

**The**

# **CEYLON ECONOMIST**

**2**

**Vol. 2.**

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SECOND QUARTER 1952.

NOTES AND COMMENTS

THE PROBLEM OF LIQUIDITY IN AN UNDER-  
DEVELOPED ECONOMY — N. U. Jayawardene

SOME PROBLEMS OF THE CEYLON ECONOMY  
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TRADE AND BUSINESS STATISTICS



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## Notes and Comments

### Economic Consequences of the U. N. P.

For the past five years the U. N. P. have governed this country, and they have been returned to power with an overwhelming majority. It is time we considered what they have done for this country economically.

Essentially they have perpetuated the colonial economic system. Economically we are where we were under British rule. It was the duty of any national government to make out a bold policy and undertake national development according to plans formulated within the framework of that policy. Let us analyse the achievements of the U. N. P.

In industry there is no policy whatever. A few isolated factories have been put up here and there without any reference to the economy of the Island. Political pressure and subsequent compromise have taken these factories where neither the power nor the raw material is available—a violation of the first principles of the elements of geography.

The mirage of the 6 year plan still draws the thirsty nationals towards it. The organization of the industrial ventures leaves much to be desired, and protection has fostered and subsidized inefficient production resulting in output that for quality is putrid. With pride the Government records self-sufficiency in matches, candles and fireworks!

In agriculture we see lack of planning at its height. No steps have been taken to reduce our over-dependence on the plantation agriculture and its attendant evils. Tea, Rubber and Coconuts take 70% of the total cultivable extent of four million acres. Some 30% is available for land settlement and 72% of the population depend upon this land and nothing has been done to rehabilitate them. High hopes are being held out on the face of the various schemes and promises after promises right along are given but when the chief of these schemes—the monumental folly of the century—Gal Oya comes to grief, years of planning and investment are going to be washed away, and the colonists will be worse off than they were.

In trade the foreigners rule the roost. Over 70% of the trade of the land is in the hands of the non-Ceylonese. No attempt has been made to induce the Ceylonese to take to trade. No facilities have been afforded for their training or sustenance. For instance, it is easier for a foreigner to raise capital than



for a Ceylonese. No easy terms of credit are arranged. Government credit institutions are more difficult to negotiate with than foreign commercial banks. The policy of Ceylonisation which threatened to precipitate a cabinet crisis is now successfully put away in cold storage. As a result the trade of the country which holds the key position in the island's economy is in the hands of self-seeking foreigners, who would not give a second thought to the future of the country.

Foreign trade policy is conspicuous for its absence of policy. No steps have been taken to enter into long term trade agreements. Continuously we are depending on the Western capitalist economies, the first that would be effected during the coming crisis. Trade should be kept away from politics. We do not need even the nominal aid of Point Four if we find the markets for our products in the new economies emerging from their comas of under-development and devote the proceeds from these sales to development on a rationalized national scale.

Our Financial policy gives an exact index into the real aspirations of the present government. Our taxation policy is so retrogressive that one finds it difficult to believe that we are living away from the days of the British rule. Cuts in expenditure are being threatened so that our economy is to be pushed to a lower level, and this will set in motion the spiral of deflation. No attempts have been made to assess the private investments and adjust government investments accordingly so as to maintain the economy at a full employment level. Public savings are falling and withdrawals from savings increasing thus showing that the country is living on its savings. Nothing has been done to arrest it. The growing public debt is assuming menacing proportions.

The coming sterling crisis and the obstinacy in standing by the sterling link and refusing revaluation is going to aggravate the position, and not even the Central Bank with its admirable principles and organization—(perhaps the one item on the credit side of the U. N. P. economic progress sheet)—will be able to do much about it.

In conclusion we might summarize the above arguments with one sentence. The economic consequences of the U. N. P. have driven the country slowly but surely towards national economic bankruptcy.



## Soviet Trade Offers and Asian Economic Development

At the recent International Industries Fair held in Bombay the Russian Ambassador stated at a press conference that "the U. S. S. R. can supply India and South East Asia with all the industrial equipment they require" and further that goods could be had from stock for which payment could be made in soft currency. And again at the recent E. C. A. F. E. Conference held in Rangoon the Soviet Delegate gave a list of goods which could be obtained from U. S. S. R. and other New Democracies. The Ceylon Delegate inquired as to whether inspection could be allowed during the production of capital goods and the Soviet Delegate assured that this could always be arranged. The Government and the press have not given serious thought to these propositions and the subject has ceased to be even a matter of discussion.

This attitude is a clear indication of the policy which the Ceylon Government is following in regard to its external trade. It is absolutely inept to pursue sources which cannot supply us these goods. If a realistic policy is to be adopted, this policy of "chasing rainbows" should be terminated. Why does our cabinet not take a lesson from the Sino-Soviet Trade Agreements which proves beyond doubt the benefits to an under developed country of realistic trade negotiations? David Scott writing to the *British Export Gazette* quotes the *London Times* and demonstrates the sincerity of Russian intentions:—

"She promised economic help, providing credits and supplies in exchange for Chinese raw materials. This year comes news of the despatch of tractors, mowing machines, ploughs, looms for textile mills, equipment for metal working and railways. Russia has also sent teams of Engineers for the building of bridges, railways, dams and sanitary stations, and their teams, significantly enough do not come as directors but mainly as workers in the field who do the required job and then go back to Russia."

Since the new Government came into power the entire economy of China has changed. The progress she has attained in all fields of development including the political is a clear demonstration of the fact that if a country which has been under foreign rule wishes to embark upon development it has to do so by the adoption of a bold new policy of planned development. Planning in the shape of the curious phenomenon of the "Six Year Plan" will have no value, except for its short run political value.



It was very unfortunate that Ceylon did not send an official delegate to the Moscow Conference. More advanced countries, with a greater degree of dependence upon the United States did send delegates to this Conference, and in spite of the notorious Kem amendment and the Battle Act, Trade pacts were concluded which they announced were of tremendous benefit to all concerned. On 8th of April, Sydney Silverman, Labour M.P. announced the conclusion of a trade agreement with China involving £10,000,000 and the Belgian delegates agreed for exchange of goods to the value of 10,000,000 U. S. dollars. These are but a few instances of the numerous agreements. It might be well remembered that though political obstinacy would not bring its consequences within a short time, economic obstinacy would open the gates of ruin and degradation within a short time. That no important trade agreement by any Asian country was concluded is a matter of great misfortune. The Western Democracies which are in the throes of a capitalist crisis cannot be the safe guardians of Asian countries. In the event of an economic depression, which had been submerged by the Korean war and rearmament, our trade ties with these Western capitalist countries would be destroyed and, as is always the case, the crisis will be the graver for primary producer countries.

The Government and the local press have repeatedly drawn attention to the capital needs of this country. While it is extremely important that domestic sources should be mobilised for economic development, the country should also view realistically its desires to obtain capital needs from countries which could supply them. Viewed in the light of the necessity of economic progress and development, advantage should have been taken of the Soviet offers. Russian offers were undoubtedly free of political strings. If at all, any force interfered with the free discussion in our country, it was certainly the American threat of the non-extension of aid. But where is this aid? Where are the altruistic dollars that should have flowed into this country, upon the declaration of the now obsolete "Point Four" of President Truman? Can it be possible that our Government are constituted by men who can be fooled all the time? That the Government refrained from even making a passing reference to these offers, leaves an open window which exposes their frame of mind.



## The Alternatives

For the past few months we have had repeated statements by Politicians and Administrators that the economies of the Western democracies cannot be sustained unless they are geared to produce for war. They have made bold to state that the two alternatives facing their economies are inflation on the one hand and production of armaments on the other. To produce for war and retain the stability of employment and wages, or deflate and take the consequences, evolves out a Hobson's Choice. M. Peron, in a recent address predicted that another World War was just round the corner because America produced a gun for every car. It is indeed a sorry state of affairs that these economies are supposed to have devolved into and it is sorrier still the politicians and administrators at the helm of affairs in such countries fail to see that they are not alternative to each other, but together alternative to a third line of policy that is going to keep their economies out of both war and depression.

What are the facts about these economies? It means simply that their productive machinery is so geared that net additional production is increased from one period of production to the next, whilst at the same time there is comparatively less and less money to purchase these products. So then according to the alternative theorists they have either to apply the brake on production and start a reversal of the spiral of expansion or let it go on, with the products coming out changing their nature from consumer articles to armaments. With armaments coming out to replace the consumer goods, the world is to be freely supplied with arms. Thus the consumer who buys a car will as Peron said also buy a gun, for if he fails to do so, there will be far too many guns than the people care to buy. This will mean that people are conscripted to use them, and that, in another war.

It is our opinion that neither of these methods are either desirable or necessary. As it is, what is necessary is the increasing of purchasing power to the consumer to go on buying the excess production of consumer goods.

One method is advocated by Thomson in an article in reply to Harriman regarding the U. S. economy where he suggests the lowering of income tax rates. If for instance production is increased by 20% as it is estimated to in the U. S. in 1955, he suggests that a ruling rate of income tax in 25% be reduced to 5%, thus giving a "bonus" of 20% to consumers to meet the excess production. He even thinks that printing extra money would be helpful, and as it would be used in consumption will not cause inflation,



We wonder how far this will go. What happens for instance on the higher income rungs? It will possibly lead to saving and hoarding from this group so that the important thing is to see that this money is diverted to people who will use it for consumption, that is in the lower income groups. The most effective means will be the reduction in the difference in the income levels by taxing the higher income groups heavily and spending that money on the lower groups in addition to granting them tax relief.

It is not to be understood that irrational production is to be encouraged. The economy should be so planned that it produces in the best interests of the consumers and once controlled and rationalized to that extent these economies must be maintained at the full employment level through fiscal methods and investment programmes. These methods will of course have to be modified according to the varying needs of a growing population. Increase in population is a factor that has to be contended with, but the essence of the scheme should be to plan for the economy as a whole and sustain it at the highest level of employment and wages.

As Keynes says it is better for us to live in a Quasi Boom rather than in a semi slump and had Keynes been taken seriously after the first World War perhaps the history of this world would be quite different. In this period of international emergency we are even more certain that his theories could do much to save us.

## War and Peace in Korea

As we go into press, distressing news of a dangerous turn in the Korean War is available. This diverts our attention from the peace talks at Kaesung to the power stations on the Yalu River. The "cold war" which was turned into a "hot war" in Korea has now approached a fearful stage. Two months ago people heard more of the peace talks and less of war and today once again we begin to hear more of war and less of peace. This is also a new phase in that war; a phase which may lead to a general war.

From inhuman acts of mass massacre of innocent men, women and children which were subjected to a close scrutiny, as disclosed by the International Federation of Democratic Women's Report of May 1951, to the recent resort to bacteriological devastation of not merely the grounds on which the actual battles are fought but in the territories of adjoining states, namely Manchuria and China, lay the uneasy phase see-sawing between war and peace. And now the Yalu River incident. Could we not see in this a



deliberate effort to provoke China into open war? And further, could we not interpret this as a logical sequence to the softening up of these areas by the spreading of diseases unknown to the peoples of these countries before? Or is it a mere isolated incident—a sequel to an idea originating in the heads of Generals conducting this long drawn out war? These are some of the questions which strike our minds on immediate receipt of this news.

What is of fundamental and immediate import is the new weapon which the U. S. men of war have used in the conduct of this war. It is either the last resort of a vanquishing foe or a desperate effort to save "democracy by mass massacre"!

That bacteriological warfare was resorted to in Korea by the Americans have been alleged and denied. While the denial has been informal the allegation has been subject to a thorough examination by the Commission of the International Association of Democratic Lawyers. Men of international repute such as Professor Heinrich Brandweiner, Luigi Cavalieri, Jack Gaster, Ko Po mien, Marie-Louise Moerens, Rodrigues de Britto and Sofia Wasilkowska investigated the allegation from 3rd to 19th March 1952. This Commission considered the facts gathered during the investigation and the report states "..... that it is beyond doubt that great quantities of insects, often times a species unknown in Korea, were found under very low temperatures on the snow, or the open field or on the ice of rivers." These insects were infected with "plague, cholera and other contagious diseases."

The report gives evidence of the devastation caused not only to men, women and children in Korea and China but also to plants, trees and crops. If one goes through the report, one could trace conclusive evidence to prove that chemical weapons of various kinds have been used. This is in contravention of the Hague Convention of 1907 and the Geneva Protocol of 1925.

Furthermore, recent activities, taken together with public statements made by authorities in the United States and Japan, give a clue to the veracity of this allegation. An article appearing in the *Science Newsletter* said, "Germ warfare may get a trial very soon, if the fighting in Korea continues." Then there is the case of the notorious bubonic plague ship and also the report of the Associated Press of May 18th that, "Each day about three thousand tests were made on oral and rectal cultures obtained from patients at Koje Island's sprawling prisoner-of-war camps." And again there is the admitted activities of U. S. Generals and particularly of Ridgeway who encouraged three notorious Japanese bacteriological war experts to continue work in these fields.

This is a cheap weapon, causing great devastation and particularly intended to break the morale of the people in the affected areas. It is also dangerous to the user and the weapon may have a boomerang effect. The crime is all the worse when it is recalled that both the atom bomb and the bacteriological weapons have been dropped in Asia. It was not long ago that General Templar, one in the long chain of Generals who have been put at the head of the British forces in Malaya, used chemical weapons to destroy crops in Communist areas. These are shameless acts. Whether the battles are won or lost, the means adopted during the fighting will certainly have an effect upon the conscience of the user; and particularly so when Asian territories are used as the experimental stations in the conduct of these wars.

If the Korean war cannot end at Pan Mun-Jon an effort should be made at the United Nations Organization. But here again scepticism creeps into our heads when proposals for a solution are put forward. The U. N. Mission leaves wide gaps which does not enable us to foster complete faith in its work.

But if no good could be achieved at Pan-Mun-Jon or at the United Nations Organization there is still the possibility of independent action by a concerted effort of neutral nations. No nation today, except of course those who thrive upon war, could deny that peace is essential to progress. Therefore, an effort should be made. There must be a stop to this wasteful war.



