takes place on a series of amendments to various sub-heads and items, Mr. Speaker cannot and will not permit the subject matter of a later sub-head or item to be discussed on an amendment to an earlier one.

If Mr. A moves an amendment to sub-head 6 of Vote 1, Head 41, he will not be permitted to speak on the subject-matter of sub-heads 7 and 8 as well.

Perhaps the Speaker's action could be explained. He was fully aware of the Donoughmore practice of debating items and sub-heads. Under the Soulbury Constitution, he perhaps expected nothing different. Nor was he far wrong if he thought that way.

He was also constitutionally correct. Standing Order 128 copies the substance of the House of Commons procedure.¹⁸ He ruled as any British Speaker would if a similar situation arose.

The more important reason, therefore, is to be sought elsewhere. The House of Commons procedure is much the same as Standing Order 128 in Ceylon. But the difference is this. Mr. Speaker in Ceylon is continually making use of S. O. 128. His counterpart in the House of Commons rarely has the need to do so.

17. Hansard 1947, VI N 17—C 1455—6.

18. May's Parliamentary Practice, pp 698-9.

To quote May (revised by Campion) "The elaborate particularity of these rules (of the British House of Commons regarding debates in committee of supply) suggests a practice of scrutinizing the estimates from a more strictly financial point of view, or at any rate a greater tendency to control the details of administration than is the habit of the modern Committee of Supply, whose inclination is far more towards the wide scope of debate permitted by the consideration of several votes at the same time than to concentrate upon a single vote item by item. The rarity with which these rules have now to be applied is one more indication of the change in the conception of the functions of the Committee of Supply."¹⁹

When a vote is moved by the Minister or his Parliamentary Secretary in the House of Commons it is not the practice for a reduction to be moved immediately. If it is, debate will be confined to the vote, sub-head or item concerned. That does not happen. Discussion goes on in the form of a general debate. It is at the very end of the debate that reductions are moved. This is not possible unless all the members are agreed; and that agreement is readily forthcoming.

In Ceylon, on the contrary, discussion begins by a motion to reduce the estimates of a sub-head or item. It has to be under the circumstances. The estimates are presented as a bill and cannot be debated unless a motion to reduce the appropriation is moved. This alone would not have made the situation what it is. For instance, on an amendment to the vote for the Minister it might have been possible to discuss the whole policy of this ministry. Attempts were made in this direction by the opposition leaders. The Chairman of the Committee of Supply, however, does not permit policy debates at the Committee Stage. Since the function of Parliament is not to check the exactitude of the estimates, but to bring the policy behind them to the public eye, the committee-stage in Ceylon loses much of its value. Take for instance the discussion in committee of the Appropriation Bill 1947-48 on 17th December 1947. The estimates of the Ministry of Home Affairs were to be discussed. The policy of the Home Ministry was not debated in general. That is understandable. There is no way of doing so except with the indulgence of the chair—a practice now growing up in the United Kingdom. Head 50, Vote 1. Salaries and expenses of Home Ministry was taken up. A member of the Opposition moved a reduction of Rs. 10/-, in sub-head 1 (Personal Emoluments), Vote 1 of Head 50. Staff arrangements were discussed for 10 columns of Hansard. The Minister of Finance moved to increase sub-head 4, of Vote 1. The question was debated for 10 columns. Head 51 was next

19. May's Parliamentary Practice, p. 699,

considered. A member opposite moved to reduce sub-head 1, Vote 1, Head 51, by Rs. 3600/- in respect of item 'Western Province, Colombo, Mudaliyars.' The question of superior headmen was debated for nine (9) columns. Another from the same party moved to reduce the same sub-head by Rs. 100/- in respect of Asst. Government Agent, Kalutara. The issue of the working hours of certain labourers in the Colombo Kachcheri was discussed for half a column.²⁰

So the discussion goes on. Members do not debate general policy, not even of a department, let alone a Ministry. What they discuss are fragments of policy. By reading Hansard, no one will be wiser as to the over-all policy of the Opposition. Little bits of policy removed from a general picture are not helpful to the layman. Members of Parliament, perhaps do not adequately appreciate that they should speak more to the public than to the Members of the House. And more, they must speak in a manner intelligible to the ordinary man in the street. The results of the present procedure are very unfortunate. Members neither criticize broad general policy nor scrutinize details of expenditure.

Nor does discussion take place in the way of debate. The committee stage is taken to mean one for the gathering of information and asking of questions. Member after member while criticizing some aspect of policy, may also raise questions. The Minister answers them at the tail end. He or his deputy does not get a chance to place the general policy at the Committee Stage. What he does is to answer queries or give more information on a variety of sub-heads and items. Of course, there is some compensation in that at the second reading broad outline of policy may be placed before the country by the spokesman of the government. But none of the plan and system as in the United Kingdom where the Minister may open the debate and his deputy close it for the Government. That is why in Ceylon, the Committee Stage has lost coherence, plan and purpose.

If the Annual Appropriation Bill is scrutinized in the minutest detail—at least such a pretence is made—the contrary is true in regard to the supplementary estimates. The practice in the House of Commons is for the chairman of the Committee of Supply to be very strict regarding the scope of debate. Unless it is a new sub-head for which provision is sought government policy cannot be discussed on a supplementary estimate. So that the Commons practice is to discuss why additional moneys are necessary. In the State Council anything and everything even remotely relating

²⁰ Hansard, 1947—VI N 19.

to the subject was raised. The practice in the House of Representatives is better. Debate though often bordering on policy is confined to the aspect of policy at issue.

Even here the word debate has been used out of courtesy. The Minister moves his motion with an explanatory speech. Member after member raise questions, ask for this detail and that. The Minister pops up every few minutes to answer the points already raised. He looks more like a witness in the box than the exponent of a policy. This again is due to the view that the committee stage is to gather information—an appendage to the myth that the legislature is the watch-dog of the nation's finances.

The new constitution provides for a bi-cameral legislature. A study of its financial procedure is consequently, not complete without reference to the Upper House. Not that the substance will be any different. For the financial powers of the Senate have been whittled down to simple formalities. The Senate is in fact less powerful even than the House of Lords in this respect. A British Finance Bill is not necessarily a money bill. In Ceylon it certainly is. The Senate has so far also neither amended nor rejected a financial measure. It hasn't got the power. It can delay a finance measure only for one month. Finance, is, for all practical purposes a subject for the Lower House.

One thing is clear to anyone who studies the financial procedure of Ceylon. It is a hybrid. It presents the combination of a legal framework adapted from the United Kingdom superimposed upon constitutional practices derived from the Donoughmore era. Differences from the English practice are largely due to differences in the political scene.

The Ceylon electorate is insufficiently educated; even that part which is capable of reading and writing is denied a political education because the government is carried on in a language which the majority of them do not understand. Our party system is yet in its infancy. Few parties have constituency organisations with roots in the people. Few keep the main issues of public policy plainly before the people. We lack a news service whereby all sections of opinion could reach the people with the same intensity. These are the factors in combination with the small membership of the House which tone and influence the Ceylon procedure.

The External Value of the Ceylon Rupee

D. R. SIRIWARDENE

There may be said to be in Ceylon an inherent tendency for the value of exports to equal the value of imports at any given rate of exchange. Exports constitute such a large part of total home production and imports such a large part of total domestic consumption, that an increase or decrease in exports receipts is the main cause of an increase or decrease in national income,—and therefore, of an increase or decrease in the demand for imports. It would therefore appear at first sight that Ceylon can never have a balance of payments problem as such,—except perhaps for very short periods, due to the time-lag between changes in income and changes in expenditure out of it.

The correctness of the above argument depends on two important assumptions. Firstly, it assumes that the terms of trade remain constant; the second assumption is that wages are highly flexible. When we remove these two assumptions the possibilities of surpluses or deficits arising in the balance of payments become clear.

We will first deal with the former assumption. If the people of Ceylon are to exist at all Ceylon must maintain a certain minimum level of imports of essential commodities; so that as export receipts go on declining below a certain level, and if import prices remain unchanged, imports will decline less and less, for though the incomes of people are seriously declining they will try to maintain a certain standard of living by running down savings, borrowing, or by any other means available to them. But of course, it will be more correct to expect the prices of imports also to decline as export prices fall,—for the general tendency is for all prices to rise and fall together. Now, if import prices fall exactly in the same proportion as export prices, it will be possible to maintain the same volume of imports with the smaller export receipts, and the balance of payments will thus always remain in equilibrium. But it is notorious that, for raw material producing countries, import prices tend to fall much slower during depression than export prices; and vice versa during boom times. This is due to the inelasticity of supply of export goods in raw material producing countries,—our production of tea, rubber and coconut cannot be varied on the short period according to variations in prices. Thus during depression we are liable to incur deficits in the balance of payments by importing more than we export because the terms of trade have become unfavourable; the opposite would be true during booms, and we are likely to develop surpluses in the balance of payments.

When we remove the second assumption, that of perfectly flexible wage rates, the possibilities of deficits and surpluses arising in the balance of payments become even greater. During depression, if wages do not fall sufficiently, costs may even come to lie above export prices, with the result that total employment and production will be curtailed. So that, not only do export prices fall more than import prices but the total volume of exports also tends to decrease, and total export receipts would thus be smaller than what it would otherwise be. In boom times, as export prices rise and the terms of trade become more and more favourable we are likely to have surpluses in the balance of payments; further, due to the comparative rigidity of wages, they will tend to lag behind the general rise in prices. And this is likely to increase the foreign surplus, for the failure of wages to rise means bigger profits to exporters, who constitute the richer section of the community and who, therefore, save more out of their incomes than others.

The tendency for the balance of payments to be in equilibrium at any given rate of exchange will thus operate with the maximum efficiency only within a certain range of the trade cycle, when export and import prices and wages are on a certain "normal" relationship with each other.

Now, what are the principles on which the exchange rate of the Ceylon Rupee ought to be based? It should be noted at the outset that there is no one rate of exchange which is the equilibrium rate corresponding to a given state of world demands and techniques. In any given situation there is an equilibrium rate corresponding to each pattern of money wage rates and level of effective demand, and any rate of exchange, within very wide limits, can be turned into the equilibrium rate by altering wage rates appropriately. Moreover, any exchange rate can be made compatible with any pattern of wage rates provided that the rates of interest can be appropriately manipulated. Joan Robinson writes, "The notion of 'the' equilibrium exchange rate is a chimera. The rate of exchange, the rate of interest, the level of effective demand and the level of money wages react upon each other like the balls in Marshall's bowl, and no one is determined unless all the rest are given." But it should be noted that, particularly in the case of countries like Ceylon, interest rate manipulation, though they can have a very effective influence on the balance of payments in the very short run, is not too important in the long run; we will therefore ignore this factor henceforth.

The exchange rate of the Ceylon Rupee should then be so fixed that on an assumed pattern of wage rates unemployment will be at a minimum during depression, and such that surpluses arising in the balance of payments during booms are sufficient to

cover up the deficits that will arise during depressions. The exchange rate is itself thus a prediction as to what world economic conditions will be during the next seven to ten years. As such, the correct exchange rate can never be precisely calculated; it must always be a rough and ready average, the calculation of which is seriously liable to error.

Now an exchange rate calculated on some such principle means that during booms it would be undervalued in terms of wage rates, and during depression overvalued. This is, in fact, the same thing as saying that in boom times the money wage rate, because of its rigidity, is likely to be less than the marginal value productivity of labour, that is to say, the owners of the means of production will be "exploiting" labour during boom times; and during depression those who earn incomes as wages and salaries will be "exploiting" the owners of the means of production. Thus during boom times there is a transference of wealth from those with fixed incomes to exporters, and vice versa during depression. And for an export-import economy like Ceylon this is a factor of fundamental importance. During boom times therefore balance of payments surpluses are likely to arise for two reasons: Firstly, as export prices have arisen by more than import prices, total national real income has increased, but as real income increases, though expenditure on consumption and therefore on imports, will increase it will not be by as much as the increase of income—that is to say, there will be a certain saving of foreign exchange. Secondly, there is a transference of wealth from the fixed income groups to exporters who are the richer section of the community, and who therefore save a greater proportion of their income than others.

