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THE POLITICAL ECONOMY OF POVERTY ALLEVIATION IN DEVELOPING COUNTRIES: IS SRI LANKA REALLY AN EXCEPTION?

by

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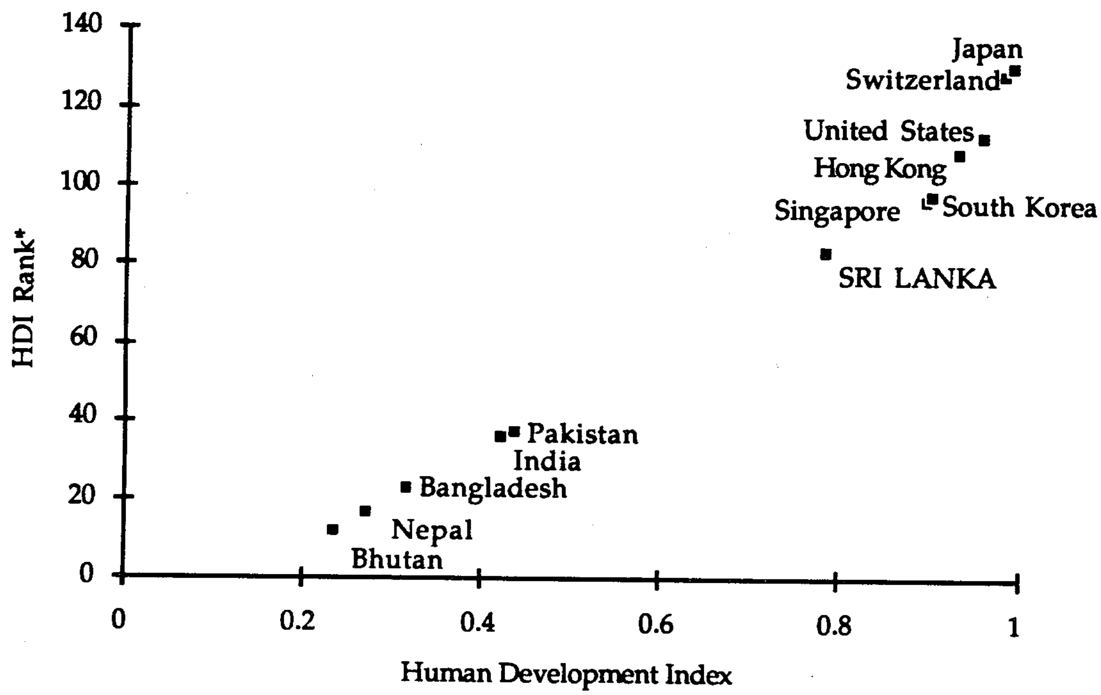
INTRODUCTION: A PARADOX OF DEVELOPMENT

The success of Sri Lankan experiments in poverty alleviation and economic development has been highlighted in the developing world (Ahluwalia et al., 1979; Alailima, 1985; Bhagwati, 1988; Bhalla, 1988; Bhalla and Glewwe, 1986; Fields, 1980; Grant, 1978; Gutkind, 1988; Hopkins and Jogaratnam, 1990; Isenman, 1980; Kakwani, 1986; Morris, 1979; Sen, 1988; and Streeten and Burki, 1978). The recently established UNDP Human Development Index (HDI) ranks Sri Lanka much closer to Western developed countries of the United States and Switzerland than to those of developing countries in South Asia (Figure 1). This Index is calculated on the basis of three components: a) Life expectancy to measure health care delivery, b) Literacy rate to measure education and the ability to be employed, and c) Purchasing power as the relative ability to buy commodities and to meet basic human needs.

FIGURE 1

Human Development Index and Sri Lanka's Relative Position Among Selected Countries



Source: Data from the *UNDP World Development*, (New York: United Nations Development Programme, 1990), pp. 7-11.

Note: *Of the 130 countries ranked, Ethiopia ranks 1st as the "lowest" and Japan rates 130th as the "highest" in terms of human development.

In terms of overall human development, Figure 1 illustrates that Sri Lanka is uniquely associated with the Newly Industrialized Countries (NICs) of Singapore, South Korea, and Hong Kong. But, Sri Lanka ranks 38th from the bottom for Gross National Product (GNP) per capita income among 130 countries surveyed in comparison to Singapore (110th), South Korea (92nd), Hong Kong (111st), Japan (126th), United States (129th), and the highest ranking Switzerland (130th). Among South Asian countries, however, Sri Lanka represents the highest GNP per capita income of $420 in 1988.