## The Problem of Liquidity in an Under-Developed Economy

N. U. JAYAWARDENA

*Address before the International Credit Conference  
at Rome, on 22nd October, 1951.*

(This Article has been revised and brought up-to-date—Ed.)

It is with no little hesitation that I intervene at this stage in the discussion on bank liquidity. My only competence to address this august assembly of bankers and economists is by virtue of the office I hold in the Central Bank of Ceylon, but I should add the usual reservation that the views I express are my own and in no way represent those of the Bank. I do not claim to have that training in banking which most of you possess in an eminent degree nor would I put my knowledge of economics higher than that of a student of that science. It was the suggestion made to me last Friday by our worthy Director of the Secretariat, Signor Commarano, that the problem of liquidity in an under-developed economy was sufficiently peculiar to merit notice by this assembly, that prompted me to address you this morning. While the general remarks I shall make would apply to most under-developed economies, I should make it clear that I shall deal with the problem of liquidity mainly in the context of Ceylon conditions with which I am most familiar.

Sir Theodor Gregory remarked in his brilliant address last Friday that the discussions on the subject of bank liquidity had an air of unreality. I would wish to echo his sentiments but for other reasons besides those advanced by him. We have witnessed a grand debate in the course of which we have dealt with the subject of liquidity in its institutional, analytical and even historical aspects. However, both the papers and the discussions have treated this subject in the setting of what is now fashionable to describe as a developed or an advanced economy. But those of us who are more familiar with countries relatively less developed find that the analysis gains little significance while the conclusions reached and the prescriptions recommended are hardly applicable when we consider them in the light of economic conditions prevailing in our countries. Hence our feeling of unreality surrounding the discussions of this conference!

One would be better able to appreciate the problem of liquidity as it expresses itself in an under-developed economy if I detain you for a moment to describe what, for my present purposes, I believe are the essential institutional features which condition the problem of liquidity in an advanced economy.



Firstly, in developed countries the habit of using cheques as a means of payment is widespread—a habit which is fostered partly by the high level of their national incomes. Accordingly, bank deposits constitute much the greater part of their money supply and currency assumes a relatively less significant role. The money supply, thus, responds more quickly to bank action. Secondly, money and capital markets are highly organized so that credit institutions can more easily convert into cash their claims to money by operating in the market. Thirdly, private enterprise is more enterprising and better organized; the incentive of profit acts more promptly as a spur to economic activity. Consequently, monetary policy can influence more positively the scale and the pattern of economic activity. Finally—and this, in a sense, is specially significant—the home market is sufficiently developed to absorb a substantial proportion of the total output. While foreign trade is not unimportant, the level of production in the domestic sector can independently influence the prevailing climate of business activity. Under these conditions, the money supply is closely linked with the level of domestic production and is not necessarily determined by the state of the foreign balance of payments.

In an economic setting with the institutional features I have just described, it is possible for the banking system by determining the money supply to influence considerably the level of economic activity in the country. Credit plays an active role and by controlling the supply, availability and cost of credit, the Central Bank can control the level of production, provided, of course, Government is not pursuing simultaneously—as it may often happen it does—opposing fiscal and economic policies to which reference was pointedly made by Mr. Roy L. Reiersen, last Friday. Bank liquidity then becomes the central theme of Bank administration. How to lend without sacrificing liquidity and how not to lend without discouraging profitable business enterprises are the pressing day to-day problems of every banker.

Let me turn from the picture I have drawn to the actual conditions of an under-developed economy as illustrated by my own country, Ceylon. It is characteristic of most under-developed countries that currency constitutes the major element in the money supply. The situation is slightly different with Ceylon. By reason of the fact that our per capita national income is much higher than that of many of the under-developed countries in Asia, bank deposits amount to about two and one third times the currency in circulation. In advanced economies such as the U. K. bank deposits, I believe, are about six or seven times as large as the currency circulation. The cheque habit is grown in my country, but not fast enough. One reason is that until a little



over a decade ago there was not even a single indigenous deposit bank in Ceylon. Previous to 1939, banking facilities were supplied by branches of foreign-operated banks, commonly known as exchange banks, which had their offices at the principal port, Colombo. They were mainly interested in financing the export and import trade of the country; it was not their purpose to seek to draw deposits from the public as a deliberate act of policy. They were content to accept what deposits they received incidentally in the course of their main business of financing the foreign trade of the country. However, conditions have changed somewhat with the establishment in 1939 of an indigenous deposit bank, namely, the Bank of Ceylon, which should not be confused with the Central Bank of Ceylon, a later creation. The Bank of Ceylon is a commercial bank, sponsored by the Ceylon government, which owns the preference share capital of the bank. The Bank of Ceylon has steadily followed a policy of opening branches in the principal towns of Ceylon and its action has in no small measure encouraged the cheque habit.

There is no money market worthy of the name in Ceylon. Interbank lending does occur occasionally, but when production is primarily for export, financed by drawing bills chiefly on London or New York and when there is no occasion for drawing commercial bills to finance the internal trade, the need for a bill market does not arise. There is a market, however, for Government Treasury Bills, which is at the present moment somewhat limited in the scale of its operations partly because of the short supply of treasury bills. The Government has so far followed a policy of borrowing long in preference to borrowing short. The elements of a market do exist in the sense of a demand for treasury bills by commercial banks, but there is no active market in them in the sense of frequent operations between buyers and sellers. Bills are taken up generally not for re-sale before maturity but primarily to be held until maturity so that a bank desiring to sell bills in the market in case of need may not always find a ready buyer.

There is no active or well-organised capital market either. Most of you may be surprised to learn that the history of government-borrowing in Ceylon does not go beyond the beginning of the 40's. Previously, Government borrowed in the London market by floating Sterling securities, but since the 40's and more so after we gained independence in 1948, all Government borrowing has been in the Ceylon market. As with treasury bills, the market for Government securities is narrow and transactions are few. Securities are generally purchased as an investment to be held until maturity. The habit of making a capital profit by



undertaking switching operations in securities of different maturities to take advantage of differences in yields reflected in current market quotations has not developed. A commercial bank in need of funds may not always find it easy to unload a block of securities without sensibly reducing the current level of security prices; hence, as noticed by Professor Sayers in his recent edition of the classical work on *Modern Banking*, the responsibility which this situation might imply for the Central Bank in having to support the market for Government securities merely to provide liquidity.

Foreign capital and enterprise have, until recently, taken a leading part in the development of the country. Political dependence on the U.K., when Ceylon was a Crown Colony until the beginning of 1948, and British enterprise aided by British capital which the British banks operating in the country helped to augment, were factors responsible for the dominance of foreign interests in the economy.

Over two-thirds of the tea plantations and about one-half of the rubber plantations, besides the majority of processing and merchanting firms associated with the export and import trade, are foreign-owned and operated. Since these units account for about one-half of the aggregate national income, the significance of foreign capital and enterprise in the national economy can be easily appreciated.

Since Ceylon became an independent sovereign state within the British Commonwealth of Nations, foreign capital and enterprise have taken a negligible or subordinate part in the new program of economic development. But it is not possible to create in a short space of time a new class of Ceylonese entrepreneurs. It takes decades. In the past Ceylonese have been prone to invest in real property what capital they possessed as it provided evidence of tangible wealth and they showed little preference for investment in business property which, even though more profitable, was still an intangible asset which had to be managed as an organized business unit to continue to be profit-earning. But to manage business requires knowledge and experience is the only firm basis of such knowledge. But experience takes time to acquire. Hence, the conduct of business activity by Ceylonese, apart from agricultural enterprise in which they possess considerable experience, continues to be severely conditioned by the limited supply of requisite business ability and organisation. In their absence, therefore, what passes for genuine business may not necessarily be motivated by calculated profit but may savour of speculation and even of recklessness. Under these conditions, there is no warrant for assuming that an expansion



of the money supply through the mechanism of credit will bring forth, as in advanced economies, an expansion of genuine business.

Finally, foreign trade assumes a dominant role in the economy of the country. Nearly three-fifths of the national income is foreign generated either directly or indirectly. Ceylon is a typical export-import economy, producing food, i.e., tea and raw materials, e.g., rubber, oil seeds and fats, for sale in world markets in exchange for food grains and other food stuffs as well as manufactured consumer and capital goods required for the home market. The level of activity in the domestic sector is, therefore, closely linked with the fortunes of the export trade. Hence the money supply is strongly influenced by the state of the foreign balance. A restrictive credit policy would have a negligible effect on the money supply in the face of a growing favourable balance of payments. Likewise, an expansive credit policy could hardly produce significant results when the balance of payments continues to be unfavourable.

An examination of the credit structure of the country in the light of my remarks reveals interesting if not curious results. The figures I cite are for the month ending June, 1951. Total bank deposits amounted to Rs. 668 million or £ 65 million, the pound sterling being equivalent to 13 1/3 Ceylon rupees. Demand deposits alone accounted for 90% of the total deposit liabilities. Cash on hand was Rs. 24 million, or about 3%. Balances with the Central Bank totalled Rs. 182 million, as against statutory reserves of Rs. 104 million, at present fixed at 14% of demand deposits and 5% of time deposits. Balances with the Central Bank, thus, amounted to 21% of total deposits. In addition to these balances, most of the commercial banks and, especially, the exchange banks, also hold funds with their head offices in London, withdrawable on demand or short notice, besides funds in India. These funds aggregated Rs. 187 million, or approximately 21%. It is indeed significant that balances held abroad should be even more than the balances with the Central Bank. The commercial banks also held Government securities valued at Rs. 237 million, or 27% while bills discounted, consisting almost entirely of export bills, amounted to Rs. 72 million, or 8%. Advances totalled Rs. 170 million, or 20% of the deposit liabilities. An interesting feature is the preference for overdrafts which totalled Rs. 98 million, as compared with loans amounting to only Rs. 72 million.

This analysis clearly reveals the liquidity status of the banking system. The commercial banks held in a purely liquid form an amount equivalent to 45% of their deposit liabilities, assuming that the balances held abroad were readily transferable,



as in fact, they are. If export bills which are discountable with the Central Bank and Government securities which may be assumed to be readily convertible into cash, directly or indirectly, through the agency of the Central Bank are taken into account, the liquidity ratio rises to 80%. Since a good proportion of the advances are secured against paper evidencing production, movement or storage of goods in the ordinary course of commerce and as they are eligible security for loans from the Central Bank, it is true to say that 90% of the deposit liabilities of the commercial banks are covered by liquid assets.

The problem of an under-developed economy typical of the conditions obtaining in Ceylon is, then, not so much preserving or promoting liquidity as, in a sense, reducing excess liquidity. The large proportion of funds held in a purely liquid form is merely indicative of the difficulties experienced by the banking system in employing money productively. Most banks defend their action in maintaining a high ratio of liquid funds with the plea that they have not refused any loan propositions which are credit-worthy and bankable. In the nature of risks which they consider are inherent in domestic enterprise, most banks are hesitant to grant loans on projects which have no direct or indirect connection with the finance of established lines of export or import trade.

One of the major problems which an under-developed country, anxious to reduce the emphasis of foreign trade on its economy, must face is the high risks which banks and the public attach to new developmental activity. To invite bank participation in new or untried enterprise, the element which is presumed to be an abnormal risk must be reduced. There are several ways of doing this. We have been giving serious consideration in Ceylon to two such ways. One is the extension of the principle of insurance to bank loans. The proposal is that the Central Bank, acting as agent and for the account, of the Government, should share with the commercial banks a specified proportion of the risk on loans which the banks are not willing to grant on their own. The other is the establishment of a specialized agency or agencies under the aegis of the Central Bank, providing investment finance of a mid and long-term character for commerce and industry as well as undertaking promotional functions with respect to new enterprise. Banking systems, based on the continental tradition, have succeeded in narrowing in the field of investment finance the so-called "MacMillan Gap", so named after the MacMillan Committee which reported on British finance and industry in 1931. But in under-developed countries like Ceylon, brought up on the tradition of British banking with its emphasis on short-term finance, no facilities exist for provision



of mid and long-term finance for commerce and industry. But loan insurance and investment promotion are instruments of action which carry with them inherent dangers, for untold harm can come if they are handled with impatience and without care. To hasten slowly is not only a counsel of wisdom but also an admirable precept of conduct in the untried field of investment finance in an under-developed economy.

The point I wish to emphasise is that credit policies alone are ineffective in regulating the economy of an under developed country. Even in developed countries credit policies do not provide the whole solution and the more so in under-developed countries. Fiscal policy and general economic policy are also major instruments of action. When currency is an important element in the money supply, contraction or expansion of the money supply can be effectively brought about via fiscal policy by budgeting for a true surplus or deficit. When private enterprise is not sufficiently enterprising, when newly-won political freedom tends to make the authorities genuinely impatient of action and when this may, perhaps, impel them to embark on policies promising quick, but not always, sound results, a Central Bank has to discharge a fuller role than merely be a provider of liquidity.

The Central Bank of Ceylon is one of the youngest Central Banks, having been established in August, 1950. It is a bank of issue, a bankers' bank and banker to the Government. It has been endowed with a wide array of weapons for regulating the money supply and commercial banking operations. It is a state-owned bank but enjoys autonomy. Commercial banks are obliged to hold statutory reserves with the Central Bank. These reserves have been fixed on the principle of flexible ratios, the minimum being 10% for demand liabilities and 5% for time liabilities. It is of interest to note in this connection that there is also provision for defining demand liabilities to include unused balances of overdraft lines authorised. Under conditions of grave inflationary pressure, the Central Bank may even require 100% reserves to be held against any increase in demand deposits. The Central Bank has also a full control over the foreign exchange operations of commercial banks and may require them to carry, if necessary, a balanced position in respect of any designated foreign currency. It can, furthermore, regulate their lending operations. The bank is empowered to re-discount commercial paper. It may lend against eligible security defined to include bills of exchange, promissory notes and other documents of title evidencing the production, movement and storage of goods as well as against government securities. In the event of a crisis, the bank is given the discretion to enlarge the class of obligible



security as a temporary expedient. It can undertake open market operations and is permitted, in case of need, to create its own obligations so that the scope of its operations as a seller in the open market need not be limited by the stock of government paper it may happen to hold. The author of the Monetary Law Act, Mr. John Exter, the present governor, whose services were made available by the Federal Reserve Board, has taken care to insure that the Central Bank is not rendered ineffective for lack of appropriate instruments of action.