And so it is that at the moment, when we are enjoying boom conditions, we are piling up balances of foreign exchange—which means that we are lending abroad. And it is nice to feel that we are international creditors while many mighty countries of the world today are international debtors. But apart from this, piling up foreign balances has certain advantages. Particularly for raw material producing countries when export prices are high it is best for them to build up foreign balances to be spent on imports when export prices fall. Further, it is essential for countries like Ceylon to develop their natural resources by higher private and public investment if they are to have a satisfactory standard of living; and foreign exchange balances are highly useful in financing the foreign exchange costs of new development projects. Ceylon's foreign assets have grown from about Rs. 275 million in 1939 to about Rs. 1200 million at the present time. Our external assets could thus enable us to maintain the same volume of imports as we maintained for 1950 and at 1950 prices

for a whole year, even if our exports contribute nothing in the way of foreign exchange. But in fact our external assets mean much more than this, for during depression import prices will fall much below their 1950 level.

Further, to these foreign reserves of Rs. 1200 million, must be added our capacities to borrow from the I.M.F. to cover balance of payments deficits and from the I.B.R.D. to finance new development projects.

Taken all in all our foreign reserves are pretty big. In fact they are enough to cover any foreseeable deficit in the balance of payments as well as the foreign exchange costs of any practicable development programme. But we are still continuing to pile up foreign balances and there are still no signs of the much talked of depression. One of two things could have occurred to bring about this situation. Either our exchange rate, calculated on average conditions during a trade cycle, could have erred on the side of devaluation; or, this is not a normal trade boom and, therefore, our calculation as to the length of the boom, and therefore, of the length of the trade cycle, has gone wrong. In any case the conclusion emerges that, on the basis of the present circumstances and the future as far as we can foresee it, the Ceylon Rupee is undervalued.

It was previously argued that saying that the rupee was undervalued was the same thing as saying that the wage rate was less than the marginal productivity of labour. Of course, if the volume of capital in the country and the amount of labour are rapidly changing one cannot take the movements of prices and wage rates and come to any legitimate conclusions regarding the exploitation of labour. But, if in Ceylon the volume of capital and the volume of labour can be assumed to have been constant over the last decade and such an assumption would be in substantial accordance with reality, the curve of marginal productivity of labour would have risen in the same proportion as the rise of export prices, and if wages and salaries have not increased in the same proportion it would mean that the wage rate has been less than the marginal productivity of labour. Thus the relationship between the export price index and the minimum wage rate index is a good indication in Ceylon of the existence of undervaluation and overvaluation in terms of wages and salaries. It is highly dangerous, no doubt, to indulge in such a statistical exercise. For one thing much depends on the choice of the base year. Labour will be exploited during booms and vice versa during depression, so that if we choose the base year for the export price index and the wage rate index from boom conditions the extent of exploitation will appear to be very small indeed; and if, on the other hand, we choose the base year from a depression, the amount

of exploitation of labour during boom will be considerably magnified. There has been no authoritative calculation of a wage rate index in Ceylon before 1939, and since 1939 was a boom year, indexes based on that year will not measure the amount of exploitation correctly. However, indexes so based work out as follows:—

| Year | Export price index | Tea and Rubber Estate estate labour wage index |
|------|--------------------|--|
| 1939 | 100 | 100 |
| 1940 | 105 | 100 |
| 1941 | 116 | 109 |
| 1942 | 136 | 165 |
| 1943 | 146 | 201 |
| 1944 | 167 | 212 |
| 1945 | 179 | 244 |
| 1946 | 198 | 279 |
| 1947 | 263 | 293 |
| 1948 | 264 | 313 |
| 1949 | 284 | 320 |
| 1950 | 385 | 372 |

When considering the above figures it becomes evident that 1939 cannot be taken as the base year; for, from 1942 to 1949 the wage rate index has consistently been above the export price index; this would indicate that the wage rate has been greater than the marginal productivity of labour throughout this period, but this simply could not have been the situation because during this period exporters were making very fair profits and unemployment, relatively to Ceylon conditions, was at a minimum.

The period 1942 to 1946 I think calls for a special explanation. During the war years the prices of our exports were controlled and were less than they would have been in a free market. Also, the demand for labour by the armed forces was considerably responsible for the high wage rates that prevailed. So that, on both counts, the potential exploitation of labour that would have occurred was considerably greater than what it actually was. It will be noted that exploitation of labour appears to have been least on the year 1946, when the export price index was 198 and the wage index 279, and it would, therefore, be best to take 1946 as the normal year when there was no exploitation of labour—although in fact 1946 was to some extent a boom

year when there must have been some measure of exploitation of labour. The indexes with 1946 as the base year work out as follows:—

| Year | Export Price Index | Wage Index |
|--------------|--------------------|------------|
| 1946 | 100 | 100 |
| 1947 | 131 | 105 |
| 1948 | 132 | 112 |
| 1949 | 142 | 114 |
| 1950 | 192 | 133 |
| Jan-May 1951 | 210 | 140 |

The above figures show that during the period 1946-1950 there was, on the average, an undervaluation of 24% in terms of wage rates. And the average for 1950 to May 1951 the year after the devaluation of the Rupee, was 50%. The undervaluation would have been even greater and I do not think anybody would deny it, if the wage index took account of the salaries of clerks and other administrative officers also. (Of course, the above statistical analysis is as crude as could be imagined and should not be taken more seriously than it deserves).

The point has frequently been made that since real wages are now higher than for what they were in 1938 there is no need for a further transference of wealth to the working classes by revaluation. But, in fact, there is no direct relationship between the cost of living and the exchange rate; while there is a direct and fundamental relationship between the wage rate and the exchange rate. That is to say, there is no point in discussing the exchange rate in relation to the cost of living. In any case, there is no particular sanctity in the level of real wages which prevailed in 1938. When the productivity of labour increases all those who work have a "right" to share in the increase. There is no moral or economic reason as to why the level of real wages should be limited to that of 1938.

However, I think most people will agree that in recent years the rupee has been undervalued rather than overvalued. Now undervaluation of a currency, particularly for a country like Ceylon, means a direct transfer of wealth from the fixed income groups to the others who live on profits. Are there any reasons for justifying such a transfer? It could be argued that undervaluation by transferring wealth from the spending to the saving classes increases the total savings of the country and that this is necessary for economic development. Secondly, though the rupee is undervalued just now it would be overvalued when depression comes; then, as a result of the rigidity of wages, production for export will have to be curtailed—so that rather than undergo the risk of having to devalue the rupee when prices are down it is best not to revalue the rupee at all just now.

Taking the first argument, how far is it true to say that increasing the incomes of the rich in Ceylon leads to an increase of savings? In 1950 exporters received a fairly high level of income and we had a favourable surplus in the balance of payments of about Rs. 150 million. But we must not assume that if import and export prices remain at the 1950 level, we will continue to have the same surplus; for increased expenditure tends to lag behind increased incomes, so that if 1950 prices remain our surplus may become less and less year by year. Financial prudence, as far as spending on consumption goods and luxuries is concerned has never been one of our national characteristics; in fact, it is, I think true to say that we Ceylonese are born to be broke. That being so, though normally a persistent and excessive surplus in the balance of payments is the surest indication of the existence of undervaluation, it would be erroneous to apply this standard too simply to Ceylon. We may, *prima facie*, expect a surplus in the balance of payment to arise with devaluation, but a very big undervaluation may give rise only to a very small surplus.

In any case, it would be definitely hard judgement to assume that increasing the incomes of the richest section of the Ceylon population is a sure way of increasing investment. Though in recent years the incomes of capitalists have been quite high and though we have considerable domestic and foreign savings, the volume of net new investment has been quite small. These high incomes are at present being used mainly to finance a high level of consumption of luxury goods, or to pay fabulous prices for the purchase of existing enterprises from foreigners. In fact, it is becoming increasingly apparent that there is not in Ceylon sufficient private enterprise on which we can rely to bring about rapid economic development.

The second argument, that the Ceylon rupee was not really undervalued, was based on the expectation of depression. But is it good commonsense to expect a world-wide depression under present circumstances? As long as the Cold War lasts there will be an armaments race, and as long as Western Europe and the U.S continue to spend vast sums of money on armaments there can never be depression. And who can say when the cold war will end? Either the cold war will lead to actual war, or it will continue in the form of an armaments race; and this means immense continuous government expenditure, for armaments get obsolete and out-of-date very soon.

The fact is that the present boom is not an ordinary trade boom like the one between 1926 and 1929. A trade boom cannot go on for ever under conditions of private enterprise; we

cannot assume with any certainty that a boom which is the result of continuous government expenditures on armaments cannot go on for ever. The theory of probability tells us that in calculations of the future we should assume the present circumstance to continue as long as we have no good reason for believing otherwise and the present set of circumstances certainly do not entitle us to expect a depression. Academic economics of recent times has taught us to be terribly frightened of depressions, but "the law of the inevitability of depressions" should not blind us too completely to the realities of our present circumstances.

If boom conditions continue, the undervaluation of the rupee will continue, with the consequent transfer of real income from the fixed income groups to the richer section of the population. It can, of course, be argued that if the undervaluation continues long enough in relation to wages and salaries, wages and salaries will, in the long-run, rise, till the disadvantage of the fixed income group will be removed. But this is likely to be a long and painful process. Keynes once said that in the long run we will all be dead, and never was this more than true today. General changes of the price level cause considerable injustice, for though all prices may move in the same direction they may not all move in the same proportion and at the same speed. The most simple and fair method by which such adjustments could be brought about is revaluation.

The measure of under or over-valuation is not capable of precise calculation; but I have suggested that the relationship of the level of export prices to the level of money wages and salaries as being perhaps the best indication of what the equilibrium rate ought to be. A crude examination of this relationship seemed to indicate that the rupee was at present undervalued by anything between 30 and 50 per cent. A revaluation by anything more than 30 per cent would be considered to be too sensational to be practicable under present circumstances, so we might as well forget about the possibility. However, a 30% revaluation would probably be too much on the conservative side, but I suppose those with fixed incomes will be thankful for even small mercies.

Now, a revaluation of 30%, even if it is a correct measure of the exact undervaluation of the rupee now in terms of the conditions which prevailed, say, in 1938, is not the same thing as maintaining the same level of profit for exporters as that which prevailed in 1938—we are only trying to maintain the same relationship between wages and prices and since both have risen by about four times the level of profits would also be about four times the 1938 level. Further, a 30% revaluation will not bring

about the same rate for the U.S. dollar as that which prevailed before devaluation; to come back to the old rate revaluation of the Ceylon rupee would have to be of the order of 44%.

It is necessary to consider the effect of a revaluation of 30% on Ceylon's balance of payments situation as a whole. It should be noted that due to the high inelasticity of supply of export goods in the short run, whatever we may do to the external value of the rupee the international prices of our exports and hence the total volume of foreign currencies earned, will be the same; and since our demand for imports is so small compared to their total production in foreign countries variations in our demand for imports will not alter their international prices. The revaluation will therefore not affect one bit of our total earnings of foreign exchange; but it will affect the level of national money income in terms of the revalued rupee and the pattern of distribution of the national income, which in turn will have its effects on the volume and pattern of expenditure of foreign exchange on imports. In the most favourable case, as regards the balance of payments problem, revaluation would result in those with fixed incomes not increasing their consumption of imports in terms of foreign currencies, while exporters, as their incomes have fallen by more than 30% in terms of the rupee, will reduce their consumption of imports in terms of foreign currencies. In this case the balance of payments might even produce a bigger surplus than in 1950; this situation is an unlikely one, but it is not impossible. Or it may be that fixed income groups will increase their consumption of imported goods as their real incomes have increased and that this will offset exactly the reduction by exporters of consumption of imports as their real income has decreased. In this case the 1950 foreign surplus will continue. (It should be noted that variations in the exchange rate cannot by themselves alter the total national real income, if there is no change in employment of resources before and after such variations).

In the most unfavourable case the exporters will not reduce their consumption of imports and will therefore be saving less, while those with fixed incomes will increase their consumption of imports by the whole amount of the increase in their incomes in terms of foreign currencies. This, of course, does not mean that total imports will increase by 30% in terms of foreign currencies, for those with fixed incomes only form a part of the community that consume imported goods; it is unlikely that total imports will increase by more than 15%, if as much as that.