Why does Sri Lanka demonstrate such a unique position among these countries despite being a low-income nation?

The development progress of Sri Lanka indicated by the HDI could well be attributed to the higher life expectancy and literacy rates. Sri Lanka has the highest rates in South Asia: the life expectancy is 71 years and the adult literacy rate is 87 percent of the 17 million Sri Lankans in 1988.[1]

How did Sri Lanka achieve these higher life expectancy and literacy rates? Are they resulting from Sri Lanka's post-colonial social welfare policies or from the ancient Buddhist heritage?

A practicing parliamentary democracy in the developing world, Sri Lanka has maintained a relatively stable political environment since its independence from the British in 1948. In the past several decades, Sri Lanka has essentially pursued a diverse mix of development paths: the basic human needs strategy, open economic and trade policies, growth with equity, and participatory development. Each strategy has had its own success and failures, but during these years the number of people below the poverty line has increased as well as the gap between the rich and the poor (Figure 2). As these development strategies change from an equity-approach to a more growth-approach, the inequality of income distribution has widened significantly. The Lorenz curves in Figure 2 demonstrate this salient feature whereby the open economic policies since 1977 have increased the income disparity in spite of a higher economic growth rate. The income between the rich and the poor had been more fairly distributed prior to 1977 when Sri Lanka pursued a basic human needs strategy.

How does Sri Lanka then achieve an impressive Human Development Index ranking while there exists a level of increasing income inequality and growing poverty in the country?

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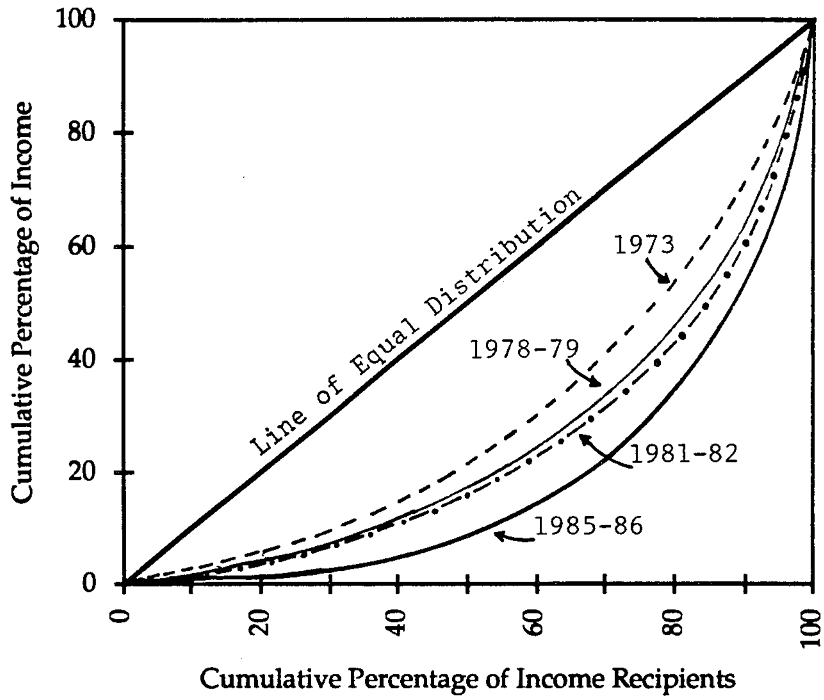
[1] For a comparative analysis of social, cultural, and economic progress among South Asian countries, see Corrie (1990).

FIGURE 2

Lorenz Curve for Income Disparity in Sri Lanka



Source: *Economic Review,* (Colombo: People's Bank, August 1988). Data from *Report on Consumer Finance and Socioeconomic Survey,* (Colombo: Central Bank of Sri Lanka, 1973, 1978-79, and 1981-82) and *Labor Force and Socioeconomic Survey,* (Colombo: Central Bank of Sri Lanka, 1985-86).

The purpose of this paper is to address these questions and to examine the poverty alleviation policies of Sri Lanka. The background of previous empirical studies in Section Two provide a host of socioeconomic reasons for the success and failure of development strategies. These studies show that many development economists often tend to overlook the cultural and religious infrastructure which has seemingly contributed to the Sri Lankan progress.[2] In the Third Section, the paper argues how the Buddhist heritage and its influence on economic development attributed to the modern social and economic system. The role of Buddhist teaching, with respect to simple and rational living, is explained as it laid the historical foundation for the earliest welfare society. Section Four discusses the emergence of modern

[2] Ruttan (1988: p. S250) also writes that almost no attention has been devoted by development economists to the role of cultural endowments and stresses the importance of such factors in economic development.

welfare policies during the colonial rule. Section Five analyzes the way in which the post-independent governments pursued their development strategies in order to sustain politically sensitive welfare policies. The drastic changes in the welfare policy which took place since the introduction of 1977 liberalized trade policies are examined in Section Six. These policies have changed the economic structure by reducing the expenditures on social welfare programs followed by post-independent governments since 1948. The ambitious "Janasaviya" program, the first poverty alleviation scheme ever devised in Sri Lanka in order to ameliorate deprivation at a massive scale, is analyzed in Section Seven. The paper concludes with a summary of development paths and the challenges in its Sri Lankan experience.