Although we have in the Central Bank of Ceylon an efficient mechanism for regulating the money supply and credit conditions its usefulness as an agency for promoting, by monetary action alone, a high level of production, is rather limited in the context of an under-developed economy. But this does not mean that its usefulness in other directions is also limited. It can certainly provide the right financial environment in which enterprise can function and develop. Since fiscal and economic policies which properly fall within the sphere of Government action, are more effective means of promoting development under the conditions assumed, the Central Bank has an important part to play by acting as the financial and economic adviser to the Government. It is for this reason that the Monetary Law Act establishes a department of Economic Research as an integral part of the Central Bank and has endowed it with statutory responsibility to undertake economic inquiry and investigation. By acting as an independent Government agency, removed from the arena of political strife and not subordinate to the political authorities of the day, the Central Bank is in a privileged position of being able to offer its advice objectively on economic and fiscal measures of the Government. It is free to comment on Government policies and actions insofar as they have a financial bearing. Since comment does not necessarily imply criticism, the Central Bank should, in course of time, be able to have a constructive influence on Government financial and economic policy. It is for this reason that the Monetary Law Act requires the Central Bank to furnish reports to the Minister of Finance, analysing the situation and recommending action, whenever changes in the money supply or in the cost of living in any twelve monthly period exceed specified limits. It is for the same reason that the Act requires the Bank to furnish to the Minister of Finance a comprehensive report on the monetary and fiscal situation well in advance of the Government budget so that he may take full cognizance of the current situation when framing his budget proposals.

In conclusion, let me summarize the problems of liquidity and inflation, as I see them, in an under-developed economy like Ceylon. Banks generally suffer from a surfeit of liquidity which



is at once a cause and a consequence of the under-developed state of the country. The effectiveness of monetary action is consequently impaired. But the basic problem is the building up of the economy from its relatively low level of production and in this task sound fiscal and economic measures are conditions precedent to effective monetary action. Inflation is generally of the imported variety, unless, of course, it happens that an unsound budgetary policy is followed on the plea of necessity. In that event, the remedy lies not in the field of credit, but in appropriate fiscal action. Nothing spells disaster more than an over-ambitious fiscal policy. In the final analysis, it is private enterprise, by which I mean human skill, ability and organisation that must be developed. But it is a process which is time consuming. There is no short cut to riches. As the economy expands and levels of production, employment and income rise, liquidity as a banking problem will generally come into its own. Meantime the Central Bank can assist development by supplying the appropriate climate of credit, but in the early stages its usefulness lies more in advisory than in regulatory action.



## Some Problems of the Ceylon Economy

C. LOGANATHAN

Broadly speaking, the most salient feature of the country's economy is the predominance of agriculture, the main agricultural industries being tea, coconut and rubber. Also obvious is her dependence on foreign markets for the sale of her products, which being neither the monopolies nor the specialties of Ceylon have no exclusive markets in the world. As a result our prosperity entirely depends on world conditions over which we have no control.

Added to our dependence of foreign markets our products is our dependence on foreign sources for our requirements of food, clothing and other manufactured articles. These peculiarities therefore make our economy a precarious one, particularly during times when we are not in a position to export what we produce and do not need for our consumption, and import what we urgently need and cannot produce ourselves.

The tendency in the world towards economic nationalism has already injured international trade, and we have evidence of the great lengths to which countries will go to be self sufficient. Synthetic rubber is not only a reality but already a commercial proposition threatening our rubber industry. New areas are being opened outside our country for the growing of tea, while the competition from an ever increasing number of rival oils, vegetable and animal, natural and artificial, must inevitably bring about a depression in our coconut industry, though not in the immediate future. What our country needs therefore is an increase in the variety of her exports, development of manufacturing industries both for the foreign and home markets, and extensive production of necessities like food and clothing for which we now depend on foreign sources. In other words what we need urgently is a greater diversification of the economic life of the country.

To achieve this objective we should have inter alia two prerequisites. They are (1) capital (2) and the willingness on the part of the people to invest on new ventures for the economic development of the country. Capital for economic development can only come from domestic or foreign sources. It does not appear to be realised that whatever capital we were able to obtain in the past from foreign sources we could not possibly hope to get much in the future. The main reason for this state of affairs is that the foreigner is attracted not only by relative profit, but also by security for his investments. Recent events



in the Middle East are a concrete lesson to the prospective foreign investor. But pronouncements still continue to be frequently made by those in authority both here and abroad on what Ceylon could achieve from foreign capital.

Australia and Canada have been quoted as examples of countries that have received large benefits from the influx of capital both from America and the United Kingdom. What is not appreciated is the fact that the Australians and the Canadians were prepared to receive the British and Americans with open arms as citizens. Investment of foreign capital on the private level (not Government level) must always assume, under existing international conditions, that the lender, if necessary, is prepared to live in the country to which the capital is exported and that the receiving country is prepared to accept the lender as its citizen, unless, of course, the lender belongs to a country which is in a position to exploit the country which receives the capital. It is for this reason that as long as Ceylon was a colony it received the full benefits of British capital. But since Ceylon won its independence there has been a net efflux of foreign capital. It is true that foreign capital could be obtained at Government level under certain conditions, but it would always have political strings attached.

The only way, in terms of Ceylon's present status, would be the mobilisation of our domestic savings and resources. The country's domestic saving is very poor, the chief cause being the fact that a great majority of incomes in the country are very low. It should also be clear that low incomes and low savings constitute a vicious circle. Low incomes keep savings low while low savings in its turn keep incomes low. Another cause for the low rate of savings in this country is the prevailing weakness among the higher income groups for high living. Consequently even those people who have the power to save do not save as much as they could. This economic evil should obviously be eliminated if the country is to be developed on its own resources. One need only be reminded of the plight in which Great Britain has found herself. At the time when Great Britain was in a position to expand her economy by virtue of her vast sources of raw materials and markets for her finished products and had large scope for the formation of private capital both domestic and foreign, a high standard of living became possible. But now, with a high level of taxation and consequently meagre capital formation, with no relative advantages over other countries in regard to raw materials and markets for finished products and with the rival development of industries in new countries, she is finding it impossible to maintain the standard of living to which she has been used in the past. We in Ceylon could take a lesson from



Great Britain and do away with a false standard of living not in keeping with our economy.

Another aspect is the need for investments in new productive enterprises. In the absence in this country of an indigenous background of industrial and commercial experience and efficiency it will be asking too much of the people of this country to venture out on new enterprises without any aids from the Government or from a technical body on whom they could depend for proper guidance. One cannot in this connection agree with the view that the Government should not introduce regulations to help the indigenous interests as against foreign interests. It is dangerous, in this world of economic nationalism, for this small country of ours to follow the advice of those of the make up of the elephant which is supposed to have said "Each man for himself and God for all", as he danced amongst the chickens. Even some nationals in authority have expressed the view that as long as Ceylonese do not have the necessary experience to engage in trade or industry it is idle for the Government to introduce discriminatory regulations in their favour. One cannot agree with this complacent view although it must be admitted that Ceylonese lack industrial experience and efficiency. But it is up to the Government to introduce schemes that would enable Ceylonese to have at least one advantage over the foreigner and that is by providing cheaper credit facilities. I shall deal with this aspect of the problem later.

In regard to savings the Government is going all out to develop the saving habit by various methods. As a measure to encourage savings and reduce money in the private sector I would suggest that the Central Bank induces commercial banks with large funds and high liquidity ratios to assist the private sector to invest more in Government bonds. In this connection I have put forward a proposal to the Central Bank in my personal capacity that commercial banks should be induced to buy on behalf of their customers, against marginal cash deposits of 10%, Government bonds on tap by advancing the other 90% in the form of block loans, payable over a long period and to be reduced by monthly instalments. The rate of interest on such loans, according to my suggestion, should be  $\frac{1}{2}\%$  per annum lower than the face rates of the Government bonds. For example, a person who could lodge Rs. 10,000/- cash as marginal deposit would be in a position to purchase through his bank 3% Government bonds on tap to the face value of Rs. 100,000/- maturing, say in twenty years, by borrowing Rs. 90,000/- at  $2\frac{1}{2}\%$  per annum in the form of a block loan to be repaid by monthly instalments over a period of five to ten years. The advantage to the customer is that during the first month his yield on his own capital of



Rs. 10,000/- would be  $7\frac{1}{2}\%$  per annum. Although this rate of return would diminish with every payment of loan instalment over the period of the block loan, he would obtain on the average a much higher return than the 3% interest allowed on the Government bond. As far as the lending bank is concerned, the lower rate of interest earned is compensated by a shorter period of maturity of the block loan with the added advantage of any risk of depreciation of the security being shifted on to the private investor. To what extent such a scheme is feasible would naturally depend on the financial position of each bank and the composition of its assets. One advantage to the country is that there will be a reduction in the money supply of the private sector to the extent of the initial margin and further instalments paid in reduction of the bank loan.

One must view with anxiety the high level of taxation resorted to by the Government. The older countries have come up to their present level of economic development primarily due to the accumulation of private capital and not due to any conscious policy on the part of any credit machinery to induce such accumulation. Can we at the present stage of our economic development afford to copy the fiscal systems of advanced countries? Leftists have even advocated the appropriation by the State of all incomes above a certain level. What we require is a fiscal-cum-credit system that would restrict spending on high living without endangering the incentive to earn. The country has been experiencing a boom in its export prices and incomes and this boom is partly responsible for the inflationary pressure from which the country is suffering. In addition to the Government budgeting for a surplus, I consider it essential that wherever practicable higher export duties and taxes should be levied and a portion of such collections credited to a special Capital Fund maintained at the Central Bank. It should be owned by the payers of the duties and taxes in the proportions in which they have contributed, but managed by an Investment Board represented by Government, the Central Bank and other bodies, which could use the Fund to provide initial capital for new ventures planned under technical advice, run by private enterprise and owned by those who have contributed towards the Capital Fund and others who have taken up shares voluntarily. Some of the ventures I have in mind are a Shipping Corporation, a Fertilizer Plant and an Import-Export Corporation. Even those enterprises like the Cement Factory now run by Government could be handed over to private enterprise under this scheme.

In an undeveloped country like ours any efforts we make in the direction of savings and investments in the private sector cannot provide a complete solution for our economic problems



except in the long run. A well developed banking and credit system is in addition required, capable of meeting our problems both in the short and long-terms. The social and economic conditions of a community are not static. They constantly alter and develop and it must have a banking and credit system elastic enough to adjust itself to the changing conditions and needs.

Any credit system that is not adaptable to changing needs cannot be called satisfactory. If, therefore, we are to make any success of any credit system—and in my opinion the only system that can provide under modern conditions most of the credit needs of the country is an efficient banking system—we should enable the credit system to provide long-term credit in addition to short-term and medium-term credit.

It is argued sometimes that in other countries where banks have mixed up long-term financing and commercial banking, the banks have found themselves in difficulties, the examples usually quoted being those of Germany and the United States. Alleged parallels of this sort are not very helpful, particularly when it may be questioned whether the banking failures in those countries could have occurred under different banking set-ups. Even if the assertions be true the moral would seem to be to avoid the mistakes made in those countries and not in condemning wholesale any increased part taken by the banking system in the long-term financing which is usually required by new enterprises. The problem that should be faced is how can the private investor effectively carry the risks of supporting new enterprise if an institution cannot do so? How can the private investor finance new business at all if the outlay required is a large one? These problems, I admit, cannot be solved by banking alone, but an efficient banking system can help in the raising of capital from the public by taking an initial interest in fostering an undertaking which gives promise of success. Some may suggest a National Investment Board to explore unknown fields in industry but the main point which suggests itself is that any organization for investing in new enterprise must work in close contact with the banking system. This does not necessarily mean that the banking system should be the sole or even the main source of its funds. What the banking system can contribute is the knowledge acquired by its contact with industry and commerce throughout the country. The banking system could of course invest a certain proportion of its funds in such an organisation for medium or long periods if it felt like doing so. But the valuable contribution which the banking system could make is its net work of contacts throughout the country. The knowledge that banks possess of the capacities and financial standing of those with whom they



deal and the easy access they provide, should all prove invaluable. No amount of mortgage banks or agricultural credit banks could establish such satisfactory contact with the people who engage or wish to engage in industry and commerce.

In a banking system consisting of several deposit banks one particular bank may fall into difficulties if it has tied up its funds in long-term advances and is at the same time losing deposits to other banks or elsewhere. I am of the view that the best banking system that would meet our country's needs is one consisting of a Central Bank and one indigenous bank of the "mixed type" run by private enterprise and granting short-term, medium-term and long-term credit with part Government capital and ultimate control by Government if necessary, with co-operative banks to cater to those in the interior villages that cannot be reached by normal commercial banks and branches of foreign banks already operating in the country but to function purely as exchange banks debarred from accepting the deposits of nationals, as is the case in New York. It must be admitted that such a system might provide scope for the one indigenous mixed bank to abuse the monopoly it would naturally possess. But this could always be guarded against by a broad based Board of Appeal functioning alongside the Central Bank authorities to inquire into complaints against the bank regarding such matters as questions of exchange, interest and other bank charges—which could then be much lower than under the present competitive conditions as a result of larger turnover in business and larger profits—or accusations of discrimination between customers. One should not forget the high bank charges nevertheless obtaining in other countries which have several banks supposed to work in competition with one another. In reality these banks have formed themselves into Associations and work on the principle of the minimum fixed rate, i.e., no bank is allowed to undercut another member bank. Consequently the public do not actually obtain the advantages of competition in rates or the advantages of controlled lower rates that would obtain in a bank which though enjoying a virtual monopoly is yet controlled to cater to the larger interests of the public. The so called advantages of competitive banking are therefore limited to competition in the quality of bank service. Those who may oppose a banking monopoly in Ceylon should therefore be satisfied by a system where the bank enjoying the monopoly ensures competition in the quality of service through rival branches operating in the same town. I am of the view that under such a system the management of each rival branch would bring to bear its personal qualities in providing a competitive factor in the banking system. The broad idea underlying my suggestion for a banking system of the type referred to above is that under such a system



working with a highly developed banking and cheque using habit and with deposits almost centralised in one bank, it would be practicable for the quantity and quality of bank credit needed for a country's progress and development to be made the determinant of the type of bank deposits and/or capital desirable for the purpose.