Taking the 1950 balance of payments figures, a revaluation of 30% will reduce export receipts to about Rs. 1100 million, while imports will be reduced by 15%, and they would fall to

about Rs. 975 million, leaving a surplus in the balance of trade of about Rs. 125 million. This does not mean that the surplus of Rs. 150 million in the balance of payments of 1950 will turn into a deficit, for revaluation will reduce foreign expenditure on invisible imports on other items in the balance of payments. On interests and dividends on foreign investments, Ceylon paid about Rs. 75 million in 1950. Revaluation, by bringing down the price of exports by 30%, while costs more or less remain fixed, must bring down profits by more than 30%; so that payments as profits and dividends can be expected to decline to about Rs. 30 million. Private remittances also totalled about Rs. 75 million. These private remittances are made to their relatives by foreigners normally engaged in business in Ceylon and remittances so made may be solely dependent on the remitter's budget, or, on the other hand, solely dependent on the beneficiaries' needs. So that on both counts we should expect a decline in private remittances in terms of the revalued rupee; the figure may come to be about Rs. 45 million. Further, the Government expenditure of Rs. 31 million and the miscellaneous expenditure of Rs. 54 million may reasonably be expected to decline by about 30% in view of the cheapening of foreign exchange. The same would be true as regards payments for transportation and insurance. In 1950, about Rs. 41 million went out as expenditure on foreign travel, and if the same amount of foreign travel is maintained after revaluation the expenditure will be less by 30% in terms of the rupee; but on the other hand, cheapening of foreign travel in terms of rupees may lead to more foreign travel; or, even, the decrease of incomes in terms of rupees might decrease the amount of foreign travel below the 1950 level. But, in any case, it must be pointed out that the actual loss of foreign exchange due to tourist expenditure abroad is much less than the actual figure would indicate; for tourist expenditure abroad is partly offset by a decrease in the demand for foreign exchange arising from commodity imports.

Taken all in all a revaluation is likely to reduce the deficit on invisible items from the Rs. 160 million in 1950 to about Rs. 90 million. So that a revaluation of 30% is not likely to lead to difficulties in the balance of payments. And this is likely to be more true as we have based this analysis on the most pessimistic alternative possible—that exporters will not reduce consumption, while fixed incomes groups will increase their consumption of imports by 30% in terms of foreign exchange.

This conclusion is in perfect agreement with our earlier theoretical analysis. We then argued that in boom conditions a favourable balance of payments was likely to develop both

because the terms of trade would become favourable and because there would be a transference of wealth in favour of the saving classes. What a revaluation is intended to do is to minimise this transfer of wealth; but the favourable terms of trade will continue to exist its influence towards the creation of a foreign surplus.

The Budget Debate

N. K. SARKAR

Both the Government and the Opposition conducted the Budget Debate this year with an eye on the coming general election. The Budget Speech of the Finance Minister dealt more with the achievements of the government than the current plan of governmental income and expenditure. He made the Statistics Department produce hurriedly, two reports for the purpose of providing him with the necessary data to support his conclusions. Unfortunately both these reports were so hastily compiled that most of the conclusions that the Finance Minister drew from them could not survive the criticism of the opposition. For example, the Finance Minister made the claim that the average income of a rural family had gone up from Rs. 20 to Rs. 93 during the last ten years. The opposition members were quick to point out the inadequacy of the arithmetic average in representing a heterogeneous set of data where the income range varied from Rs. 10 to Rs. 500 and above. They pointed out also the threefold rise in prices which reduced the value of money income in real terms. The claim that the national income had gone up was also challenged. The Government claimed the fall in death rate as an indication of the sign of prosperity: the opposition would rather give the credit for the fall in death rate to recent advances in drugs and pointed out the increase in suicides and incidence of tuberculosis as indications of the growing social stress and lowering vitality. The Minister of Commerce quoted the Engels law of consumption to prove that a greater proportionate expenditure on items other than food indicated a higher standard of living for the rural population. The Opposition did not get a chance to reply to this claim, the Commerce Minister being the last speaker; if they could they might have pointed out that the Engels law did not hold good in this case because the prices did not remain constant, which is an important assumption behind the validity of the Engels law. The Government maintained that the output had increased during the last ten years. The Opposition regarded the rise to be insignificant in view of the tremendous rise in prices. They further pointed out that the rural landlessness and underemployment showed no signs of decline in spite of the boom conditions prevailing today. The Government pointed out the decrease in the proportion of indebted families in rural areas as an indication of better conditions: the Opposition pointed out that a turnover of debt and not absence of debt is the indicator of progressive agriculture. A beggar is free of debt because nobody lends him.

In despair the Minister of Commerce said: "Let us forget these figures and these statistics.....the visual evidence is stronger

than anything else. Do the peasants not look more cheerful today...?" (Hansard, p. 1704, 25th July, 1951).

Progressive Public Finance

The Government claimed the tax structure and the expenditure pattern to be progressive. Progressive in this context is defined as (a) a higher proportion of direct tax to indirect tax; (b) a tax rate levied in proportion to a person's ability to pay the tax; (c) transference of wealth from the rich to the poor.

A direct tax is defined as a tax the incidence of which cannot be shifted so that the tax is paid by the person on whom it is levied. The direct taxes are regarded as progressive because the rate of taxation can be graduated according to income. It is difficult, however, to find a tax, the incidence of which cannot be shifted even partially. For example, even the income tax which is regarded as the best example of direct tax, may reduce incentive and thus affect production and investment adversely and under certain conditions, this may lead to a rise in price and the consumers may be made to pay the tax. It is more common, therefore, to judge the nature of a tax, not by its incidence but by its effect on production and distribution of wealth.

The import duty judged by this criterion may be progressive if levied on luxuries used by the wealthier classes. The reduction of duty on many luxury imports, especially on bigger cars, must, therefore, be regarded as a retrograde step. It was a backward step from the point of view of production also. For a free import of these luxuries is a drain on our scarce foreign currency resources. A nation that is anxious to develop industries quickly must exercise the greatest possible stringency and economy in the use of its foreign assets and use the foreign currency resources only for buying capital goods and essential consumption goods. Secondly, it destroyed whatever incentive the scarcity in the consumers goods produced in the minds of the Ceylonese enterprise for undertaking production. The Ceylonese enterprise is shy today and needs assurance and encouragement. The flood of consumer's goods from abroad has crushed the hope of having Ceylonese enterprise completely.

It is surprising to find an important opposition leader advocating a policy of withdrawal of import and exchange control. A policy of free import of manufactured goods and export of capital can suit the interest only of those classes whose economic stake is put on the maintenance of the present system of colonial economy. For the profit that they make from the estates will mean much more in terms of goods if free imports are allowed.

A country that is struggling hard to develop its own industries cannot but look with great concern at the policy of free imports of goods and export of capital.

The Ceylonese capital which was coming cautiously and slowly perhaps, into the field of trade has been rudely thrown out by this policy of free imports of goods and export of capital and the entire field of trade has been thrown open to foreign capital and enterprise. The field of trade has been the monopolistic preserve of foreign enterprise, many of whom have become notorious for sharp monopolistic practices. The few Ceylonese firms who were struggling hard against heavy odds to preserve themselves will now be swept away and the field left to the foreigners once again.

The argument the government advanced was that free import would lower down the cost of living. Had the government been serious about this argument then they would have lowered or abolished the duty or even introduced state trade only in those goods which enter into the working class and lower middle class family budgets. In reality what the government was anxious about was not the lowering of the cost of living of these classes but of the richer classes who had grown richer by inflation generated by devaluation and armament race of the Western Nations. Having grown richer in terms of money, it became necessary to make them richer in terms of goods as well and hence the withdrawal of import restrictions and lowering of duty on luxury articles.

The same leader of the left was glad because the exchange control was being relaxed. The Finance Minister argued that the exchange control was introduced to prevent the balance of payment becoming unfavourable to Ceylon. Since Ceylon had accumulated a large foreign balance and the likelihood of the balance suddenly becoming unfavourable was small, the exchange control became unnecessary. An argument like this suits those who are not at all anxious to transform the colonial economy into a national economy. For in an underdeveloped country, the rare good fortune of having a favourable balance of payments and a fund of foreign assets, should be immediately seized upon to utilise the assets to buy capital equipment and technical assistance for rapid transformation of the country. In case the technical assistance and the capital goods are not available immediately, the foreign assets should be allowed to pile up so that when they become available want of funds may not prevent their procurement. What justification is there for a country that constantly bewails of capital shortage and begs foreign capital to come and help her out, to squander away the little foreign assets that she has and to allow capital to quit? The

purpose of exchange control in an underdeveloped country, is not to produce a favourable balance of payments for its own sake but to use such balance for the much more vital end of developing the country. Exchange control must be regarded as vital for planning economic development in an underdeveloped country.

Export Duty

The Minister of Commerce claimed the export duty in Ceylon to be a direct tax. It is true that in a small country the export duty is paid by the exporters. For the world price cannot be influenced by the country's price, so that the duty cannot be shifted on to the importing country. Under certain conditions, however, the export duty can be shifted on to the buyers even by small producing countries. For example, if the demand for the product is inelastic as happens when the world demand is greater than the world supply at the world price, the export duty may be shifted on to the buying country in the form of a higher price. This is exactly the situation today. The present world demand for our products is much higher than the available world supply. But the price is artificially kept down by the monopsony (i.e., monopoly of the buyers) of the Anglo-American block. The duty can easily be shifted and even a better price obtained, if we show a little less subordination to the dictates and threats of the Anglo-American monopsony.

Assuming our servility to the Anglo-American block to exceed our own self-interest and the international demand as a result to be elastic, the export duty may be regarded as a form of direct tax, in the sense that the producing country will have to pay the duty. It cannot, however, be regarded a progressive tax. For the incidence will not fall in proportion to the ability to pay. The small producer will be made to pay the duty at the same rate as the big producer and a part of the duty at least will be shifted on to the workers.

Thus a tax structure that has the export duty and the import duty in their present form, as its main pillars cannot be regarded as progressive. It must be admitted, however, that the progressive content in the tax structure has increased today than what it was ten years ago.

The progressive content is more noticeable on the expenditure side where 40 per cent of the expenditure is spent on social services. For a country based on a colonial economy this is a high figure. It has been possible to maintain it because of the fortuitous good fortune of the post-war boom. It is very doubtful how far we shall be able to maintain it if more difficult times are to come.

Inflation and Development

A number of false alternatives were formulated both by the Government and by a number of speakers on the Opposition. The first of these argued in length by an opposition speaker, maintained that the Government should have reduced expenditure during the boom and built up a reserve which could be drawn upon to stimulate investment and production during the depression. This was a lesson learned from the Keynesian school. The government benches were quick to point out that the question of economic development and social progress was equally important and the Government was steering a middle course between the two objectives.

As a matter of fact, neither the Keynesian presumption of the opposition speaker nor the middle course of the Government is applicable to the conditions of a backward country trying to increase its productive power by conscious effort. The Keynesian remedies are called for in that stage of capitalism when it reaches a state of atrophy through the monopolistic stranglehold of finance capital, so that the system can be made to work only through artificial stimulus of state investment. State investment is advocated by the Keynesians to drag the system out of stagnation. Ceylon surely has not reached that state of atrophy and stagnation in capitalistic development. An underdeveloped country with its large unemployed and underemployed resources and men need not be afraid of a depression, provided of course, the tempo of investment and capital development is kept at a high ritch. Such large scale development work will keep employment high so that income will continually rise. This rise in money income may, in the initial stages, create a threat of inflation because of the inevitable time lag between investment and output of consumers goods. The threat of inflation can be successfully met by proper fiscal and financial measures. The rise in income will provide the necessary funds for further expansion.

The government side propounded another false alternative between improving standard of living and social services and capital development. They maintained that an increase in the rate of capital development could be achieved only by decreasing the expenditure on social services and considerably lowering down the standard of living of the people. They cited the example of Soviet Russia where, they said, the rapid expansion was made possible by forcing down the standard of living of the people. This argument is fallacious and the example cited is not true. The standard of living of the majority of the Soviet people never showed a falling trend. Though, perhaps, a small handful of upper class landlords and *kulaks* suffered much. (See Maurice Dobb—The Economic Development of the U.S.S.R.). In any

case from a theoretical point of view also the argument is fallacious. It is true that the upper classes may have to forego their luxuries and comforts but there is no reason why the masses should suffer any diminution in their standard of living. All that we have to do at the start is to utilise all our available foreign assets to buy essential commodities and capital goods only. As the unemployed resources and men are employed and the underemployed men are better employed and the national output will rise making it possible to pay the men better so that their standard of living will improve.

The opposition member and the government had fallen into the fallacy by adopting a static attitude to the entire question. Once we start industrialisation at a high tempo, the national income generated thereby will increase cumulatively, so that the supply of funds for further development and expansion of social services will not become scarce.

The decisive question, therefore, is to start capital development at a *high tempo*. The capital development that the government has so far undertaken is of such a meagre quantity that it could not bring about any significant change into the situation and did not succeed in releasing those forces that would have made further development easy. On the contrary, the natural inertia of the present situation smothered the weak and half-hearted efforts that the government was making.

The success or the failure of a Government in Ceylon, therefore, must be judged not by its success in raising the rural income by a few rupees, or by spending a few rupees more on social services, or on building a reserve for bad times, etc. etc., but by a much more fundamental criterion, namely, by the degree of transformation of the economy from a colonial to a "national economy"—to use a term coined by the Finance Minister himself, from an undiversified agricultural economy to a diversified balanced economy, from an economy, of unemployed and underemployed men and resources and waste to an economy of best utilisation of resources both human and material.

Gal Oya Scheme — Facts and Fallacies

R. KAHAWITA

To a Politician, anything and everything can be an excuse for vituperation against a Government, a political leader's policy or, as a matter of fact, against anything under the sun on which he is the least qualified to speak. The Gal Oya Project has been made use of for such a purpose not because it has any inherently weak or bad points, but merely because it is not in keeping with the political views of some individuals. In a well "planned" article entitled "*The Gal Oya Project and the Crisis of Agriculture*", a vehement attack has been made on the present Government of the Country. However, the statements marshalled largely against the Government and in a very small way against the scheme itself do not stand analysis, nor are they supported by facts. In the ensuing article facts regards the scheme and its contribution to agriculture are discussed from the point of view of a designer engineer. Thus, I may stray into territory outside the Scheme itself, but it is necessary to do so in order to expose the current fallacies about irrigation, agriculture and the present agricultural policy of Ceylon.

To the present generation Gal Oya Scheme is the largest engineering work undertaken by a Government or by any private enterprise in Ceylon. The so called Imperialist Plantation economy peters into insignificance compared with the Gal Oya Scheme and its immense possibilities. Hence, if it ever becomes a house-hold word, the country must be excused. Right or wrong it remains so far the greatest national undertaking in our time. There are people who take a pride in the doings of Soviet Russia. This is a privilege of the individual. Likewise, it is a privilege of a national of this country to take a pride in what he has contributed to achieve. Hence if Gal Oya becomes a house-hold word it is not because of a Premier or a party but because of the people who put the Premier or party in control of their affairs and to guide them.

No claim is made to place Gal Oya Project as one of the biggest engineering undertakings in the world. In fact it is smaller than the smallest reservoir in the T.V.A. system in the U.S.A. But to us in Ceylon it is the largest engineering project to have been undertaken in the country. Therefore, to carry out a scheme of this magnitude, the Government has had to get the assistance of people experienced in this class of work. The Americans were selected not because of their capacity for exploitation but due to the tremendous advancement that country has made in engineering and they know how of Dam building Selection

of the Americans to build Gal Oya should not by any stretch of imagination be taken to mean that Soviet Russia lags behind America in Technological advancement. In reality it may be so but that was not the reason for the Americans to be in charge of the construction of Gal Oya Scheme.

Multiple Uses of Gal Oya

Gal Oya is considered a multi-purpose scheme because its benefits to the community are manifold. The Scheme as designed will impound the entire flow from a drainage area of 380 sq. miles. The water so stored can be used—(a) for irrigating 120,000 acres; (b) for generating 9,000 K. W. of electric power while passing the water for irrigation; (c) for the supply of domestic water to a town of about 30,000 persons; (d) and to accommodate a peak flood which otherwise would cause havoc in the lower basin. The vast sheet of water impounded behind the dam will offer facilities to breed fresh water fish to supplement the deficit diet of the present population. It will also provide recreational facilities such as boating, swimming and fishing. With such attractions it will be possible to build up a very lucrative tourist trade. These are its multi-purpose aspects and the reasons to call it so.

From a national point of view these are not very significant. What is of foremost importance to the country is that the Project will resettle and reclaim to the nation a population of 200,000 persons. They are today vassals of land grabbers; tomorrow they will be independent citizens with an assured income and a future which their fathers never dreamt was possible. The scheme has not been undertaken for the benefit of the "present Government or the American exploiters" or the Communists. It is meant for the regeneration of these 200,000 souls, irrespective of caste, creed or politics. There may be "exploitation, administrative waste, inefficiency and corruption associated with the execution of the Project, but that does not reduce the value of Gal Oya to redeem the country from economic bondage. Even through the morass of ignorant criticism and human jealousy, the Scheme will rise up to help the people for whom it has been planned and executed.

We all believe that Ancient Ceylon was the most powerful and the most prosperous; that it exported its surplus rice whereas the "Twentieth Century Ceylon" imports two thirds of its requirements. It is a good story to believe but the fact remains that the common man in ancient Ceylon did not have a full diet of rice. He ate more nutritious food, the produce of his highland cultivation. Whatever rice he cultivated was marketed because rice was the only money crop in ancient Ceylon. The

army was paid in rice, the artisans who worked on the stupendous temples and gigantic irrigation works were paid in rice, taxes were collected in rice, in the market place goods changed hand with rice as the medium of exchange and imports were paid for in rice. Hence the legend that there was a surplus—there was a surplus, not after feeding the common man on rice but after allowing for internal exchange. As time went on, rice was replaced by a currency as we understand it today; so instead of exchanging the rice, people began to eat it and that is how the modern problem came by. Rice which was the money crop, was replaced by others which fact has by no means impoverished the country but changed the mode of living of the people. It is not a symbol of "the crisis of Agriculture." It is a symbol of the change over from subsistence to economic agriculture.

The failure or the success of an Agricultural System or policy can only be judged by results and not by platform oratory. In Ceylon rice cultivation is synonymous with irrigation. The present Irrigation Policy and agricultural settlement were started some twenty years ago and as was to be expected, these activities were largely centred in the "Dry Zone." It is called the dry zone not because it has no rain but because the rains are concentrated into about 90 days in the year leaving the rest of the year dry. No doubt the rainfall is heavy but it comes in one large dose in a very short period. Under these conditions, agriculture is not profitable unless irrigation is provided during the dry 9 months of the year.

Rainfall is not the only requirement for profitable agriculture; there are other factors as important as rainfall for successful cultivation of crops. The landing of a Prince or the nurturing of another will not make the arid zones wet. It remains as nature has deemed it to be and it is for man to devise ways and means to get the better of Nature. That is what the present irrigation policy aims at. California may have less rain than the landing place of Vijaya and Palestine even less but Ceylon and these places are not similarly placed terresterially. Therein lies the difference which has made a number of things possible in these areas that are not possible in Ceylon.

In a changing world economy, subsistence Agriculture has given way to industrial or economic crops. In spite of Imperialist exploitation the country and its people have advanced entirely due to such crops viz., coffee, coconut, tea and rubber. In attaining the present position among the free nations of the world we have lost much and suffered a great deal. Not only the foreign imperialists but the local variety also must take the

blame for the sufferings and the losses. Every person of consequence in Ceylon today has gained and benefitted by such exploitation.

Since 1931 the Government has been carrying on a relentless struggle to reclaim the areas "our forefathers had inhabited and cultivated without the benefits of modern scientific discoveries or technological achievements." There were three difficulties in pushing ahead with this policy—(a) Malaria, (b) Reluctance of would be colonists to settle in unknown territories, (c) Lack of irrigation facilities and civic amenities. In spite of these draw backs the struggle was continued until the ancient schemes of N. C. P. were repaired and restored, Malaria conquered and the jungles made habitable. It may be that the "Colossal expense has failed to make any appreciable change in agriculture, irrigation or food production." But the test lies not in vague surmises but in facts. The success or failure of these schemes can only be judged by whether it has been possible to settle any people in the reclaimed areas or not, whether agriculture, irrigation and food production have failed or not will be reflected in the growth of the population in these areas, for it is plain that a new population will not settle in an area where there is no food, no employment and not healthy. If the conditions are inimical to a settled and beneficial life the population will migrate into better environment. Whether this has happened or not in the case of the Dry Zone where the present Government is spending millions of rupees can best be judged by the movement of population into these areas.

A very comprehensive census of the Ceylon population was taken in 1946 and a report entitled "Census of Ceylon 1946" was published in 1950. This report states under N. C. P. "At the Census of 1946, it returned a population of 139,534 as against a population of 97,365 of 1931. The numerical increase of 42,169 which occurred in the intercensal period represents a percentage increase of 43.3, *the highest record for any province in the Island*. The increase may be regarded as the measure of the success which has attended the efforts made since 1931 to regain the historic Raja Rata. An examination of vital statistics reveals that the natural increase in the population of the province could account for only 4,733 persons, and *that the balance* gain of 37,436 persons must be assigned to an unusually great inflow of immigrants into the province. That this inflow of immigrants had been attracted by the colonization and irrigation schemes completed or projected within the 15 years period 1931 - 1946 is evident from the fact that a numerical increase of 12,902 representing a percentage increase of 163.2 within this period has taken place in Tamankaduwa where

most of these schemes were undertaken." No other proof is necessary to establish the success of the present irrigation schemes.

This success was achieved from revenue collected from the "Imperial vested interests." There is no support for such vested interests by the present Government but what it is doing, which many overlook, is to get such interests to finance the works of reconstructing our country by a wise and far reaching fiscal policy. It is all the more laudable because such reconstruction is directly intended to regenerate the millions that were trodden down under an earlier regime.

Floods are not entirely due the denudation of forest cover of the higher elevation. This theory has been flogged to death half a century ago. Floods are due to a combination of other causes over which man has so far found no remedy or control. All that he can do is to protect himself against the ravages of floods. As such the value of efforts that should be put into safeguard against floods becomes one of economics. The method of protecting will depend on the interests to be protected. A town threatened by floods cannot be protected permanently in the same way as agricultural lands are protected. These differences often cause confusion and even the opinion of an expert taken out of the context of a report is liable to be misleading.

The launching of Gal Oya Scheme which had been under contemplation since 1937 was undertaken not to crown a series of failures but to meet the dire demand for more land to settle the ever increasing population and to produce more food.

The investigation of a scheme to impound the waters of Gal Oya was started in 1937. These investigations included the measurement of river flow at various points, establishment of rain gauge stations in the basin, the study of sites most suitable for a dam and geological investigation of Dam sites. These investigations were concluded in 1939 and a preliminary report was prepared and submitted to Government by the Irrigation Department. This report, besides the main irrigation features of a reservoir, indicated the possibilities of developing the site for power generation and regulation of river flow below the Dam. These multiple purposes were taken up for further investigations and a scheme to exploit the full potentialities of the site to the advantage of the community was formulated. It recommended the construction of a reservoir to impound 775,000 acre feet of water, out of which 200,000 acre feet would be reserved for river flow regulation or flood protection and the installation of 4 hydro power units each capable of developing 3000 H. P.

Designs on these lines were completed by the Irrigation Department and a forecast of expenditure was also prepared in 1946.