Our economic problems require a complete re orientation of our ideas about banking. In older countries banking developed not under any conscious planning by Government but through a process of natural development influenced by conditions then prevailing. So it came about that different banks grew up under different administrations and ideas and with profit motives as their primary objective. It was natural, therefore, that Central Banks had to be created to co-ordinate the working of the different banks and divert their resources to the larger interests of the respective countries. I do not think that any effort was made to overhaul completely the banking set-ups to suit the changing needs of the different economies. On the contrary the different banking set-ups would appear to have been taken as rigid and fixed and the needs of the respective countries adjusted on this basis. What is required in our country is a complete overhaul of our banking machinery so that it would be made subservient to the needs of the country.

Under the banking system I advocate for this country with one bank receiving all the national deposits a good percentage of the deposits held by the one indigenous mixed bank though mainly kept by depositors for purposes of spending, could from the bank's point of view be considered as a permanent fund that would not be withdrawn except under abnormal circumstances, arising for example from a severe adverse balance of payments or from an abnormal desire on the part of the public to hold cash. These questions need not unduly worry us under existing conditions. Moreover one should not forget that such problems do arise even under any other banking system but with greater force and more complications.

A commercial bank faces two problems of liquidity—(1) how soon its assets can be realised and (2) whether a part or the whole of its assets can be realised. The first problem will always be present in a country which enjoys a multiple banking system with several banks competing with one another. The second problem is not an important one in advanced countries where borrowers have a background of commercial and industrial experience and efficiency. In our country however this problem assumes prime significance. Advances of a bad quality must of necessity be a feature that cannot be ignored in a country waking up from a



long sleep to find itself very backward indeed. The liquidity problem would under the banking system advocated by me lay more emphasis on the quality of bank credit rather than on the pattern of its assets in relation to deposits. In short such a system would be strong enough to stand losses arising from advances of a bad quality. What an undeveloped economy like that of our country requires therefore is a strong mixed bank, the sole repository of public deposits with the capacity to build up large reserves out of profits as cushion against the shocks of financial losses that must necessarily be incurred by the bank if it is to achieve its main purpose.

At this juncture I would refer to the very recent Government regulations restricting imports from Japan and Germany to Ceylonese as a step to Ceylonise trade. I am afraid the Government has not approached the problem in the right way. The Ceylonese, on account of their lack of experience and efficiency in commerce, can never hope to get the better of the non-Ceylonese in this field unless they obtain definite advantages over the non-Ceylonese in the field of finance. If therefore the Government would give effect to my suggestion, that is, prohibit foreign banks from accepting deposits from nationals, not only would the Bank of Ceylon be in a position to reduce its charges to Ceylonese but also would accumulate reserves out of large profits as cushion against large losses that would naturally be incurred by the bank in assisting Ceylonese. The Bank of Ceylon cannot, under the existing banking system, be blamed if it plays for safety.

If the Government really deems it necessary to have another indigenous bank to work in competition with the Bank of Ceylon, it will be necessary for the Government to restrict national deposits to national banks in the first instance. Otherwise two indigenous banks competing with each other would make foreign banks relatively stronger and hence perpetuate the advantages the foreign business man and trader already enjoys over the Ceylonese. If the Government does not feel any qualms in forcing non-Ceylonese to hand over their goods imported from Germany and Japan to Ceylonese and in compelling non-Ceylonese business houses to employ Ceylonese, then I am sure the Government cannot have any valid reason against prohibiting foreign banks from accepting deposits from nationals. The Government, in this connection at least, can take a lesson from the United States' regulations which place a similar restriction on foreign banks operating in New York.

My views in this connection may be coldly received by those who cannot shut their eyes to the banking systems of countries like Britain. I would ask them to remember that the fact that



these countries are still holding on to their old banking systems need not necessarily mean that these systems are satisfactory. The ideas underlying these systems have been so ingrained in the very life of the people of these countries that any radical change would be unthinkable. Vested interests too would naturally oppose any change. Our country on the contrary has a banking system which is still largely foreign except for the Bank of Ceylon which is owned by the people of this country and by the Government. Any restrictions on foreign banks therefore would not involve any conflict with indigenous interests and there will be ample scope always for the establishment of more indigenous banks provided national deposits are restricted to national banks.

What I urge is that we should examine our problems from first principles and evolve a banking system to suit our needs and not take for granted the existing banking system or the principles underlying it as rigid.

It should be noted that the views expressed by me are purely my own and do not necessarily reflect those of the Directorate of the Bank of Ceylon whose employee I am.



## Economic Development of New China

*Following is an abridged text of the report on China's economic and financial work made on October 25, 1951, by Chen Yun, Chairman of the Committee of Financial and Economic Affairs, to the current session of the Chinese People's Political Consultative Conference.*

At this third session of the National Committee of the Chinese People's Political Consultative Conference, I am going to report on three subjects: agriculture, industry and commerce and finance. Our work in these three spheres has made significant progress in the past year. The progress has been achieved in a period in which the people throughout the country have exerted their vast energies in the great struggle to resist American aggression and aid Korea. This is a fact of enormous significance. It may be seen from this that the struggle to resist American aggression and aid Korea does not, as the imperialists had groundlessly expected, prevent us from restoring and developing our economy. On the contrary, our people's economy has received, in the struggle to resist American aggression and aid Korea an impetus which helps to bring about speedy progress. This shows the consolidation and superiority of our People's Democracy. This shows that our country cannot be defeated by any enemy.

### 1. In the Field of Agriculture

In giving a general picture of this year's agriculture, it can be said that all the main important grain areas have had excellent harvests and that only the harvest in Kiangsi Province is fair. Some other places, not the main grain areas, suffered drought or flood. Now autumn harvesting is taking place throughout the whole country. It is as yet difficult to specify the grain output on a nation-wide scale, but it is estimated that it definitely surpasses that of last year. This year, cotton fields have been greatly expanded, surpassing the crop before the war of resistance to Japan and have broken China's record cotton harvest. Tobacco, hemp, tea and silk have also shown a rise in output compared with last year.

This year, nature was not so kind as last. A few places in the north have suffered from drought and flood. And the increased growth of industrial crops has resulted in a comparative reduction in grain cultivation. However, our total grain output betters that of last year. This is a very important fact. But what has caused it?



There are three causes. First, land reform has been carried out, rents reduced, deposits refunded, markets found for the peasant's products from side-occupations and help of all kinds has been given by the Government and the co-operatives. Thus the peasant has begun to be able to expand his production; a clear proof is the fact that the state trading concerns and co-operatives this year have sold much more fertiliser than last year. Second, the Government in the past two years has spent huge sums for water harnessing works which have now begun operations. They have minimised the danger of floods and increased the amount of irrigated land. Third, the People's Government has made great efforts to guide the peasants in agriculture. 60 to 70 per cent of peasant families in the old liberated areas have joined mutual-aid teams, which have also been growing in the more recently liberated areas. This year locusts and boll weevils and other insects at one time menaced an area of over six and one half million hectares, but the People's Government organised a campaign to wipe out the pests, mobilising 800 million work days from among the peasants. The insects were killed and thus a disaster was averted. The KMT reactionaries took neither of these measures in their 22-year rule of China, while the People's Government directs the peasants in gradually carrying out these reforms and construction work. It is, therefore, only natural that the people support our Government.

Apart from their patriotic movement to raise output in the current year, the peasants have, since June, on the call of the Government to sell and deposit cotton, sold great amounts of their cotton stocks to the Government in a spirit of patriotism, thus enabling textile plants all over China to carry on their production according to the revised plan.

Although this is a year of excellent crops for China with increases in grain production, we will still devote ourselves next year to leading the peasants in increasing grain production and at the same time, devote special attention to regulate the supply and distribution of the nation's grain. In 1952, the acreage to be put under grain and industrial crops will be stabilised on the basis of this year's level. There will not be a reduction in the acreage under grain. Unplanned expansion of cotton acreage, in particular, will be strictly checked. The basic policy of agricultural production in 1952 is to concentrate all our effort on raising yield per hectare.

## 2. In the Field of Industry and Commerce

There is further progress in the restoration of China's publicly and privately owned industries. In iron, steel, coal and electricity, taking last year's production as 100, this year's output will reach



the following figures: pig iron, 131; steel ingots, 142; finished steel, 178; coal, 118 and electricity, 122. In light industry, production of cotton yarn and cloth, gunny bags, paper, flour, cigarettes and matches has risen. Except for cotton yarn and cloth, the increase of which is below 10 per cent because of an insufficient cotton supply, this year's production of various other items all top last year by 20 to 35 per cent. The increase in industrial output proves that China's domestic market has expanded. Three factors have accounted for the increase in industrial output, namely the increased rate of operation, the repair of old equipment or the acquisition of new equipment and last, but of vital importance, the rise in labour productivity and the production rate of existing equipment. This means that output is increased not by new machines or by the increased rate of operation in factories and plants, but by the heightened enthusiasm of the workers, technicians and office personnel for increased production in the patriotic resist American aggression and aid Korea movement following the democratic reforms in industrial and mining enterprises.

The movement for increased production among workers and office personnel is in full swing not only in many state-owned factories and plants but also in privately-owned enterprises. This increased production is an important contribution to the nation by the workers, technicians and office personnel. The People's Government is grateful to them for their keen patriotism.

There is also further restoration in commercial fields as a result of the rise in industrial and agricultural production. According to statistics compiled by the Bureau of Privately-owned Enterprises of the Committee of Financial and Economic Affairs of the Government Administration Council, from January to June 1951, 28,623 new trading concerns were opened as against 7,378 old concerns which suspend operations in six major cities of China. The number of shops opened is more than that closed. This year's increase in revenue in the form of industrial and commercial taxes and commodity tax is precisely a proof of the further restoration of industrial and commercial enterprises. Wide exchange of goods between city and countryside by state trading departments, co-operatives and private enterprises and public and private transportation concerns in all parts of China is the important reason for the restoration of commerce. But the progress of various trades is not at an even rate. Some are restored rapidly and expanded; some are restored slowly. Some are declining because they do not meet present requirements. The state of disequilibrium, in which restoration, development and decline exist side by side, is normal. This shows the transformation of the national economy from its old lines to a new line. Such a transformation is indispensable and will be continued.



The further restoration of industrial and commercial enterprises has reduced the number of unemployed and increased the number of employed. According to statistics of the Ministry of Labour of the Central People's Government, in June 1950, the number of unemployed and semi-unemployed workers and jobless professionals in 29 cities of China totalled 1,660,000. By the end of 1950, it was cut to 610,000; and by the end of July 1951, to 450,000. Most of the unemployed are those who are old and physically weak or unskilled. At present there is a deficiency, not a surplus, of technicians, skilled workers and intellectuals of high school standard and above.

Investment for national economic construction in 1952 will primarily concentrate on productive enterprises related to national defence and, at the same time, will continue water conservancy work. All state and privately-owned factories which are capable of increasing production should do their utmost to increase production. Necessary and proper awards and encouragements will be given to workers who make contribution to increasing production. As to the entire national market, a further step will be taken to promote trade between city and countryside, to promote foreign trade and to continue financial and price stability. I hope that people throughout the country, all workers by hand and brain and industrial and commercial circles throughout the country will closely co-operate with the Government, make efforts to increase production and stabilise the market and strive for continued improvement in the national economy.

### 3. Financial Situation

American imperialism has invaded and occupied our country's territory, Taiwan, is carrying out armed aggression against Korea and threatening the security of our mainland. Therefore, we cannot but strengthen our national defence. This means that a certain amount of finance, which originally might have been used in economic, cultural and other fields, must be diverted to national defence needs. This diversion is necessary in order to defend the country and protect the people. But even under these circumstances this year, our country's investments in economic construction and appropriations for cultural activities still exceed last year's. This year, the total amount of national expenditure showed an increase over last year. Nevertheless, through the restoration of the national economy, national income has also increased rapidly. State enterprises have greater incomes because of increased production, the people throughout the country are paying taxes on time, industrial and commercial circles in various areas are signing patriotic pacts and paying taxes collectively. These acts of patriotism have contributed much to the state treasury and facilitated the country's financial adjustments. The



currency issued by the state this year has not exceeded the volume required by the market by reason of developments in industry and commerce. The rate of increase is not greater than last year's. It is precisely because of the various reasons mentioned above that financial and price stability throughout the country can, in the main, be ensured.

Land reform, rent reductions and deposit refunds have improved the livelihood of peasants. Economic revival, increased employment and decreased unemployment have lessened the difficulties of the urban population. This is to say, the living conditions of the majority of the people of our country have been more or less improved. To practise economy and increase production is an important part of our financial policy. In the Northeast this year, what is saved through economy and increased economic production alone are valued at 10 million tons of grain. If we practise economy in all fields throughout the country, we can make huge sums available for economic investments and strengthening national defence. Therefore, from now on, we should launch the movement, on a national scale, to practise economy and increase production.

In a word, during the two years since the founding of the People's Republic of China, we have accumulated rich experience and made tremendous achievements in our work in various fields and this also applies to our economic and financial work. Most of our agricultural and industrial production has been nearly restored to the highest level in our country's history. A part of agricultural and industrial production has surpassed or even greatly surpassed the peak level in China's history. Only a part will take several years' effort to reach this level. Our country's finances are fully capable of supplying the urgent needs of national defence, economic, cultural, educational and other fields. Thus, we have laid a firm foundation for the great future economic construction of New China. Of course, we still have difficulties, but we can overcome all of them. We hope that next year's work will be even better than this year's. I think, so long as the personnel of the People's Government, the various democratic parties, democrats of all circles and people in different walks of life of various nationalities unite closely and make common endeavours, next year's work will certainly be better than this year's.