At this stage it was felt that the proposals, designs and estimates prepared by the Designs Engineer of the Department should be submitted to an expert for his views and comments. While the Government was considering the aspect of engaging a Consultant, Dr. J. L. Savage, the architect and master of the world's highest Dam—Boulder Dam in Nevada, U.S.A.—happened to be in the East on a consulting mission to India and Australia. Advantage of his presence was taken by the Government to vet the proposals of the Irrigation Department for the development of the Gal Oya Basin and another—the Welawe Scheme. Accordingly, he was invited to advise the Government on the two schemes. He arrived in Ceylon on 3. 3. 47, and spent two weeks inspecting the sites, and studying the investigation reports and plans prepared by the Designs Engineer of the Irrigation Department. At the conclusion of his studies he stated—“The possibilities in Ceylon for dual purpose dams, in fact for multipurpose dams and other hydro development projects are believed to be considerable and important. This conclusion is predicated on my study of assembled data and examination on the ground of the proposed sites of Walawe and Gal Oya Reservoirs projects; also on my observations of various other river systems, agricultural areas, tea estates, coastal plains and the lagoons, while inspecting various parts of Ceylon. Although the project sites are not ideal they are most suitable in all important respects for construction of the proposed projects.”

Gal Oya being the first undertaking of this kind by the Irrigation Dept., he further recommended that it would be most advisable to have the designs checked and complete specifications prepared by an organisation which has accumulated experience in this class of work, over a number of years. Accordingly the Designs Engineer of the Irrigation Department was deputed to visit the States and have the plans and specifications finalised under the guidance of Dr. Savage. This is how the Americans got into the picture. They were not responsible for the designs nor did they come to exploit the country as some people imagine.

The water shed of Gal Oya has 380 square miles at the Dam site. It covers the entire revenue division of Wellassa with Bibile as the focal point; and according to the census report of 1946 there is a settled population of 25,522 persons. The Western boundry of the area is the Eastern slopes of Madulsima

Hills. The total area permanently developed is estimated at 10,400 acres distributed as under:—

| | |
|-----------------------------------|------------------|
| (1) Terraced paddy fields | 3000 acres. |
| (2) Garden lands | 2100 „ |
| (3) Chena | 2000 „ |
| (4) Urban land developed areas | 700 „ |
| (5) Permanent crops—Estates | 2200 „ |
| (6) Public utilities—roads, paths | 400 „ |
| | Total... 10400 „ |

This represents about 6% of the catchment area of 380 sq. miles. The balance 94% is under forest, patna, park lands, rocks and “recovered chena.” With such a large extent of the watershed under vegetative cover the sceptics who foresee doom for the scheme should be converted.

The lower reaches of Gal Oya, called Pattipola Aru, as it enters the plains, flows through a most fertile valley in the Eastern coast. This area has been famous for its paddy crops right down to the legendary period of Ceylon's history. This pride of place had been maintained right up to the present day. Even after years of neglect during which period the N. C. P. went back into jungle, Pattipola Aru, basin maintained its prosperity. For in 1872, one of the visiting Governors recorded: “In the month of the April, I visited the rice growing regions of the Eastern Province. I never before saw such an unbroken sheet of grain save where some isolated trees, part of a recent forest, broke the view, the eye wandered over 20,000 acres of paddy.” Therefore, it is no small wonder why the present Government decided to “launch this project when they did.” It was undertaken not as a super scheme but as a scheme that would give the greatest good to the community for the money expended. Here is an area steeped with tradition as the best rice growing district in Ceylon. Here is a river which once tamed and trained can not only benefit the vast area under cultivation now, but also bring three times that area under cultivation later. Here is an area awaiting development without upsetting the settled economy of the country. These were the reasons for undertaking Gal Oya Scheme first in preference to other projects for which blue prints are ready.

In the development of a country it is a judicious policy to develop those areas that can be developed without upsetting its established economy. Because by so doing the developed areas can finance the undeveloped areas. If the process is changed just because “imperialist plantations predominate” in the developed areas we would, in truth, be killing the goose before it laid the golden egg or any egg at all.

It is a fallacy to state that the water resources of a river can be maintained only by re-afforestation or that soil erosion can be prevented by a similar expedient. From whatever source that this advice may come it is not correct. For conserving a river basin, all that is required is about 25% of forest cover which must be located along river banks, areas that are too steep for cultivation, and other such vulnerable areas. Rest of the water shed can be under cultivation provided improved methods and soil conservation are adopted. Sometimes purpose of a reservoir gets confused when recommending catchment protection works. A reservoir meant for a domestic water supply requires different treatment to that meant for an irrigation supply.

It may be that in adopting certain protective measures or as a result of impounding a large sheet of water, some inhabitants in the foreshore of the Lake would have to be moved. This is all to the good of the inhabitants. They will be settled in better environment and with greater chances of improving their economic conditions. The progress of man has been marked with such movements and cannot be avoided.

The life of a Reservoir is the period it takes to silt up completely. The silt to fill the reservoir must be brought by the rivers that flow into it. The rivers are fed by the silt or sand that gets dislodged during rains or flow of water caused by such rains and carried in suspension or as a rolling mass. There are two types of soil erosion. Sheet erosion and Gully erosion. The former is caused by a filament of water flowing over the land surface. Such flow can only accommodate the finest particles of silt carried in suspension. This kind of flow does not confine itself into definite channels, flow and erosion takes place over the entire surface. Gully erosion takes place along unprotected stream banks, animal trails, foot and cart tracks, land slides, fires and other disturbances which will expose the soil to washing. Erosion exists in any kind of land but it does not mean that all the disturbed soil will find its way to the river system and thence to the reservoir.

The transporting power of a river depends on the velocity. In steep country the velocities are high so the stream can carry a high content of silt and large particles. But as the river enters the plain the transporting power is diminished and the silt content is reduced. Very little of the sheet erosion finds its way to the river system, nearly 90% of such silt being held back on the land at various points in the journey of water to the river.

Gal Oya catchment with only about 6% of its area under all forms of development offers the greatest protection against silting. As the basin stands, there is no danger of the reservoir

silting in 20 years. Nevertheless it would be a very wise policy to control development of the basin so that better land management can be enforced on the people settled in the basin. This, in fact, is what is meant by conserving the catchment, and in doing so the people will have to change their agricultural practices, which in turn will enable them to improve their economic condition.

In studying the probability of a reservoir silting up there is one principal criterion used by engineers. It is called the capacity water shed ratio. It is the capacity of the reservoir to a unit of the water shed. The larger ratio the longer will be the life of the reservoir; inversely smaller the ratio shorter the life. In other words, if a small capacity reservoir has a very large catchment the chances are that the reservoir will silt up in a short period and vice versa. In the case of Gal Oya the capacity is 775,000 acre feet and the catchment is 380 sq. miles. The capacity ratio is 2,300. As this ratio is large it will be generations before the reservoir can get silted up. To explain this ratio further, it means that nearly 42 inches of soil must be washed away over the entire catchment of 380 sq. miles before the reservoir can get completely silted up or before it can be said that "the reservoir has failed to fulfil its object."

In the design and the estimate of the useful life of the reservoir a "dead storage" is always allowed for and according to the physical measurement of silt transported in the river, this estimated period for the "dead storage" to be really dead, is 400 years. From studies based on observations of similar schemes the country need not fear this tragedy—a silt plain where Gal Oya existed. Minneriya is 1700 years old and still going strong.

A river can be developed at a number of points, each stream can be developed individually, or several streams of the parent river treated as one unit or the parent river itself developed. For all these ways there is an optimum point at which a river can be developed most economically and to give the maximum benefit. Several schemes on a river mean several structures and a multiplicity of problems to tackle which will make the schemes uneconomic. When the development of a river is considered for multiple purpose, the most favourable point of development is where the river enters the plains. Here, apart from other factors, a mile of channel can command more acres than in the sub-montane regions. In the case of Gal Oya the ideal point for multiple development is Inginiyagala. This site was selected not in conspiracy with the American experts and the "satellite Gal Oya Board."—it was selected long before they entered the

scheme of things because there was no other site better located in the Gal Oya basin for multiple development.

The Development of Gal Oya at Inginiyagala is not complete without the development of its tributaries that join it below the Dam. There are three major streams—Pallang Oya being one. Three smaller reservoirs are proposed across these tributaries as a part of the development programme. Such development will enable to meet future demands for power and also expand the irrigable extent. With these reservoirs the area under Gal Oya will be taken to Heda Oya across which another Dam is contemplated. Kubbukkan Oya is outside the reach of Gal Oya Development.

The object of Gal Oya Reservoir is not "to eliminate a historic river" but to put it to greater use for the inhabitants of the district. There is no such thing as a "Senanayake American scheme." Gal Oya Scheme is a national undertaking conceived and shaped by the nationals of the country. There are a number of ancient works in ruin in and around Gal Oya. This is inevitable in a region famous for its rice even in the days gone by. However it does not mean that every one of them should be restored or that all of them are sound engineering jobs even when considered in the context of present day advancement in technology and engineering knowledge. They were sound at the time they were conceived and constructed but considering the distance man has travelled since then in search for knowledge, makes them unworthy of his attention now. Some of the old schemes were studied to see to what extent they could be restored to meet the present day requirements and it was after such an analysis of objectives that the Inginiyagala site for the harnessing of Gal Oya was chosen.

The ancient and fertile rice valley of Pattipola Aru was menaced annually by floods. It was due to two causes—the heavy rains in the upper catchment, and man made obstructions across a river's right of way to the sea. These obstruction over centuries have caused the river bed to rise above the surrounding area and establish a number of river courses. Such interference by man has aggravated flood conditions to the detriment of his cultivations. The solution to this was to hold back as much of the flood water that came from the upper reaches in a reservoir and pass it back into the river when the flow in the lower reaches has subsided. When flood relief was considered it was apparent that with such a scheme of things it was necessary that other fundamental requirements be provided, viz:—

- (1) More ample and assured water supply;
- (2) Improved distribution and control;
- (3) Better drained.

In fulfilling these requirements it was found that the area could best be served by a multipurpose scheme with the headworks sited at Inginiyagala. Located here, the reservoir will cut out 380 sq. miles out of a total area of 765 sq. miles of the basin. This will offer flood protection to 33,000 acres under cultivation now and at the same time will be assured of a regular water supply to carry on a cultivation without any risk or hazard from floods. What used to be mere chance in the past will be a dead certainty when the scheme is completed. The first objective of the scheme—to provide flood protection and ample supply of water is achieved.

The catchment of Gal Oya can yield about 750,000 ac. feet of water in an average year of rainfall. After meeting the requirements of the present area the water supply will be sufficient to mature another 90,000 acres net of paddy a year. It is possible to expand this area by adopting a rotation of crops with paddy over the two cultivation seasons. Growing of sugar cane for a sugar industry is one of the important crops contemplated in the area. When the three other reservoirs in the lower reaches are constructed the area can be expanded still further by another 50,000 acres. At the end of 20 years from now the area that may become directly developed from the water resources of Gal Oya may reach a figure of 200,000 acres of irrigable land and another 100,000 acres of highland, civic settlements, towns, industrial areas etc. This is not merely a day dream but what can be ultimately achieved by the co-operative efforts of all and sundry who have the interest of this country at heart.

Power that is to be developed will not find a ready market immediately. This has happened in every country in the world. So there is no reason to suppose that it will be different in Ceylon. When the scheme is fully developed it will be possible to establish a number of industries that will require large quantities of power. Sugar cane industry will not consume much power as it is cheaper to use the cane refuse (bagasse) for fuel. But the factory itself will require a large quantity of power for its workshops, buildings and the subsidiary industries arising from the parent industry, such as manufacture of methylated spirits, cattle food, fertilisers, confectionery, fuel and power alcohol, scents for the cosmetic trade, boards etc.

Again with about 5 million bushels of paddy produced in the scheme per annum, a number of rice and flour mills can be established for which power will be used not only for milling but for the whole process from the entry of crops at the factory to the finished product ready for the market. In this region there is also a fairly thriving cocoon industry along the costal belt. With cheap power available it may give rise to an oil milling

industry so that the produce of the province can be exported as a finished article leaving the bulk behind for feeding the live stock. Fibre milling is another that can be started together with a coir industry. With nearly two hundred thousand persons settled in the area as a result of the scheme, the demand for purely domestic uses of power will be considerable. Such domestic electrification will help to raise the standard of living of the people; and this is one of the aims of the scheme.