## New China's Customs

SHIH HAO

China's customs, formerly under the control of the imperialists who used it to strangle China's economy for more than 100 years, has now become a bulwark for the protection of the nation's construction. In 1950, for the first time in 73 years, China showed a favourable balance of trade. The volume of export surpassed that of import by 9.34 per cent. The total volume of foreign trade considerably surpassed the annual average of the pre-war figures. This was possible because the Customs Administration is now an independent, sovereign state organ in the hands of the people.

The new customs protects China's young industries. No longer can the imperialists dump their goods on China's market to destroy her home production, drain off her raw materials and thus relegate China to the status of a backward and semi-colonial country.

It was not long ago that the imperialist-controlled Kuomintang customs set extremely low duty rates, if any at all, on imported commodities. The tariff rates could not exceed 5 per cent *ad valorem*. It thus worked out that a pound of Chinese tea exported to England was taxed 465 per cent of its value, while a pound of opium imported from British territory could be taxed no more than 5 per cent.

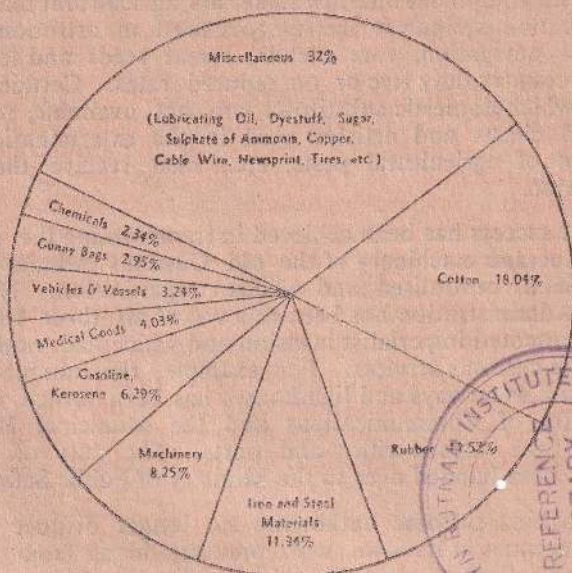
In 1936, manufactured and semi-manufactured goods constituted 76.32 per cent of China's import trade. Machinery and tools essential to industrial production accounted for only 6.37 per cent.

However, in 1950, one year after liberation, imported goods fell mainly into the categories of industrial raw materials, machinery, equipment of various kinds, fertiliser and packing materials, all essential to industrial and agricultural production.

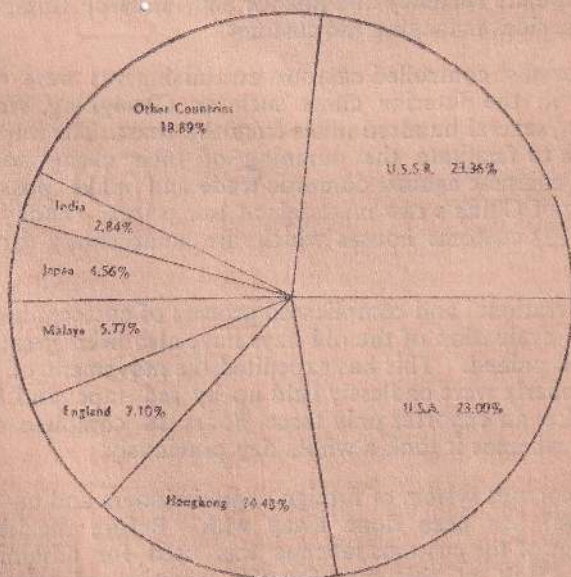
Duties levied on imports are designed to protect state and private production against the competition of foreign goods. Cigarettes, for example, can be produced in China in large quantities. To protect this industry the customs duty on imported cigarettes has been raised from 200 per cent before the liberation to 400 per cent now. Rice, a product exempted from all import duties before, has a 20 per cent duty levied on it because China is growing sufficient rice for her needs and, in fact, has enough to export to India. The customs duty on sewing machines which was 15 per cent before has been raised to 60 per cent as such machines are being made in China.



## CHINA'S IMPORT IN 1950



## CHINA'S FOREIGN TRADE IN 1950





Goods which China produces in insufficient quantities such as industrial equipment and raw materials, agricultural machinery communication equipment, instruments used in astronomy, aviation and navigation, rare metals, cereal seeds and fertiliser, enter the country duty free or on reduced rates. Certain medicines for which domestic substitutes are not available, scientific books and charts and articles used in the extermination and prevention of agricultural pests, etc., also receive the same consideration.

Great success has been achieved in transforming the corrupt and bureaucratic machinery of the old Customs Administration into a unified, centralised and efficient organisation. The new Customs Administration has been relieved of all those functions which represented imperialist invasion and which had nothing to do with the customs services. For example, the administration of harbours, waterways and lighthouses has been turned over to the Ministry of Communications and the Municipal Harbour Bureaux of the various cities and ports. The duty of coastal patrol has been handed over to the Ministry of Public Safety.

New China customs authorities no longer dispose of the customs revenues at its own will, procures loans from foreign powers and collects "indemnities" imposed on the Chinese people by foreign imperialists as the old customs did before liberation. There is no longer a foreign Inspector-General here to play politics, manipulate currency and finance and influence foreign trade policies, besides managing the customs.

Imperialist-controlled customs establishments were once set up deep in the interior cities such as Chungking, Wanhhsien, Shasi, etc., several hundred miles from the coast. The imperialists used them to facilitate the dumping of their cheap goods far inland to compete against domestic trade and make possible the absorbing of China's raw materials at low prices. Today 103 of the total 173 customs houses which are unnecessary have been abolished.

The irrational and complicated process of customs inspection and cargo evaluation of the old days have also been greatly simplified and unified. This has expedited the movement of cargoes which formerly were endlessly held up by red tape and bribery. It now takes an exporter only three hours to complete customs clearance whereas it took a whole day previously.

The corrupt system of foreign commissioners and an Inspector-General has been done away with. Before the liberation 20 per cent of the customs revenue was used for administrative expenses. Half of this was for the payment of salaries and



allowances to the non-Chinese staff. The Inspector-General alone received an annual salary of U.S. \$33,600 with numerous allowances to boot. The new customs has reduced administrative expenses to 2.5 per cent.

With the overthrow of the imperialists' control on customs which symbolised foreign domination of China, the people of New China have determined never to let their country's sovereignty again pass out of their hands.

## China Carrying Out An Extensive Afforestation Program

KAO SHAN

For ten years the peasants of Tayichen Village at the edge of the Mongolian Desert have been relentlessly driven out by the sand. They have often wondered where the desert would eventually force them. Waves of sand had buried their fields, rolled up the streets and swallowed up their homes. So twice during the past ten years, the village picked up lock, stock and barrel and moved on. Today sand dunes again pile high at the edge of the village.

Tayichen Village is but one of many villages in the threatened region which covers 86,000 square kilometres in Northeast China. This area is bigger than that of Switzerland and Denmark put together. These villages have been in constant danger of being buried by the drifting sand ever since the wanton destruction of forests by the Japanese and the Kuomintang rulers. Here, the sand storms blow and the sun is a yellow glare nearly all the year round. Peasants fight hard against nature but their harvests only get smaller as time goes by. It is said that Mukden, the biggest city in Northeast China, would one day be buried if the shifting sand is not checked on time.

The desert, however, has met a great foe for only one year after the establishment of the People's Government, a plan was made to provide shelter belts to check the sand. This plan is scheduled to be carried out within twelve years. The peasants in this area aim to shorten the time. They have said, "If the government can supply us with enough saplings, we can plant our quota in three years." Liberated from the age-old feudal fetters, these peasants have proved to be enthusiastic workers. As a result, 4,000 hectares were successfully planted in the spring of 1951. Hundreds of former workers in forests are being given further training so that they will be able to carry out the re-afforestation plan in the future.



By the time the plan is completely carried out eleven years from now, every ten or twelve hectares of land will have been surrounded by windbreaks and every ten kilometres will have been provided with a 30 to 50 metre wide shelter belt. Trees will also have been planted on the mountains and along the banks of rivers to prevent erosion. Floods, droughts, sand storms and epidemics will have been controlled or reduced. The climate will have improved.

It is estimated that 2,480,000 more tons of grain will be gathered every year as a result of the increased crop yield per hectare and the availability of 2,500,000 more hectares of cultivable land. Forest products will be worth more than 940,000 tons of grain. Besides, people in the area will have more than enough firewood and better and more healthful living conditions.

Besides her determination to conquer the desert in the Northeast, New China has achieved much in afforesting other areas during the past two years. In 1950 more than 123,000 hectares of land were afforested and individual peasants planted an additional 300 million trees. During the last spring alone 200,000 hectares of land, more than the total acreage afforested during the 22 years under the Kuomintang regime, were planted with trees. More than 100,000 people in eight countries of West Hopei Province participated in the afforestation program last year. As a result, nearly all the sandy wastes there have been surrounded by windbreaks.

Besides planting, all-out efforts have been made to preserve forests and create new ones. Sparsely-forested land have been set aside as forest reserves. These reserve areas are strictly guarded against grazing and felling. By natural propagation, the number of trees in these areas has increased rapidly. At the same time, the major menaces to China's forests—fires and unplanned timber felling—are being brought under control. In 1950, forest fires were reduced by 35 per cent compared with 1949 due to joint efforts of the government and the people. More than 20,000 teams have been organised by the people to guard against these two destructive forces.

Of China's total area of roughly 933,000,000 hectares of land, only 50,000,000 hectares, or just over 5 per cent, are forest. There is a long way to go to reach and maintain the optimum forest conditions for the country. But the People's Government, with the strong support of the people, can do much. The people have seen the Huai River, which used to flood vast areas of land and make millions of people homeless, brought under control. The people appreciate the added blessings that have been brought



about by the rich harvests gathered in these formerly devastated areas. To further control nature, the Ministry of Forestry is working on a 30-year plan to afforest half of the land suitable for forest production in China. This area is 11 times the size of the British Isles.

The Chinese people have full confidence in transforming nature as they have already transformed the political and economic structure of the state as a result of the revolution.

## Shanghai Exhibition Spurs Trade

SHIH HAO

Recently I spent a whole day in visiting Shanghai's greatest-ever exhibition—a mammoth affair devoted to putting on view for the benefit of the general public and business and trading interests a vast range of products which China's regenerated industry, agriculture and handicrafts are now turning out in ever increasing quantity and improved quality. A day was not really sufficient—one could have spent a whole week there, so interesting did I find it.

The exhibition grounds occupied upwards of 100 acres of Shanghai's famous Race Course, which, unlike most race courses, has the virtue of being situated in the very heart of the city and was housed in 16 great pavilions. More than 10,000 exhibits, ranging from modern engineering machinery of all kinds and their products at one end of the scale to an amazing variety of beautiful peasant handicrafts at the other were displayed to full advantage and in many ingenious ways.

Fish and various kinds of sea foods were laid out inside a giant model of a fishing trawler. A solid city wall built of tea bricks formed part of the tea exhibit. Animal products were shown in a great pavilion shaped like a Mongolian tent. In the Hall of Silk were dolls richly dressed in Chinese silks and representing the traditional costumes of the various nationalities of the Soviet Union and the New Democracies. These countries are now the best buyers of this famous product of China. In the centre of the floor of the Hall of Handicrafts anchored "S. S. Liberation" bound for East Europe loaded with Chinese handicrafts such as embroidered lingerie, laces and linens, beautiful rugs, lacquer wares, cloisonne, ivory and crystal carvings.



The exhibition has attracted phenomenal crowds of visitors—114,000 passed through the turn-stiles on the opening day alone—not only from amongst the city's 5 million inhabitants, but also of trade delegations from a large number of state and private trading organisations from other cities and provinces far afield.

This was no ordinary trade or commercial exhibition, but a happy event in the life of the people of Shanghai. It symbolized their victory in the struggle against the blockade imposed by the American imperialists. It epitomised too, the triumphal success which has been achieved in the restoration and development of China's industries. It afforded striking visual evidence that Shanghai, from being a semi-colonial city dependent on foreign raw materials and markets, had now in the short space of two years since it was liberated from Kuomintang rule, completely eradicated all imperialist influences and had become almost completely economically independent.

The carrying out of Land Reform in East China had freed 100 million peasants from the restrictions of feudal agriculture. Now possessing their own land, their greatly increased production had brought such improved wellbeing as to constitute an enormous domestic market—a key factor in paving the way for industrial development.

One of the primary purposes of the exhibition was to provide a great new stimulus to the inter-flow of goods from city and countryside.

### **Urban-rural Interflow of Goods**

It was only natural therefore that all routes in the exhibition area led to the Hall of Interflow of Goods which, unlike the other 15 exhibition halls which displayed local products, consisted of a collection of models, pictures and charts, vividly explaining the new trade policies of China.

On entering the hall, my gaze was irresistibly drawn to a giant map of the People's Republic of China which graphically indicated the areas of her various rich products. Alongside were charts and pictures showing that three hundred million peasants now own their land as a result of the Land Reform and that the Government has spent the largest sum in Chinese history for water, conservancy and irrigation works. In many ways the Government has helped the peasants to expand production. As a result, food production last year exceeded that of the previous year by over 20 per cent. Cotton production is expected to entirely meet the demands of the textile industry within another year. The production of local products and handicrafts has



increased to the degree that it now represents 30 per cent of the total income of the peasants. Surpluses of all these products in different localities create a bright future for trade in this immense country.

Another coloured map demonstrated the remarkable achievements made in promoting the trade in local products during the short space of less than two years since the founding of the People's Republic. Famous tangerines produced in Hwangyeh of Chekiang were shown to enjoy a good market in the Northeast while apples produced in the Northeast are sold in the fruit stores of Shanghai. Well known silk piece goods produced in Soochow and Hangchow are in great demand in Sinkiang while the famous wool of the Northwest provinces constitutes an important source of raw material for the textile mills in Shanghai. The stout bamboo poles produced in Hangchow find many buyers in the Northeast. Tea bricks from Central-South-China arrive in Inner Mongolia. Sunflower seeds produced in the Northeast are favourites with the people of Canton. One chart showed that the volume of business in such things as medical drugs, construction materials, handicraft products and foodstuffs in Shanghai increased from 100 per cent in the first half of 1950 to 182 per cent in the period from December, 1950 to March, 1951.