The scheme as planned also provides for a pipe borne water supply to the numerous towns that would spring up in the vicinity of the reservoir.

A country that is expected to progress and even catch up with the highly advanced countries of the west including Soviet Russia, cannot overlook leisure moment employment for its subjects. Gal Oya has plans for such development. It is very likely a visitor after passing the new cities of Amparai, Uhana etc., will reach Inginiyagala through a magnificent boulevard. Passing the Commemoration Pillar and the neat cottages of the workers, he will reach the power house and the gardens through an archway of honour to commemorate those who contributed towards its success. From here a drive will lead to a veritable Moghal Garden with fountains, cascades, water-falls, hydraulic spirals set in a garden resplendent with tropical vegetation, flowers and shrubberies. Within the gardens itself, there will be swimming pools for adults and bathing beaches for children, water arenas for aquatic sports. For the naturalist or lover of nature, there will be orchidariums ferneries, aquariums and aviaries exhibiting the flora and fauna of the Gal Oya Basin. And as night falls coloured jets of lights will change the whole scenery into a riot of colour that will change as fast as the moods of a sinking sun. From here the visitor may retire into an air conditioned mansion which will overlook the garden paradise or the serene and beautiful lake on the other side of the Dam. Here he may taste the delicacies of the East and of the Eastern coast and then slumber to dream of this man made paradise. Early morning he can walk along the bund to the other end and by funicular and escalator ascend a thousand feet to the top of Inginiyagala to see the morning sun bowing thrice to Adam's Peak before it starts its journey to the zenith. After a refreshing cup of hot tea descend down with a feeling — How short life is compared to God's eternity.

That is what Gal Oya can offer to the people of this country. So what matters what Russia or any other country has done or can do. Let us build our country according to our fancy.

A Study of the Gal Oya Project

S. T. SENEWIRATNE

On November 24, 1949, the Gal Oya Development Board Act became law and the principal object of the scheme was defined as, "the establishment within its area of authority the maximum number of families of Ceylon citizens that the area may carry at a reasonable standard of good and comfortable living conditions."

Under the provisions for the attainment of the principal object, the Annual Report of the Board goes on to say, "that it will adopt in the main the principal of peasant colonisation in defining the extent of holdings of Crown land within its area." (Para 2, page 5). This is further clarified on page 6, para 4 as a decision reached by the Board, "The colonist's holding in the paddy area will be 4 acres irrigated land and a clear 3 acres of unirrigated land." It is the intention of this discussion to present the limitations of this policy of fragmenting the holdings.

It is evident that the problem before the Board is threefold in the light of this principal object, namely, agronomic, social and economic. A policy designed to achieve any one aspect at the expense of the others would not fulfil the object of the scheme. From a national point of view large sums of money are being invested in the project and the country must reap tangible returns, not only in the way of settling peasants on the land and relieving pressure of population in overpopulated tracts, but also by recovering adequate returns on the capital invested on the scheme.

The agronomic implications remain foremost, as the income producing power of the land is dependent on the management of the land and the crops that are to be grown. Short-sighted decisions made without due consideration in either of these two directions, will not be reflected in poor yield and low returns in a short term, but only in a long term when the project has ceased to subsist on the bounty of the forest.

The most important factor determining the success or failure of the project remains the management of the land. Viewing the crop-land management in its very broadest outline it will be a problem of maintaining fertility and of suppressing if not eliminating causes of soil infertility or crop failure. Without going into technical detail this includes fundamentals such as soil conservation, drainage, land use and other agronomic measures designed to protect crops against pests and disease,

The entire scheme once opened up would include about 250,000 acres, which was not long ago jungle land, clothed in shrub and tree, protected against the ravages of wind and water. With this natural cover removed, the immense problem of soil conservation would arise.

Conservation is generally designed in schemes of this magnitude on the catchment basis, where after maximum absorption is achieved, run off water is removed at non-erosive velocities along protected outlets. Protection against wind erosion is also implemented along similar lines. The importance of this problem is further emphasised when the soil is known to be highly erodible, as is stated by the chemist of the Department of Agriculture. "The clay whatever its source, was of non-lateritic type and consequently highly dispersible."

This efficient soil conservation against wind and water, called for, could not be achieved in 50,000 fragmented holdings as independent units, as is pointed out by the Divisional Agricultural Officer, N.C.P. in his paper on "Settlement and Farming in the Dry Zone." He states, "Soil conservation had not been planned on the catchment basis, instead individual blocks had been soil conserved. This resulted in the low lying area, which formed about 20 per cent of the total area, to be water logged and ill drained." Further the fragmented holdings could only be subject to meagre supervision by the authorities, and this type of remote control, could only lead to inefficient soil conservation.

A soil survey of the Gal Oya area carried out by the Chemical Division of the Agricultural Department reveals that the soils are "rich in lime, fairly well supplied with phosphoric acid, but low in potash" in some areas; in others "sandy in nature, low in lime and phosphoric acid but fairly high in potash." Thus the soils appear to be sandy, fairly rich in salts and being more or less at sea level underlaid by a high water table. On irrigation the salts will tend to get wasted out of the sandy soil with the drainage water. In the absence of an efficient system of drainage and the presence of a high water table, this salt charged drainage water will not be removed by subsoil drainage but remain to be evaporated off the surface. Thus the salts would be deposited on the surface creating "alkali conditions." When this assumes toxic concentration, cultivation will no longer be economic.

There appears to be no definite programme for drainage. However, if and when this is conceived it will have to be drawn up with reference to the contours of the entire tract. Here again the problem of fragmented holdings makes such a programme less efficient if not impossible.

It is generally accepted that the Eastern Province is fertile and that good yields are obtained year after year. This statement is not maintained by the chemical analysis quoted above, the soils being poor either in potash or in phosphoric acid and lime. It owes its reputation for high yield to the fact that it is subject to annual flooding, which brings in fertility from the upper reaches. This will no longer be and a lasting system of land use designed to maintain soil fertility will have to take its place.

In the tropics with high temperature and rainfall, the organic matter which is the basis of soil fertility, is known to disintegrate faster than it accumulates. This essential factor could only be replenished by the introduction of a period of rest, with the land being suitably nursed. Fragmentation of holdings and the issue of land in blocks of 3 and 4 acres would certainly not lend itself to such land use, that would maintain high yields without resorting to artificial fertilisers.

The adoption of alternate husbandry a method of maintaining soil fertility has been tried out in Embilipitiya on small extents of land and failed to maintain fertility, full benefit not being obtained from the animal association, since it is not possible to control the grazing of one or two animals on an acre of land or two. A highly dispersible single grained sandy soil will do with as much organic matter as possible to bind it, and will not certainly, take kindly to fertiliser farming.

Soil conservation, drainage and land use mainly determine the crop producing power of the land. The income producing power depends on these factors and the availability of suitable crops, with selections adopted to the area. Normally the selection would be based on planned experiments, which after replication and statistical analysis would have given significant results.

No such data is available to the Board. The Annual Report of the Director of Agriculture, 1949, states, "The Gal Oya Development Board required information on the economics of growing crops other than paddy in paddy fields for the yala season.....The crops were sown very late, so late that.....most gave very poor yields or failed altogether." Subsequently the Department opened a Station within the Gal Oya area, in October, 1949. This was short lived being taken back by the Board in 1951.

What knowledge there is of crops in the Eastern Province is scanty, and attempts to acquire knowledge have resulted in crop failure. In the face of this apparent lack of technical knowledge, the exclusion of facilities for the Department of Agriculture to

conduct experiments on the spot appears illogical. The management of these small holdings would further suffer, in the absence of technical knowledge of crops that would be economic and of cropping programmes that would maintain soil fertility.

The maintenance of the income producing power of the land would have no economic significance, if the crops were not afforded reasonable protection against the hazards of pests and disease. The causative factors, insect population, fungi, bacteria, virus and other disease producing organisms appear to be dispersed throughout the island and if not already present, would soon appear either with incoming planting material or by gradual migration. Hence the subject of plant sanitation and protection becomes an important consideration.

Precautionary measures against the introduction of pests and disease are to be built about the entire tract and could not be efficiently carried out on individual fragmented holdings. The preventive measure adopted against introduction, is the treatment of planting material with chemical agents, which could only be done economically in bulk. This could not be done economically, or otherwise, when 25,000 colonists retain their own planting material or keep introducing them from all parts of the island on their own, as would be the case with individual fragmented holdings. The observation of strict seasonal cultivation, and the elimination of staggered sowing are conducive to effective and economic pest and disease control. This will not be possible with fragmented holdings in view of the variable working capacity of the individuals some getting the cultivation through quicker than others. Once started an attack could only be brought under control with early observation and quick attention. This would be impracticable with 25,000 colonists and 50,000 holdings. The result would be that the indifferent colonist would propagate pests and disease to the detriment of all. Control would thus turn out to be by the use expensive insecticides and fungicides, when it could really have been achieved by organisation alone, had the basis of land allocation not been the fragmented individual holding.

Generally there are two margins of agricultural production namely, the intensive and the extensive. Each system is characterised by its own peculiar features and its particular applicability to a certain set of conditions. Intensive production is featured by small extents of land, of high fertility, worked with intensive application of labour, the products being of high market value, usually either fragile or perishable, involving expensive transport either with careful packing or refrigeration. This is certainly not the case here, as the products to be turned out in Gal Oya

would be paddy and other cereals, chillies, pulses, bulky non-perishable vegetables and similar products. Extensive margins of cultivation are characterised by large units of land of comparatively low fertility, with relatively less manual labour per acre, more mechanisation, cheaper produce usually bulky with good storage capacity and transportable at a low cost.

The policy of the Board in giving holdings of 3 and 4 acres to be worked on the family farm basis does not fit in with either margin of cultivation. The size of the holdings are too small for extensive cultivation and too big for intensive cultivation. Any attempt to intensify either holding will result in the neglect of the other. An attempt to work both allotments will result in the partial neglect of all the land.

The unsuitability of this system of fragmented holdings is seen in the N.C.P. In an interview with the Minneriya colonists it was revealed that more often than not, the high land was given over to some other individual. When it was not, it lay suffering with neglect. The extent of paddy land was excessive, at times the family labour being insufficient to handle the cultivation. When this arises in Gal Oya, there would be no source of casual labour, as the population would be comprised entirely of colonists, unless a pool of underemployed are maintained to provide casual labour.

The products of Gal Oya would be typical products of an extensive system of farming. Thus the fragmentation of holdings into 50,000 small units would not permit economic agriculture. Farming must be either exclusively intensive or extensive; there is no satisfactory compromise, permitting land unquestionably suited to extensive cultivation to be farmed in small fragmented holdings.

The importance of animal husbandry as an integral part of the programme designed to maintain soil fertility cannot be overlooked. The replenishment of the organic matter in the soil, is dependent on a grass sward assisted by animal association. As has been stressed before this animal association will be ineffective on fragmented holdings, as the tendency would be towards overgrazing, which is detrimental to soil recuperation.

The solution to this problem of land allocation appears to be to give smaller extents of land for residence and home garden, say one acre, the balance being given in one block. These blocks in turn being joined together into large economic holdings, worked co-operatively, with necessary mechanical assistance. These large farms would lend themselves to the application of all the agricultural technique discussed, eliminating the defects of fragmentation.

The social considerations aim at providing "good and comfortable living conditions." This embodies both the individual home the interrelation of the homes to each other and the general structure of the village as such. The purpose of the project being to resettle Ceylon citizens, the structure of the country life from which the individuals are drawn should provide the best basis for their future homes. In the wet zone the structure of the village was built around the paddy fields. In the dry zone the village was built about the tank. In both instances it is evident that the basis of the village has been an aggregation of homes on an area of suitable land, fostering a spirit of brotherhood and co-operation. The "Ceylon Citizen" for whom the scheme is meant is characterised by his adherence to tradition and weaning him from his age long character, would only tend to diminish both his spirit of brotherhood and co-operation.