Other pictures showed how the Government has tackled the problem of promoting trade in local products. State trade organs have fixed the prices of such daily necessities as rice, cloth, coal, edible oil, sugar and salt to ensure an overall stabilization of commodity prices. Simultaneously a reasonable ratio between the prices of cotton and rice has been maintained at a fixed rate with a view to protecting the interests of both rice and cotton producers. I saw a crowd of merchants standing in front of a big map illuminated with neon signs which showed that a profit of 10 per cent can be gained by transporting 220 pounds of alum from Pingyang in Chekiang northward to Shanghai and a profit of 11 per cent can be gained by transporting a sheet of straw matting from Ningpo to Shanghai.

### Customs and Taxation

That the customs and taxation authorities have aided in promoting the interflow of local products was illustrated in another set of charts and pictures. 88 inland tolls which had long existed under the Kuomintang rule were abolished in January, 1950. With the simplification of customs procedures, it now takes an exporter only three hours to complete customs clearance as compared with a whole day prior to liberation.



Unlike Kuomintang days, the peasants are now exempted from industrial and commercial taxes when they sell their products. Consignment stores, entrusted with the purchase and sale of local products, are now required to pay a tax only on commissions earned. Taxation authorities also encourage joint purchasing and marketing on the part of merchants by granting them a reduction in tax rates.

### Communications

A reduction of freight charges has been granted by the railways in the transportation of certain kinds of native products such as fish, prawns and shrimps. Eggs can be shipped at a rate 42 per cent lower than that in June, 1949. The People's Insurance Company also has been encouraging the local products trade by lowering the rate of shipping insurance. Rates between Shanghai and Tientsin, for instance, have been lowered by 37.5 per cent as compared with that in the Kuomintang days.

Most noteworthy has been the remarkable service rendered by the Joint Transportation Company in organizing all kinds of transportation vehicles. This service emphasises simplicity of procedures, prompt and safe delivery and economic transportation expenses. One model vividly showed how the 4,500 tons of tea produced in the Taipieh Mountain area of southern Anhwei is transported to Shanghai and Tientsin by manner of all kinds of both modern and primitive transport means including carrying poles, wheelbarrows, bamboo rafts, junks, ox and horse carts, motor trucks and railway trains.

Near the exit from this exhibition hall hung a huge oil painting showing a cluster of factory smokestacks on one side and a beautiful farm on the other. In the foreground of the picture stood a peasant woman carrying a sheaf of golden wheat and a young worker pointing to the azure sky. Indeed this bright future of New China as depicted in the painting is already in prospect as the interflow of goods increases day by day.



## A 45-Year-Long Dream Fulfilled

WU MIN

Never before had the Chunking Railway Station held such a huge festive crowd as on this early September morning. The people had come to send off the first train to leave for Yungchuan on the recently completed 164-kilometre section of the projected Chengtu-Chungking Railway in Szechuan, Southwest China. For 45 years they had looked forward to this happy event. Workers, peasants and students danced, set off firecrackers and beat drums and gongs as the silk-draped locomotive carrying the portrait of Mao Tse-tung started on its way.

People all along the country-side waited hours to watch the long-hoped-for "iron bull" pass by. Whenever the train reached a new stop, it was greeted by the local people who had organised celebration meetings to give expression to their joy and pride in the railway.

The completion of the first stretch on September 1, 1951 represents the accomplishment of a portion of a great engineering feat. For as an old saying goes, "Travelling in Szechuan is as difficult as going up to the blue sky." Tall rugged mountain, bar the footsteps of travellers in most parts of the provinces while turbulent and whirling rapids running through narrow gorges make water transportation a dangerous enterprise.

But the mountains themselves are rich in such essential minerals as iron, coal, salt and oil. Between these mountains and rivers is fertile land. The area around Chengtu, often called "the granary of Szechuan", is noted for its plentiful rice produce. Ten per cent of China's salt is produced in Tzeliuching, a town near the Chengtu-Chungking rail line. The annual production of sugar in Neikiang, frequently dubbed "sweet town" is 650,000 tons. Each year some 70 million oranges are produced by Kiangchun county alone. Szechuan which is the size of Japan is commonly known as "the heavenly land."

However, because of difficulty in transportation, salt is sold at a very high price in many Szechuan counties, although the natural salt wells of Tzeliuching are in the same province. Big, juicy, sweet oranges rot on the trees because shipping them out is too expensive.

When the railway is completed, it will transform the life in this area completely. For example, the freight charges for shipping sugar by train, rather than by motor truck, from Neikiang to Chungking would have an 85 per cent reduction. The cost of transporting salt from Tzeliuching to Chungking would be 95 per cent less. The Kiangchun oranges could be transported to Chungking by rail and thence delivered to other parts of the country by water transport.



The Szechuan people know very well that a railway would greatly benefit them. During the course of 45 years they had appealed to emperors, to warlords and to the Kuomintang to build a railway from Chungking to Chengtu. And as early as 1906, the Manchu Government told the people, "We shall build the railway, but you people must pay for it." Then the warlords said, "We shall build if you people will stand the cost." The Kuomintang chanted the same song. All the money collected went promptly into the pockets of the exploiting rulers. Up to the time that Szechuan was liberated in 1949, not a single piece of rail had been laid.

But it was quite a different story when the people came into power. Realizing the importance of this line, the Central People's Government set to building it in June, 1950, only half a year after the liberation of Szechuan. Then the country came to life.

Hundreds of machine shops are working at top speed to fill government orders for the railway project, whereas before the liberation two-thirds of them were operating on partial capacity. The Szechuan Cement Plant which closed down entirely before liberation now finds its output falling far short of the demand although its production has reached the highest level ever known in its history.

The Szechuan people eagerly follow the progress of the construction activities. They are always ready to help whenever they are needed. For example, there is Tiao Shao-chou, a 30 year-old poor peasant, who deliberately hurt his tongue eight years ago so that he could avoid being pressganged into the KMT army. After his wound was healed he feigned muteness. When the People's Government began to build the railway, he arrived at the scene of work and, much to everyone's surprise, said, "Give me work. I will not go back home until the railway is completed." He has since become a model worker.

Once the railway administration was short of rail-sleepers. As soon as the news of this shortage reached the people, everybody set to cutting wood. Within a short time, the administration had received more than a year's supply from the various counties and every piece was made in the size and form required. Within just one year and three months, this 164-kilometre section was formally opened to traffic.

And now the Szechuan people have begun to enjoy the train service. By 1952, the whole line will have been completed. Whenever a comfortably seated passenger looks out of the window as the train winds its way along the bank of the Yangtze River, across a great number of bridges and through as many tunnels, he is thankful for the happiness and glory of living in the era of Mao Tse-tung.



## Changes in the Distribution of Income in Ceylon

1939 and 1948.

W. M. TILAKARATNA

Income Distribution could be studied from various angles according to the importance of any chosen aspect in the national economic content. Amongst these there are three main aspects from which income distribution has been studied. Firstly, the total income can be classified under the industries which produce it. If the available statistics are complete, we would then have a cross-section of the national economy. Such a classification studied comparatively at different periods of time would throw considerable light on the changing importance of any particular industry in the economy. Alternatively, the data could be subdivided functionally *i. e.* according to the different services which earned the total income. Income is then classified into wages, salaries, entrepreneurial income and other relevant categories. Such a classification would show the changing importance of different functional classes in society. A third method of classification is the one most frequently used. Here income is distributed by recipients, the "personal income distribution" is studied. Income is ranged in ascending or descending order into convenient groups and the number of earners who fall into each group is taken from statistics available. Many statisticians, notably Pareto, Gini and Lorenz have attempted to obtain, by the application of mathematical formulae to such data, the movement of personal incomes away from or towards equality.

This article attempts to study the income distribution of Ceylon from the first and third aspects mentioned above. In addition, it was thought that a classification of income into incomes of residents and incomes of non-residents would be useful. The source of all data has been the Administration Reports of the Commissioner of Income Tax, Estate Duty and Stamps. The popular objection to using this data for any kind of economic analysis is that the data does not give an accurate picture as they do not take into account any possible evasion of tax. However, when income distribution is being studied, such an objection will not be valid unless it could be shown that there is more evasion in one group of income than in another. In the absence of any definite facts to the contrary it is assumed that evasion is over-all and that there is the same proportion of evasion in each group isolated for purposes of study in this article.



Table I.

## Distribution of Income by Sources—1939 &amp; 1948.

Source	1939			1948		
	No. of Incomes	Income Rs.	Percentage of total income	No. of income	Income Rs.	Percentage of total income
Agriculture	2162	55,030,512	27.4	3248	113,219,305	18.5
Trade	3855	47,021,969	23.5	11926	206,441,331	33.7
Profession	840	6,166,331	3.1	1710	19,206,647	3.1
Employment	11800	72,479,622	36.2	42435	243,857,698	39.8
Investment	5213	18,526,329	9.2	3262	27,306,076	4.5
Miscellaneous	165	1,235,240	0.6	257	2,119,312	0.4
Total	24035	200,460,003	100.0	62838	612,450,369	100.0



### Distribution of Income by Sources

The Commissioner of Income Tax has classified the total revenue earned under six sources, namely, Agriculture, Trade, Professions, Employment, Investment and miscellaneous sources. These figures are to be found in Table 1 for the years 1939 & 1948. In 1939 leaving employment alone, agriculture occupied the position of honour as the source from which 27.4 per cent of the total statutory income of the country was obtained. It should, of course, have been so when it is recognised that Ceylon's is primarily an agricultural economy. Trade is next; being responsible for 23.5 per cent of the total income. In 1948 the position had changed. Trade has contributed 33.7 per cent of the total income, whereas the importance of agriculture has shrunk to 18.5 per cent only. Professions and Investment have contributed only very small shares of the total income in both years. At this stage, the question that arises is why trade has enhanced its importance in the national economy at the expense of Agriculture. The war years have brought about an unprecedented increase in commodity prices, mainly prices of manufactured goods. During the war Tea prices were controlled while the price of Rubber too was kept constant. The period immediately after the cessation of hostilities saw a decline in agricultural prices, mainly that of rubber, whereas traders continued to reap huge harvests of profits due to the scarcity of civilian goods and the inflation that the war had brought about in Ceylon, as in other countries. During a period of inflation there is a marked tendency for agricultural prices to lag behind prices of manufactured goods, and, of course, the trader—the middleman—makes the highest profits during the period of inflation. The total income earned by traders has increased by 339 per cent whereas the total income from Agriculture has gone up only by 105.7 per cent. This increase in emphasis of the trader in the national economy is one of its weakest links, for trade in Ceylon is mainly in imported articles which were very highly priced and earned high profits for the traders, while being a considerable burden in Ceylon's international balance sheet. The table also shows that the incomes of employees have also gone up but not to the same extent as those of traders. Employment incomes are for the most part fixed and take a greater length of time to increase. During inflation this group of fixed income earners find that the cost of living soars up while their incomes remain more or less at the same level. Professional income in Ceylon remains low because professionally trained men are few, and in the past only doctors, lawyers and a handful of accountants were necessary. Income of the two main professional classes tend to be included under employment because most of them, especially doctors, are employed either by Government or by other employers. Investment income has actually recorded



Table II.

## Distribution of Income by Residence—1939 &amp; 1948.

Status	1939		1948	
	Income Rs.	Percentage of total income	Income Rs.	Percentage of total income
Resident Individuals and Companies	140,227,596	69.9	493,206,766	80.5
Non-Resident Individuals and Companies	54,046,562	27.0	108,088,683	17.6
Others	6,185,845	3.1	11,154,920	1.9
Total	200,460,003	100.0	612,450,369	100.0



a drop between the two years. In Ceylon, where a stock market and a money market are but insignificant factors in the national economy, it is natural that Investment is at a low level.

### **Distribution of Income by Residence**

In Table 2 we have a classification of the total income earned during the two years by Residence. At the outset it is necessary to recognize what this term residence means in this context. For purposes of Income Tax a Resident need not necessarily be a Ceylonese. A person who arrives in Ceylon and who is in Ceylon for a period or periods amounting in the aggregate to more than six months during the year commencing on the date of his arrival will, if he is in Ceylon at the end of that year, be treated as a resident throughout the year. Then again, a person who has been treated as a resident throughout a period of twenty-four consecutive months would be treated as a resident until he has been out of Ceylon for an unbroken period of twelve months. This definition is far from the definition of a Ceylon Citizen. However, nationalities apart, an analysis of the data by residence, would give us an approximate idea of what proportion of the total is retained at home. The classification gives us only an approximation of the income retained at home because the mere fact that a person is a resident does not mean that he spends his total income in Ceylon. Some non-Ceylonese residents have not come to Ceylon with their families and are here only for a specified purpose at the completion of which they intend leaving Ceylon. Such residents, subject to Exchange Control restrictions, remit part of their income out of Ceylon. On the other hand, incomes of non-residents, especially those of non-resident companies, are subject to stringent Exchange Control restrictions with the result that the total of such incomes do not leave the shores of Ceylon. In this analysis there is the tacit assumption that there is a tendency for the sums thus remitted abroad and the sums thus retained to counter-balance one another. With this limitation in mind it will be possible to obtain an index of the changing importance of resident incomes in the national economy. In 1939 resident individuals and companies produced 69.9 per cent of the total income while non-resident individuals and companies earned 27 per cent. In 1948 the corresponding percentage were 80.5 and 17.6. There is a considerable decrease in the proportion of income of non-residents. It is also found that the number of non-resident individuals possessing income arising in Ceylon has decreased from 3,792 to 3,219 while the number of non-residence companies have decreased from 598 to 585. There has been a tendency during the post war periods for the non-resident companies to sell their interests in Ceylon to Ceylonese. If this tendency continues and is not off-set by the infiltration of new foreign capital, the relative importance of non-resident incomes is likely to decline further.



### Personal Income Distribution

The most popular method of analysis of personal income distribution is what is known as Pareto's Law. Pareto stated that in any country and at any given time a group composed of (1) the logarithms of incomes of different amounts, (2) the logarithms of the number of persons with incomes exceeding these amounts, should be approximately a straight line. He stated further that the inclination of this straight line would measure the inequality of incomes and that since in all places and at all times this coefficient of inequality was more or less equal, it was not possible to equalise incomes. Whether such a conclusion is logical or whether the conclusion has been borne out by the facts of history, is not the purview of this article. Lines on the basis laid down by Pareto have been fitted to incomes of residents only and it is observed that there is a greater tendency towards linearity in 1948 than in 1939. In both years there is a visible deficiency in the number of higher incomes. This may be due to either there being very few high incomes in Ceylon or there being greater evasion in these highest income groups. While it may be possible that taxpayers in these groups have not declared their full incomes, it is hardly likely that any individuals who belonged to these high income brackets have not declared their income at all. This type of evasion would not make very much difference to an analysis based on Pareto lines because the Pareto line is drawn taking into account the number of persons possessing incomes higher than a given amount. Thus the deficiency of higher incomes may not be due to evasion, so much as due to an actual deficiency in the number of higher incomes. Few men in Ceylon have really high incomes, the average income per head of the tax-paying population being only Rs. 7,500 and Rs. 7,400 for the two years, and the highest income of a resident being Rs. 335,000 in 1939 and Rs. 593,000 in 1948. In this connection, the Administration Reports of the Income Tax Commission prior to 1939 gives a Pareto line fitted to all incomes and it is noted that such a line shows a greater tendency towards linearity. Probably, the deficiencies of the incomes of resident persons are covered by incomes of companies and non-resident persons. However, the fact that such a line approaches linearity is no indication that incomes in Ceylon obey the Pareto law, for the Pareto line is to be fitted only to personal incomes whereas "all incomes" would include incomes of companies and income from miscellaneous sources as well. A Pareto line fitted to personal incomes both resident and non-resident show a greater tendency towards linearity than the lines fitted to personal incomes of residents only.



Table III.  
Personal Income Distribution—1939 & 1948.

	1939			1948			Percentage increase		
	No.	Income Rs.	Average	No.	Income Rs.	Average	No.	Income	Average
2,501 — 5,000	9748	33,839,708	3471	33094	117,751,495	3561	239.4	248.1	2.6
5,001 — 7,500	2564	15,599,222	6084	9757	59,692,609	6118	280.5	282.6	0.6
7,501 — 10,000	1338	11,578,781	8653	4263	36,989,920	8678	218.6	219.4	0.3
10,001 — 15,000	1519	18,556,594	12216	3278	39,931,482	12182	115.8	115.1	-0.4
15,001 — 20,000	615	10,633,495	17290	1594	27,477,853	17238	159.3	158.6	-0.3
20,001 — 25,000	345	7,711,718	22353	967	21,878,866	22625	180.2	183.7	1.3
25,001 — 50,000	457	15,488,236	33891	1428	48,712,651	34112	212.4	214.5	0.7
50,001 — 100,000	121	7,813,049	64571	463	31,858,738	68809	282.6	307.6	6.6
Over 100,000	37	5,838,701	157803	156	25,263,034	161942	321.5	332.5	2.6



In Table 3 the average income of each income group has been worked out. The average income has remained more or less the same except in the lowest and highest groups. The average income of those whose incomes were between Rs. 50,000 and Rs. 100,000 a year has gone up from Rs. 64,571 in 1939 to Rs. 68,809 in 1948, a 6.6 per cent increase. There is also a slight decrease in the average income of the group drawing incomes between Rs. 10,000 and Rs. 20,000. The changes recorded in Table 3 between these two periods enable one to make certain observations which are typical of a change-over from a normal period to a period of inflation. In the lowest groups the number of income-earners has increased appreciably and the average income too has increased, especially in the Rs. 2,500—5,000 group. The rise in incomes during the war would have brought into this group a large number of marginal income earners, those who were on the border-line between exemption and taxation. In the case of salaried individuals the payment of dearness allowances, in the case of wage-earners the increase of wages and in the case of others the higher profits of war years would have, on the one hand, brought in the marginal cases and, on the other hand, increased the incomes of those who were in the group already. The increase in average income declines as income increases up to about the Rs. 20,000 level and then increases again, very appreciably in the highest groups. The middle groups show very slight increases in their average incomes while the range Rs. 10,000 to Rs. 20,000 records an actual drop. In these two groups it is also noticed that the number of income earners has not increased as much as in the other groups. The upper middle class which is represented in these groups have for the most part fixed incomes. Salaries, fees etc., which do not rise as much as profits and wages. In an inflationary period these incomes remain more or less constant. The upper class consisting mainly of profit earners have recorded increases in their average incomes. In Ceylon, the middle class would really start at the low level of Rs. 2,500 or so a year and goes up to about Rs. 20,000 a year—above this could roughly be called the upper class. The middle class could again be subdivided into the lower, middle and upper. The lower middle class consists mainly of wage earners and salary earners. Their lot has been more satisfactory than that of the upper middle class. The upper classes have been very comfortably off. It is, of course, the typical characteristic of an inflation that the middle classes are torn between the devil of upper class status and the deep sea of a lean purse. They do embrace the devil but their heads are seldom above the deep sea water. That is, I believe, the experience of the Ceylon middle classes too.

In conclusion two observations must be made. Firstly about the choice of years. The year 1939, showing the statistics for the



year ended 31-3-39 was chosen because 1939 is for most purposes taken to be normal year. After the outbreak of war in 1939 the conditions were abnormal and available statistics would contain influences from sources other than those that could be isolated for purposes of an article of this nature. In other words, the traditional "other things" would not be equal. 1948 was chosen for two reasons. The last year for which statistics were available was for the year 1948 *i.e.* those for the year ended 31-3-48. Again, there was in about 1948 a swing towards normalcy. This tendency has been upset again by war and rumours of war and figures for 1949 and 1950 would show the effects of stock-piling, devaluation, etc. The second observation that has to be made is that the statistics refer only to incomes over Rs. 2,500 a year and therefore all conclusions drawn in this article refer to that range only. No generalisation could be made about incomes below that level as no statistics are available.



## Widows' and Orphans' Pensions

A. E. GUNAWARDENA

Widows' pensions contribute in great measure towards the social security of a community and help to ward off destitution that normally follows the loss of the bread winner. A widows' pension will also help many poor dependants to save themselves from the ignominy of poor relief and stem a sudden plunge into poverty and want. Widows' pension awards are made by some business establishments but it is only among government servants that a regular Widows' and Orphans' Pension Scheme which pays monthly pensions and a cost of living allowance is found. A similar Widows' Pensions Scheme is being planned for local Government employees and it is just in the offing. More recently the need for Widows' and Orphans' pensions for dependants of teachers and lawyers has been expressed by the associations of teachers and lawyers respectively. It must be understood that the Widows' pensions under reference are contributory pensions meaning that contributions must of necessity be made to a fund and pensions paid out of it to the dependants of contributors. Therefore, a type of insurance scheme is implied quite distinct from charitable awards.

In formulating a Widows' and Orphans' Pension fund of the conventional type the guidance and advice of an actuary are necessary. It will be the function of the actuary to investigate into the mortality experience of the group of persons for whose dependants the Pension Fund is planned and frame calculation tables on which the pension awards will be based. It will be necessary for the Actuary to know also the strength of the group, the extent of the income of the members of the group and the rate of contribution they will make before he can come to the conclusion whether the fund will be actuarially sound. A relatively small number of pensions in a group may be insufficient to enable a fund to be usefully formed. It will also be necessary that those who contribute to the fund should have regular incomes or secure employment and be able to pay contributions without default. When all such facts including many others such as the investment field open to the fund capital are known the Actuary will be able to design the structure of the Fund. The Actuary's task will thus primarily be to assure the soundness and stability of the fund. He may after that give any special consideration as to the methods and basis of distribution of awards from the Fund and if the Fund permits he may allow periodical bonuses to pensions. The control of a Fund will of course ultimately rest with the Directors.



The W. & O. P. Fund for Government servants of this country was introduced in 1884. The membership of the Fund was optional for those already in the Government Service and compulsory for the subsequent entrants to the Service. The management of the fund was brought under the control of an Ordinance in 1898. In 1906 the Fund was closed to new entrants for whom the W. & O. P. Scheme was established in its stead. It is the W. & O. P. Scheme that remains now in active form as the W. & O. P. Fund does not have any contributors now and exists only for the payment of pensions to widows of Fund members. The Fund had in all some 7,000 contributors whereas the Scheme has some 60,000 contributors and their number is ever on the increase. The Fund was distinct from the Scheme in several ways. The Fund was a separate financial entity and the contributions of its members were credited to it. The moneys of the Fund were invested with the Government and earned interest at the rate of 6% up to 1919 and 8% after that. These interest rates were higher than the market rates prevailing at the time but nevertheless the Government was guided by the market rate. Pensions to widows' and orphans of Fund members were paid out of the Fund and the pensions were calculated according to tables based on the interest rates and other mortality statistics. There were also additions of bonuses to pensions after periodical valuations by the Actuary. The scheme is different from the Fund in many respects. It is not a financial entity like the Fund. The contributions of members of the Scheme are credited to and merged in the Consolidated Fund. Pensions are guaranteed by the Government and are chargeable to the Consolidated Fund. There is no actual payment of interest to the Scheme as in the case of the Fund but only a hypothetical rate of interest is assured in order to have a basis for calculation of pensions. The periodical valuations inherent in the Fund are absent in the Scheme.

The W. & O. P. Fund at the time of its closure to new entrants had about 7,000 members. All contributions that were being made towards the Fund ceased to be made after 1941. The Fund therefore, has no income now by way of contributions. The only income it earns now is the annual interest payable on the capital of the Fund which as at 1st January, 1948 was Rs. 10,419,970/81 and the interest on it came to Rs. 590, 533/82. The amount of pensions paid out of the Fund was Rs. 1,238,818/69. After allowing for other disbursements the balance that stood to the credit of the Fund on 31st December, 1948 was Rs. 9,757,090/19. The Fund to all appearances is able to bear all commitments of the future and is actuarially sound. The position of the W. & O. P. Scheme compared to the W. & O. P. Fund is quite different. The Scheme which commenced in 1906 has about 60,000 members at present and contributions to the Scheme amount to nearly Rs. 3,400,000/-.



The pensions paid out of the Scheme amount to not more than Rs. 1,500,000/-. Though receipts to the Scheme and payments from it are charged to the Consolidated Fund the Scheme accounts are yet maintained on a hypothetical basis as a separate entity. There was, therefore, a hypothetical balance of Rs. 74,666,448/34 at the end of 30-9-47 which earned a hypothetical interest of Rs. 4,534,404/12. The hypothetical balance at the end of 30-9-48 was Rs. 81,014,759/78. The scheme, it will thus be observed, in view of its excess of receipts over its outgoings is no liability to the Government. The factors that count for this favourable position in the Scheme is increasing membership, a good rate of interest guaranteed by the Government and low mortality rates. It must be mentioned, of course, that in the Scheme the system of bonuses after periodical valuations that existed in the Fund is almost absent. There is no heavy drain on the Scheme, therefore. But nevertheless measures like minimum pensions can cost the Scheme more.

The Fund and the Scheme both apart from their benefactor purposes have been useful sources of capital for the State. The progress of the W. & O. P. Scheme is also a good guidance for the management of other W. & O. P. Funds, that may spring up in the future. All the advantages of a Government Fund cannot, however, be assured to other private Funds. In the Government Fund the Government guarantees a high rate of interest, normally higher than the market rate prevailing, purely as a subsidy to the Fund. Private Funds will have, therefore, to study carefully the field of investment open to them and get any indirect form of subsidy from different sources, if necessary. But at the same time the improvement in the mortality rates shown in the vital statistics of this country is on the other hand a great help for future W. & O. P. Funds in that they may be able to carry on even with a moderate rate of interest. The present time is also opportune for several W. & O. P. Schemes for different groups for employees to be established, e.g. local government employees, teachers and transport workers. It is now found by experience that a large membership is a fairly important factor for the success of a W. & O. P. Scheme and among the three groups mentioned large numbers can be counted upon. It may be mentioned incidentally that a W. & O. P. Fund for local government employees will be established shortly. Further reasons why it is opportune to establish more W. & O. P. Schemes is the growing demand for social security in the community. It may not be possible for the State to intervene in all matters of social service and self-help among employees when it becomes necessary. Employees all over the country have been getting rising wages since the beginning of the last war and their jobs have become secure with rising prosperity and in such circumstances it would always be possible to contribute



a portion of their incomes for benefits for their widows and children in case of death. In the absence of adequate provision for pensions to widows and orphans of deceased persons it would devolve on the State to provide relief and the State cannot undertake social service schemes without resorting to taxation in turn. Therefore the principle of W. & O. P. Schemes for as many employees as possible should indirectly reduce the burden of social services borne by the State.

There are at present some 1,700 widows who draw pensions from the W. & O. P. Fund and some 5,000 widows who draw pensions from the W. & O. P. Scheme. Were it not for the Fund and the Scheme a good many of the widows would have been a liability on the State or rest of the community. The Fund and the Scheme pay pensions totalling Rs. 2,800,000/- annually and that has eased the commitments of the State considerably as otherwise the Social Services bill would have increased by a like amount. The amount of a pension paid to a widow varies to a great extent. Pensions normally range from about Rs. 7/50 to Rs. 750/- per month. As a rule the pensions above Rs. 450/- a month are very few. The average pension ranges between Rs. 30/- and Rs. 175/- per month. The variability of the pension amount is due to several factors, like the size of the contribution made by the contributor, period of bachelor contribution, increments earned and ages of husband and wife. Where a pension awarded under the rules appear inadequate the remedy will lie in a special increase, but such increases should be made so as not to endanger the stability of the Fund. Since the fund is more a mutual aid organisation than a joint stock enterprise, it should be the aim of the Fund to extend the greatest possible aid to beneficiaries as far as it is permissible. With the ushering in of a social service state in Lanka the W. & O. P. Fund will be an important factor in fulfilling it and it is more in that context that future W. & O. P. Funds will have to be viewed.