The intention of the Board is to scatter the homes on 3 acre blocks with a consequent destruction of the village structure and their traditional mode of life. Under "Provisions for the Attainment of the Principal Object", the Annual Report, 1949, suggests "encouraging the growth of co-operative agriculture." It is certain that the scattering of homes as is being done will not achieve this object. The grouping of homes on 1 acre home gardens will foster co-operative agriculture more efficiently than the proposed system.

A completely desirable home could only remain an ideal and the final choice would be a compromise. The home need not suffer, however, from being unsuitably sited. In the absence of suitable high land, it is the intention of the Board to reduce the 3 acres high land to "1½ acres low land for residence and miscellaneous crops." This would mean the siting of homes in what would well be a paddy field. Apparently this would not provide "comfortable living conditions."

This lack of suitable high land for homes would largely be eliminated if the 1 acre home garden was adopted. Other advantages resulting from this concentration of homes include savings in the capital expenditure of the project, such as on roads, wells or other supply of water and fences. Recurrent expenditure could be minimised by siting the buildings on better building lands thus reducing maintenance costs. The organisation of medical and sanitary services, adult education, cottage industries, co-operative organisations and community centres would all be facilitated and a far better service offered. The 1 acre home garden plan would increase the number of homes sited on good land threefold and assist both the colonist and the organisation,

The economic aspect devolves round the provision of "a reasonable standard of living." This standard would be measured in terms of income. The income will depend on the income producing power of the land and the extent of the individual holding. The former consideration has already been discussed.

One of the decisions made by the Board defines the holding as 4 acres irrigated and 3 acres unirrigated as quoted elsewhere. It goes on to add that, "In the sugar area the proportion of irrigated to unirrigated land will probably be higher." The allotment of 4 acres and 3 acres is designed to give each colonist what would be termed an "economic holding," providing them an income sufficient to maintain a desired standard of living. The attempt to change the size of the holding in the sugar area is a measure to even out incomes between the sugar and paddy areas.

The basis of determining the "economic holding" of 3 acres and 4 acres appears to be without much foundation. The other colonisation schemes in the island have different units or are farmed under different conditions. Further the cropping scheme decided on reads:—"The major portion of the new irrigable area will be devoted to the cultivation of paddy in the wet season and other crops in the dry season with slight irrigation." Such a system has never been adopted successfully in Ceylon. Neither the size of holding nor the scheme of cropping are based on scientific findings, thus the economic holding remains entirely empirical.

The total area to be felled is estimated at 250,000 acres and within this vast expanse wide variations in soil fertility are bound to occur, as is indicated by the soil chemist of the Agricultural Department "The vegetation varied from scrub to high jungle and soils from heavy loams to almost single grain sands." This factor of differential fertility alone will make approximately equal incomes from individual allotments an impossibility. These unequal incomes will cause dissatisfaction and create dissention among the colonists, ruining the efforts to promote "co-operative agriculture."

The large co-operative unit will eliminate the influence of differential fertility, as the ill effects of a bad patch will be counteracted by a good plot, or its influence, when shared by many would be inappreciable. The advantages of this grouping of all allotments are numerous. Fundamentally if the basic allotment was found to be unsatisfactory, it would be much easier to either add to or subtract from large units, than from 50,000 units of 3 or 4 acres each. This remains a major consideration as the principal object deals with giving the peasant a "reasonable

standard of living." In the Minneriya colonisation schemes, yields have dropped by 50 per cent during 1938-1951 and unless prices record a 50 per cent increase or more the units would cease to give the same returns and the basic allotment would have to be changed. It appears that the disadvantages associated with small holdings would create a sharp decline in yields, necessitating a change, which would hardly be practicable with fragmentation.

The open air life of the colonist is associated with robust health. However, in an off year, when all has not gone well, his health may give way, compelling him to miss the planting season. In the absence of casual labour, which will certainly not be available at periods of peak labour requirement, his land will be abandoned and grow weeds where it should raise crops. To the nation it would be an economic loss. To the peasant it will be a crisis and he will soon find himself in debt, struggling to keep his body and soul together. Fragmentation will be always accompanied by this possibility. On the co-operative basis there would be no growing weeds and the peasants would earn his wage as he recovers. There would be no economic loss to the nation, no lost season and no debt with all its woes.

Considering the project as a whole it is evident that maximum use must be made of the investment. To maximise use one must eliminate waste. Considerable waste is known to accompany small farms and all the economies of large farms are lost. This aspect was stressed by the F.A.O. expert on sugar cane at the sessions of the last Science Congress, when he stated that peasant holdings were only 50% as efficient as large farms where the cultivation of sugar was concerned. With co-operative farming in large units the individual peasant would enjoy all the benefits of large farms, thus securing a greater income for himself and the country. This large unit basis does not rob the individual of his individuality, which could be expressed on his home garden.

The disadvantages of 50,000 holdings of 3 and 4 acres each distributed amongst 25,000 people are numerous, the desirability of the large unit co-operatively worked is evident, both for the individual and from the national point of view. Co-operation has grown in Ceylon, so why not successful co-operative agriculture?

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 | | | Average | | | | | | | | | | | | |
| | | * | 1939 | 1940 | 1941 | 1942 | † | 1943 | 1944 | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 | 1951 | 1951 |
| Food | 52.40 | 112 | 115 | 129 | 183 | | 103 | 102 | 111 | 113 | 128 | 138 | 144 | 154 | 156 | 152 | 152 |
| Fuel & Light | 6.28 | 102 | 103 | 108 | 171 | | 94 | 94 | 94 | 111 | 121 | 101 | 97 | 102 | 97 | 112 | 113 |
| Rent | 15.96 | 97 | 97 | 96 | 93 | | 105 | 106 | 112 | 124 | 136 | 140 | 129 | 129 | 129 | 129 | 129 |
| Clothing | 8.36 | 112 | 128 | 153 | 194 | | 138 | 156 | 165 | 180 | 213 | 189 | 156 | 155 | 151 | 201 | 196 |
| Miscellaneous | 17.00 | 104 | 111 | 116 | 144 | | 118 | 127 | 158 | 155 | 157 | 157 | 148 | 154 | 158 | 162 | 161 |
| Total | 100.00 | | | | | | | | | | | | | | | | |
| Index Nos. | | 108 | 112 | 122 | 162 | | 107 | 109 | 121 | 125 | 138 | 142 | 139 | 149 | 150 | 153 | 153 |
| | | | | | | | 197 | 200 | 221 | 229 | 252 | 260 | 254 | 272 | 274 | 281 | 279 |

* 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 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 |
| January | 106 | 120 | 99 | 101 | 167 | 166 | 81 | 148 | 209 | 382 | 62 | 128 | 9 | 30 | 166 | 192 | 98 | 114 |
| February | 85 | 107 | 70 | 84 | 123 | 152 | 97 | 147 | 326 | 392 | 64 | 123 | 13 | 30 | 137 | 191 | 131 | 114 |
| March | 89 | 107 | 81 | 86 | 130 | 124 | 74 | 155 | 317 | 264 | 21 | 173 | 2 | 51 | 161 | 169 | 125 | 157 |
| April | 75 | 99 | 74 | 103 | 82 | 81 | 77 | 107 | 154 | 194 | 83 | 120 | 4 | 12 | 122 | 157 | 65 | 74 |
| May | 111 | 121 | 116 | 132 | 115 | 98 | 97 | 105 | 303 | 243 | 85 | 100 | 3 | 15 | 82 | 157 | 72 | 87 |
| June | 143 | 122 | 167 | 122 | 115 | 84 | 90 | 153 | 331 | 279 | 40 | 172 | 45 | 23 | 91 | 199 | 108 | 138 |
| July | 131 | 135 | 135 | 135 | 120 | 120 | 129 | 384 | 384 | 81 | 81 | 81 | 81 | 81 | 103 | 103 | 113 | 113 |
| August | 118 | 100 | 100 | 100 | 135 | 135 | 163 | 514 | 514 | 114 | 114 | 114 | 72 | 72 | 103 | 142 | 142 | 142 |
| September | 110 | 85 | 85 | 85 | 144 | 144 | 164 | 541 | 541 | 98 | 98 | 98 | 60 | 60 | 190 | 124 | 124 | 124 |
| October | 123 | 94 | 94 | 94 | 127 | 127 | 229 | 545 | 545 | 223 | 223 | 223 | 52 | 52 | 223 | 100 | 100 | 100 |
| November | 112 | 85 | 85 | 85 | 128 | 128 | 190 | 484 | 484 | 176 | 176 | 176 | 63 | 63 | 134 | 115 | 115 | 115 |
| December | 122 | 102 | 102 | 102 | 143 | 143 | 173 | 444 | 444 | 149 | 149 | 149 | 61 | 61 | 166 | 125 | 125 | 125 |
| January—June 1950 | 102 | 101 | 122 | 101 | 118 | 122 | 86 | 273 | 273 | 59 | 59 | 59 | 13 | 13 | 127 | 100 | 100 | 100 |
| 1951 | 113 | 105 | 118 | 105 | 118 | 118 | 136 | 292 | 292 | 136 | 136 | 136 | 27 | 27 | 178 | 114 | 114 | 114 |

Source: Department of Statistics, Colombo

Export Price Index

(Base 1948 = 100)

| Month | All Export Products | | Tea | | Rubber | | All Coconut Products | | Dedicated Coconut | | Coconut Oil | | Copra | | Other Coconut Products | | Other Export Products | |
|--------------|---------------------|------|------|------|--------|------|----------------------|------|-------------------|------|-------------|------|-------|------|------------------------|------|-----------------------|------|
| | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 |
| ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| January | 127 | 175 | 126 | 133 | 120 | 375 | 138 | 159 | 84 | 87 | 138 | 172 | 168 | 176 | 140 | 160 | 119 | 151 |
| February | 139 | 191 | 141 | 143 | 128 | 420 | 148 | 170 | 84 | 83 | 153 | 179 | 178 | 206 | 143 | 161 | 115 | 164 |
| March | 139 | 199 | 138 | 147 | 128 | 436 | 154 | 181 | 87 | 93 | 135 | 193 | 236 | 212 | 146 | 177 | 115 | 181 |
| April | 133 | 199 | 130 | 143 | 132 | 443 | 140 | 190 | 90 | 92 | 138 | 202 | 206 | 221 | 155 | 198 | 111 | 186 |
| May | 133 | 186 | 122 | 138 | 151 | 380 | 161 | 193 | 104 | 86 | 157 | 207 | 207 | 220 | 153 | 222 | 117 | 175 |
| June | 128 | 174 | 115 | 134 | 180 | 326 | 134 | 189 | 114 | 80 | 143 | 211 | 124 | 195 | 149 | 226 | 112 | 177 |
| July | 129 | ... | 113 | ... | 194 | ... | 133 | ... | 106 | ... | 134 | ... | 144 | ... | 142 | ... | 110 | ... |
| August | 143 | ... | 125 | ... | 233 | ... | 135 | ... | 99 | ... | 138 | ... | 150 | ... | 141 | ... | 122 | ... |
| September | 158 | ... | 133 | ... | 284 | ... | 145 | ... | 104 | ... | 150 | ... | 162 | ... | 141 | ... | 141 | ... |
| October | 168 | ... | 138 | ... | 319 | ... | 150 | ... | 109 | ... | 160 | ... | 159 | ... | 141 | ... | 144 | ... |
| November | 173 | ... | 133 | ... | 370 | ... | 153 | ... | 102 | ... | 163 | ... | 164 | ... | 155 | ... | 142 | ... |
| December | 175 | ... | 133 | ... | 383 | ... | 154 | ... | 92 | ... | 166 | ... | 166 | ... | 159 | ... | 140 | ... |
| January—June | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| 1950 | 133 | ... | 129 | ... | 140 | ... | ... | ... | 146 | 94 | 144 | ... | 187 | ... | 148 | ... | 115 | ... |
| 1951 | 187 | ... | 140 | ... | 397 | ... | ... | ... | 180 | 87 | 194 | ... | 205 | ... | 191 | ... | 172 | ... |

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 |
|-------------|------------------------|-----------------------|------------------------|-----------------------|-------------------|
| 1951 | | | | | |
| 1st Quarter | ... | 106 | 111 | 188 | 56 |
| 2nd Quarter | 140 | 119* | 114 | 186 | 64* |
| 3rd Quarter | ... | | | | |
| 4th Quarter | ... | | | | |
| 1950 | | | | | |
| 1st Quarter | 96 | 99 | 93 | 134 | 74 |
| 2nd Quarter | 149 | 98 | 110 | 129 | 76 |
| 3rd Quarter | 129 | 98 | 119 | 143 | 69 |
| 4th Quarter | 113 | 103 | 119 | 172 | 60 |
| 1949 | | (Base 1934— | 1938 = 100) | | |
| 1st Quarter | 132 | 438 | 125 | 316 | 139 |
| 2nd Quarter | 138 | 412 | 129 | 309 | 133 |
| 3rd Quarter | 98 | 416 | 130 | 314 | 132 |
| 4th Quarter | 111 | 419 | 130 | 356 | 118 |

Source: Department of Statistics, Colombo.