## World Gold Production in 1951\*

I. World gold production was smaller in 1951 than in 1950. This is the first year during the post-war period that gold production has failed to increase moderately. The greatest absolute decline was in the United States and the largest relative declines were in Ecuador and Venezuela where gold mining has practically stopped. Among the large gold producers only some of the countries of Asia, whose production is still far below pre-war, Australia, the Gold Coast, and Colombia, showed an increase in production.

Throughout the post-war period world gold production has averaged only about three-fourths of pre-war production. This decline has been very general among almost all gold producing countries and areas. Again, the largest absolute decline has been in the United States. The largest relative declines were in the countries of Asia. The only important exception has been in Central America where gold production in the post-war period has been about three times its pre-war level. While the decline in gold production from pre-war to post-war has been general, differences in the rates of change have produced large shifts in the relative importance of different gold producing areas. The Sterling Area's gold production has increased from about 50 per cent of world production before the war to 62 per cent in 1949 and to 60 per cent in 1951. Central American production has increased from less than one-half of one per cent to almost one and one-half per cent of world production. On the other hand, United States' production has declined from about 13 per cent of world production to less than 10 per cent and production in Asia has declined from 10 per cent of the total to less than 4 per cent.

Many of the most important gold producing countries devalued their currencies near the end of 1949. It might have been expected that gold production in the following year would increase appreciably in the devaluing countries inasmuch as gold is the only commodity for which the national currency price would be expected to increase to the full extent of the devaluation and its national currency costs of production ought not to have risen differently from those of other domestic goods. In fact, however, production in 1950 was smaller than in 1949 in almost every devaluing country and larger than in 1949 in almost every non-devaluing country.

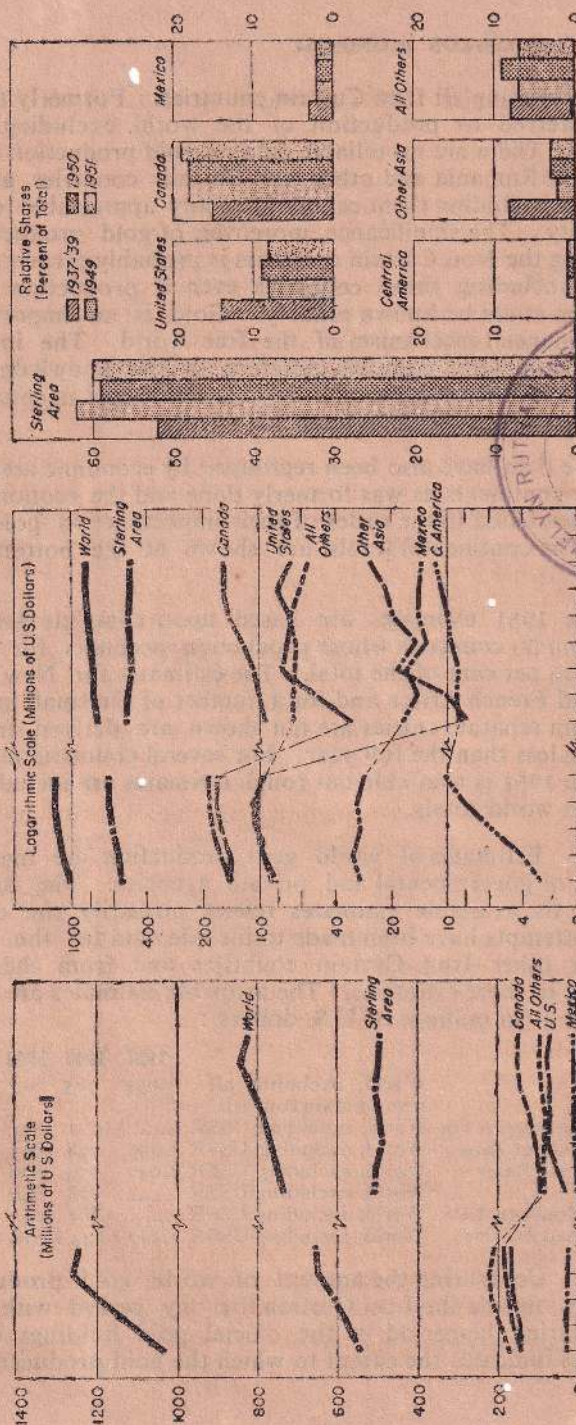
II. The table of world gold production on the opposite page has been revised in two important particulars. Most importantly, the world total that is being measured has been reduced to the

\* Reproduced from the International Financial Statistics, Volume V, Number 4, April 1952.



# World Gold Production in 1951

WORLD PRODUCTION BY ECONOMIC AREAS: 1937-1951





world excluding all Iron Curtain countries. Formerly the world total referred to production of the world excluding only the U.S.S.R. There are no reliable data on gold production in China, Hungary, Rumania and other Iron Curtain countries and world estimates including them cannot have any appreciable degree of reliability. The significance, moreover, of gold production data excluding the Iron Curtain countries is probably greater than that of data including those countries even if production in those countries could be known reliably. Gold is an important part of the financial mechanism of the free world. The importance of gold production data lies therefore in the knowledge that it provides for the interpretation of financial events in countries for which gold plays a role in financial events.

The data have also been regrouped by economic areas rather than by continents as was formerly done and the economic areas have been listed in the order of their importance as gold producers. The continental totals are shown at the bottom of the table.

The 1951 estimates are based upon complete data for the year from 30 countries whose production accounts for approximately 96 per cent of the total. The estimates for New Zealand, Peru and French Africa and for a number of the small producers for whom separate entries are not shown, are derived from data covering less than the full year. For several countries no information on 1951 is available but rough estimates are included in the area and world totals.

III. Estimates of world gold production are made by a number of governmental and private agencies. The differences between the available estimates reflect primarily the extent to which attempts have been made to include data for the U.S.S.R. and for other Iron Curtain countries and from the differing amounts of these estimates. The available estimates are summarized below (in millions of U.S. dollars):

			1937	1948	1949	1950	1951
I. M. F.	...	World, excluding all Iron Curtain countries	1,034	785	817	844	826
Samuel Montagu & Co.	...	World, excluding USSR	.....	722	831	854	830
U.S. Bureau of Mines	...	World, excluding USSR	1,059	798	833	861	...
U.S. Federal Reserve	...	World, excluding USSR	1,042	794	826	...	...
B. I. S.	...	World, excluding USSR	.....	805	840	868	...
Samuel Montagu & Co.	...	World, including USSR	.....	862	901	924	900
U.S. Bureau of Mines	...	World, including USSR	1,247	1,043	1,078	1,106	.....

IV. Comparing the amount of world gold production in countries outside the Iron Curtain for any period with the increase during the period in the official gold holdings of those countries indicates the extent to which the gold producers or the



monetary authorities have made net sales of gold to industrial users, private hoarders, or the Iron Curtain countries. During the period 1914-1921 official gold stocks increased by an amount approximately equal to new gold production. During the period 1922-1930 official stocks increased by an amount equal to about 75 per cent of gold production and during the 'thirties they increased by an amount equal to about 20 per cent more than gold production. During the entire post war period, however, the increase in official gold stocks has been very much less than the amount of gold production. The provisional estimate for 1951 shows that the increase in official gold stocks during the year was exceptionally small and that in the first and last quarters of the year official gold stocks actually declined. The data for recent years and for the quarters of 1951 are as follows:

	Gold Production	Increase in Stocks	Increase in Stocks as a Percentage of Production
1948.....	785	380	48
1949.....	817	480	59
1950.....	844	415	49
1951 I.....	207	-5	-7
II.....		120	58
III.....		60	29
IV.....		-40	-19
Total 1951.....	826	125	15



# Cost of Living Index

Cost of Living Index—Working Class—Colombo Town

Group		Average Price, November, 1938, to April, 1939 = 100.					Average Price, November 1942 = 100												
		Weight	Average				Weight	Average											
			1939	1940	1941	1942		1943	1944	1945	1946	1947	1948	1949	1950	1951	1951 Jan.	1952 Jan.	
Food	...	52.40	112	115	129	183	63.66	103	102	111	113	128	138	144	154	155	157	158	
Fuel & Light	...	6.28	102	103	108	171	7.26	94	94	94	111	121	101	97	102	112	113	105	
Rent	...	15.96	97	97	96	93	7.06	105	106	112	124	136	140	129	129	129	129	129	
Clothing	...	8.36	112	128	153	194	8.78	138	156	165	180	213	189	156	155	197	177	208	
Miscellaneous	...	17.00	104	111	116	144	13.24	118	127	158	155	157	157	148	154	160	155	168	
Total	...	100.00					100.00												
							Index No. Nov., 1938 April, 1939 = 100												
Index Numbers		108	112	122	162			107	109	121	125	138	142	139	149	154	153	157	
								197	200	221	229	252	260	254	272	283	281	290	

\* Five month's average † Eleven month's average

§ Weight—Food 63.99; Fuel and Light 7.37; House Rent 7.18;  
Clothing 8.92; Miscellaneous 12.54.



# 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
	1951	1951	1951	1951	1951	1951	1951	1951	1951
January	120	101	166	148	382	128	30	192	114
February	107	84	152	147	392	123	30	191	114
March	107	86	124	155	264	173	51	169	157
April	99	103	81	107	194	120	12	157	74
May	121	132	98	105	243	100	15	157	87
June	122	122	84	153	279	172	23	199	138
July	123	124	71	166	347	180	39	143	90
August	105	96	73	164	388	156	42	176	110
September	103	86	103	160	457	135	27	177	96
October	113	88	151	172	417	162	37	199	96
November	124	119	103	157	349	145	47	280	157
December	109	96	113	156	340	147	72	139	86
January—December									
1950	110	101	127	131	380	100	39	140	110
1951	112	103	110	149	336	145	36	175	105

Source: Department of Statistics, Colombo.



## Export Price Index

(Base 1948 = 100)

Month	All Export Products		Tea		Rubber		All Coconut Products		Desiccated Coconut		Coconut Oil		Copra		Other Coconut Products		Other Export Products	
	1950	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	170	113	130	194	326	133	179	106	76	134	205	144	170	142	232	110	167
August	143	166	125	128	233	323	135	165	99	70	138	186	150	159	141	217	122	162
September	158	172	133	128	284	374	145	159	104	67	150	175	162	164	141	203	141	163
October	168	161	138	120	319	335	150	158	109	70	160	169	159	174	141	194	144	148
November	173	157	133	118	370	320	153	157	102	70	163	168	164	175	155	189	142	148
December	175	155	133	120	383	307	154	151	92	68	166	165	166	161	159	177	140	156
Jan-Dec.	144	175	127	135	222	367	144	169	99	77	152	186	155	181	148	197	124	165

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	...	...	...	...	56
2nd Quarter	140	106	111	188	64*
3rd Quarter	159*	119*	114	186	77
4th Quarter	134	130	110	169	106
	125	132	115	124	
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. \* Corrected figures



## 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	948.4	513.5	698.9
July	823.6	841.0	692.8	952.2	739.0	917.2	642.1	842.6	634.1	1005.5	496.6	697.8
August	645.2	831.8	725.3	959.2	749.7	929.5	901.4	877.4	691.2	870.3	541.6	815.7
September	699.8	889.1	776.0	1003.4	767.5	946.1	748.0	857.0	760.4	1038.5	1170.8	1566.3
October	692.4	869.0	786.1	986.6	783.8	960.1	744.6	921.0	596.7	849.4	460.7	692.1
November	726.7	853.9	824.2	985.8	800.6	972.1	786.0	833.0	607.7	790.1	527.0	728.1
December	779.3	882.2	865.1	1000.1	818.8	983.4	718.3	788.9	795.6	733.0	744.9	728.1
Jan.-Dec.												
1938		105.6		—		128.2		109.9		104.4		109.0
1949		842.3		617.8		725.0		509.0		535.2		515.7
1950		782.6		716.4		818.8		668.9		614.3		569.7
1951		842.3		959.7		983.4		841.9		864.8		788.8

† Net values of savings deposits plus Savings Certificates.

§ From November, 1951, the figures are provisional.

\* September, 1938, to August 1939 = 100



# Quarterly Index of Share Prices: Sterling Companies—

January—June 1939 = 100.

	Tea	Rubber	Tea-Cum Rubber
1948—1st Quarter	206	75	140
2nd „	187	58	118
3rd „	192	59	119
4th „	190	59	121
1949—1st Quarter	188	54	117
2nd „	175	45	111
3rd „	182	54	112
4th „	216	65	137
1950—1st Quarter	231	76	152
2nd „	249	105	179
3rd „	257	116	195
4th „	266	136	211
1951—1st Quarter	271	169	224
2nd „	261	176	228
3rd „	265	175	223
4th „	260	177	227

Quarterly Bulletin of Statistics—Department of Census and Statistics.



# Inventory Index of Books

## During 1900-1901

January - 1901

No. of Books	Number	Title	Author
1	1	1	1
2	2	2	2
3	3	3	3
4	4	4	4
5	5	5	5
6	6	6	6
7	7	7	7
8	8	8	8
9	9	9	9
10	10	10	10
11	11	11	11
12	12	12	12
13	13	13	13
14	14	14	14
15	15	15	15
16	16	16	16
17	17	17	17
18	18	18	18
19	19	19	19
20	20	20	20
21	21	21	21
22	22	22	22
23	23	23	23
24	24	24	24
25	25	25	25
26	26	26	26
27	27	27	27
28	28	28	28
29	29	29	29
30	30	30	30
31	31	31	31
32	32	32	32
33	33	33	33
34	34	34	34
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37	37	37	37
38	38	38	38
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40	40	40	40
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42	42	42	42
43	43	43	43
44	44	44	44
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46	46	46	46
47	47	47	47
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52	52	52	52
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90	90	90	90
91	91	91	91
92	92	92	92
93	93	93	93
94	94	94	94
95	95	95	95
96	96	96	96
97	97	97	97
98	98	98	98
99	99	99	99
100	100	100	100









*It is also the flag for*

**FULL EMPLOYMENT**