Finance Indices

(1934-38 average = 100)

| Month | Note Circulation (Gross) | | Note Circulation (Active)* | | Total Savings† | | Bank Clearings | | Government Revenue | | Government Expenditure | |
|--------------|--------------------------|-------|----------------------------|-------|----------------|-------|----------------|-------|--------------------|-------|------------------------|-------|
| | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 |
| January | 1002.0 | 775.7 | 637.4 | 882.2 | 724.0 | 834.7 | 581.6 | 927.3 | 613.2 | 775.8 | 533.7 | 701.1 |
| February | 928.7 | 818.3 | 646.6 | 943.2 | 725.0 | 851.9 | 497.1 | 761.4 | 406.6 | 691.2 | 466.3 | 594.4 |
| March | 787.8 | 839.0 | 645.2 | 942.7 | 725.3 | 866.2 | 631.2 | 766.5 | 500.0 | 863.7 | 456.2 | 795.5 |
| April | 745.9 | 836.1 | 653.4 | 945.4 | 724.7 | 876.0 | 545.2 | 820.4 | 480.2 | 868.1 | 434.8 | 704.5 |
| May | 752.8 | 848.6 | 665.7 | 955.5 | 727.6 | 890.3 | 592.2 | 868.6 | 593.4 | 941.8 | 493.3 | 736.0 |
| June | 806.0 | 823.6 | 677.4 | 959.2 | 734.1 | 904.2 | 638.7 | 837.5 | 685.7 | 953.8 | 513.5 | 661.8 |
| July | 823.6 | | 692.8 | | 739.0 | | 642.1 | | 634.1 | | 496.6 | |
| August | 645.2 | | 725.3 | | 749.7 | | 901.4 | | 691.2 | | 541.6 | |
| September | 699.8 | | 776.0 | | 767.5 | | 748.0 | | 760.4 | | 1170.8 | |
| October | 692.4 | | 786.1 | | 783.8 | | 744.6 | | 596.7 | | 460.7 | |
| November | 726.7 | | 824.2 | | 800.6 | | 786.0 | | 607.7 | | 527.0 | |
| December | 779.3 | | 865.1 | | 818.8 | | 718.3 | | 795.6 | | 744.9 | |
| January=June | * | * | * | * | * | * | * | * | * | * | * | * |
| 1938 | | 108.0 | | — | | 122.4 | | 113.0 | | 103.3 | | 98.9 |
| 1949 | | 791.8 | | 608.6 | | 715.9 | | 483.4 | | 533.0 | | 401.1 |
| 1950 | | 837.2 | | 654.2 | | 734.1 | | 581.0 | | 546.2 | | 483.1 |
| 1951 | | 823.6 | | 938.2 | | 604.2 | | 830.3 | | 849.5 | | 696.6 |

* September, 1938, to August, 1939=100.

† Nett values of savings deposits plus Savings Certificates.

§ From June, 1951, the figures are provisional.

Government of

| RUPEE LOANS | Date Repayable | Current Closing Price 29-6-51 | |
|---|-----------------------------------|-------------------------------|-----|
| | | B. | T. |
| Ceylon Govt. 3½% Loan 57/62 ... | Between 15-11-1957 & 15-11-1962 | 105 | — |
| Do 3½% Loan 59/64 ... | Between 1-10-1959 & 1-10-1964 ... | 107½ | — |
| Do 3% War Loan 59/69 ... | Between 1-4-1959 & 1-4-1969 | 103¼ | — |
| Do 3% War Loan 56/60 ... | “A” Series ... | 103 | — |
| | “E” Series ... | | |
| Do 2½% War Loan 1954 ... | 1-4-1954 ... | 101¼ | — |
| Do 3½% Home Def. Loan 62/67 ... | Between 1-6-1962 & 1-6-1967 ... | 106 | — |
| Do 3½% do 63/68 ... | Between 1-6-1963 & 1-6-1968 ... | 106 | — |
| Do 3½% do 1952 ... | 1-6-1952 ... | 101¼ | — |
| Do 3½% do 1953 ... | 1-6-1953 ... | 103 | — |
| Do 3½% National Loan 1964/69 ... | Between 1-8-1964 & 1-8-1969 ... | 108½ | — |
| Do 3½% do 1956 ... | 1-8-1956 ... | 104 7/8 | — |
| Do 3½% do 1957 ... | 1-8-1957 ... | 105¼ | — |
| Do 3% do 1953 ... | 1-8-1953 ... | 102½ | — |
| Do 3% do 1954 ... | 1-8-1954 ... | 103 | — |
| Do 3% Victory Loan 1965/70 ... | Between 15-7-1965 & 15-7-1970 ... | 103 | — |
| Do 2½% do 1955/60 ... | Between 15-7-1955 & 15-7-1960 ... | 101 | — |
| Do 3% National Development Loan 1965/70 ... | Between 1-11-63 to 1-11-70 ... | 103 | 103 |
| Do 2½% do 1955/60 ... | Between 1-11-55 to 1-11-60 ... | 101 | — |
| Do 2½% do 1967/72 ... | Between 15-12-67 & 15-12-72 ... | 98 | — |
| Do 2½% do 1962/67 ... | Between 15-12-62 & 15-12-67 ... | 94 | — |
| Sri Lanka Govt. 3% Loan 1969/74 ... | Between 1-3-69 & 1-3-74 ... | 103½ | — |
| Do 2½% Loan 1959/64 ... | Between 1-3-59 & 1-3-64 ... | 100 | — |
| Ceylon Govt. Loan 1½% 1952 ... | Between 1-12-1952 ... | 100 | — |
| Do 3% 1966/71 ... | Between 1-12-66 & 1-12-71 ... | 103 | — |

Note.—Transactions in recent months have been based on the following

| | | | |
|-------------------------------|-----|-----|-----|
| Loans maturing within 4 years | ... | ... | ... |
| Do 7 .. | ... | ... | ... |
| Do 10 .. | ... | ... | ... |
| Do 12 .. and over | ... | ... | ... |

Gross Public Debt (including sterling loans, but excluding War Loans re-lent)
Less value of Sinking Fund as at 30-9-50

(Reproduced from the Bank of Ceylon Monthly Circular for June, 1951.)

Ceylon Securities

| Comparative Prices | | | | | Interest Payment due | TOTAL LOAN Outstanding Rs. |
|--------------------|-------------------|----|-------------------|-------------------|-----------------------|-------------------------------|
| Six months ago | | | One year ago | | | |
| B. | S. | T. | B. | S. | | |
| 103 $\frac{1}{4}$ | — | — | 103 $\frac{1}{4}$ | 104 5/8 | 15th May & November | 27,941,000 |
| 104 $\frac{3}{4}$ | — | — | 103 $\frac{1}{4}$ | 104 7/8 | 1st April & October | 10,793,700 |
| 100 $\frac{1}{2}$ | — | — | 100 $\frac{1}{2}$ | — | do | 9,608,400 |
| 101 | — | — | 101 $\frac{1}{2}$ | 102 | 1st Mar & September | 13,352,900 8,316,400 |
| 101 | — | — | 100 $\frac{1}{2}$ | — | 1st April & October | 27,359,200 |
| 104 $\frac{3}{4}$ | — | — | 102 $\frac{3}{4}$ | — | 1st June & December | 11,216,000 |
| 104 $\frac{1}{2}$ | 105 $\frac{3}{4}$ | — | 102 $\frac{3}{4}$ | — | do | 4,113,000 |
| 100 $\frac{1}{2}$ | — | — | 101 | — | do | 1,691,000 |
| 101 | — | — | 101 | — | do | 817,700 |
| 104 $\frac{1}{2}$ | — | — | 104 | — | 1st February & August | 48,799,700 |
| 103 $\frac{1}{2}$ | — | — | 102 $\frac{1}{2}$ | 103 $\frac{1}{4}$ | do | 9,706,200 |
| 103 $\frac{1}{4}$ | — | — | 102 $\frac{1}{2}$ | — | do | 15,093,200 |
| 102 $\frac{1}{2}$ | — | — | 101 $\frac{1}{4}$ | 102 $\frac{3}{4}$ | do | 32,979,100 |
| 103 $\frac{1}{4}$ | — | — | 101 $\frac{1}{2}$ | 103 $\frac{1}{4}$ | do | 18,421,800 |
| 101 $\frac{1}{2}$ | — | — | 99 $\frac{3}{4}$ | — | 15th Jan. & 15th July | 22,827,500 |
| 100 $\frac{3}{4}$ | — | — | — | — | do | 20,073,600 |
| 100 $\frac{1}{2}$ | — | — | 99 | — | 1st May & 1st Nov. | 64,834,400 |
| 100 $\frac{1}{4}$ | — | — | — | — | do | 35,165,600 |
| 97 | — | — | — | — | 15th June & 15th Dec. | 26,830,100 |
| — | — | — | — | — | do | 7,141,700 |
| 100 $\frac{3}{4}$ | — | — | 98 $\frac{1}{2}$ | — | 1st March & 1st Sept. | 58,379,900 |
| 100 1/8 | — | — | — | — | do | 19,148,300 |
| — | — | — | — | — | 1st June & 1st Dec. | 40,000,000 |
| — | — | — | — | — | do | 50,000,000 |



approximate yields :—

- 2%
- 2 $\frac{1}{4}$ %
- 2 $\frac{1}{2}$ %
- 2 $\frac{3}{4}$ %

| | | | |
|-----------------------------------|-----|-----|---------------------------|
| to the United Kingdom Government) | ... | ... | Rs. 651,423,833 33 |
| ... | ... | ... | Rs. 119,711,225 32 |
| Nett Public Debt | | | Rs. <u>531,712,608 01</u> |

Quarterly Index of Share Prices : Sterling Companies—

January—June 1939 = 100.

| | | Tea | Rubber | Tea-Cum Rubber |
|------|-------------|-----|--------|-------------------|
| 1939 | 3rd Quarter | 92 | 99 | 98 |
| | 4th „ | 91 | 110 | 104 |
| 1943 | 1st „ | 148 | 213 | 146 |
| | 2nd „ | 153 | 212 | 149 |
| | 3rd „ | 156 | 206 | 153 |
| | 4th „ | 153 | 186 | 145 |
| 1948 | 1st „ | 194 | 180 | 151 |
| | 2nd „ | 188 | 150 | 140 |
| | 3rd „ | 176 | 121 | 121 |
| | 4th „ | 167 | 102 | 114 |
| 1949 | 1st „ | 154 | 86 | 103 |
| | 2nd „ | 147 | 71 | 94 |
| | 3rd „ | 144 | 66 | 88 |
| | 4th „ | 151 | 69 | 91 |
| 1950 | 1st „ | 160 | 85 | 102 |
| | 2nd „ | 189 | 123 | 126 |
| | 3rd „ | 182 | 135 | 130 |
| | 4th „ | 207 | 160 | 152 |
| 1951 | 1st „ | 212 | 218 | 178 |
| | 2nd „ | 213 | 211 | 178 |

Printed at The Rokeby Press, Colombo.

*What shall I do with
my spare cash?.....
I am afraid to speculate...*



You can safely invest in:—

- CEYLON SAVINGS CERTIFICATES
- POST OFFICE SAVINGS BANK
- CEYLON SAVINGS BANK



NATIONAL SAVINGS MOVEMENT