2. BACKGROUND OF DEVELOPMENT STUDIES

Among development economists, Kakwani at the World Institute for Development Economics Research of the United Nations University (1986: p. 24) writes:

> Sri Lanka has been a unique example of a developing country whose performance in terms of basic needs has been extremely impressive compared to its income level.

Ahluwalia et al. (1979) indicate that Sri Lanka has the best performance in terms of growth and equity in the developing world. Two Studies, one by Streeten and Burki (1978) on basic needs and another by Grant (1978) on physical quality of life, have shown that Sri Lanka has achieved a higher living standard over the years among selected developing countries. The Physical Quality of Life Index (PQLI), developed by Morris (1979: p. 104), singled out Sri Lanka as the "most dramatic example of a country which was able to achieve remarkable life quality results at startling low level of income." Isenman (1980) and Fields (1980) also state that Sri Lanka's achievements are exceptional. Sen (1981: p. 295) at Harvard University writes:

> A country that deserves special attention is Sri Lanka because of its superior performance in the expectation of life and its record in poverty removal.

In a summary of previous empirical studies, Bhalla (1988a: p. 89) from the World Bank writes: "Among developing countries, Sri Lanka is often cited as an exception." But, in his widely-known study, *Is Sri Lanka an Exception: A Comparative Study of Living Standards* (1988a), he finds Sri Lanka as a moderate performer. Furthermore, Bhalla (1988b p. 564), who employed a different methodology, is not convinced of the earlier findings and concludes that:

> Sri Lanka's equity-oriented policies succeeded to an exceptional degree in raising living standards was derived by using an inappropriate methodology and, further, that Sri Lanka was not an exceptional performer.

In another study of socioeconomic policies during the 1960-84 period, Bhalla and Glewwe (1986) assert that the improvement in Sri Lanka's living standard over the period of 1960-78 was not better than the average of 43 comparable countries even though Sri Lanka had high social welfare expenditures. Their assertions suggest that Sri Lanka's social and economic progress at the time of independence was more comparable to those of NICs countries. In fact, Sri Lanka had the third highest per capita income in Asia after Japan and Malaysia. Bhalla and Glewwe hence argued that pursuit of inappropriate welfare policies did not produce exceptional results in terms of living standards and implied Sri Lanka's economic standing as a measure of GNP is closer to South Asian neighbors. These two authors, furthermore, controversially argue that Sri Lanka's high ranking on social progress derived from its colonial legacy and the post-1977 policies were not detrimental to equity objectives. Hopkins and Jogaratnam (1990) modestly add that Sri Lanka has done well in achieving material basic needs satisfaction but has done less well in obtaining rapid economic growth or in eliminating poverty.

Over the years, these writers have often provided inconclusive evidence of the socioeconomic development in the country. The rate of poverty has seemingly increased despite economic growth. Ahluwalia et al. (1979), for example, state that Sri Lanka had only 14 percent of its population living in absolute poverty in 1975, which is one of the lowest in the developing world and significantly lower than the neighboring Indian figure of 46 percent. By 1987, according to Hopkins (1991), the population below the poverty line has increased to around 25 percent. Bhalla (1988b: p. 564) writes:

> . . . as has been noted . . . There is good reason to believe that absolute poverty increased in Sri Lanka, and that the decline in death rate (since the 1940s) was due in large part to a successful anti-malaria campaign rather than general equity-oriented policies.

Sri Lankan policy makers have now concluded that the poverty figure is as high as 50 percent of the population (Mendis, 1991: p. 19).

Once cited as a success story in the developing world, Sri Lanka at present generates curiosity among development economists and policy makers as to whether Sri Lanka actually has achieved a notable social and economic progress. An analysis of the legacy of development paths may shed some light on the so-called "exceptional status" of Sri Lanka. Bhagwati (1988: p. 551) at Columbia University agrees:

> Of course we can still speculate as to what made Sri Lanka in 1948 such an impressive performer on living standards. Was it high growth rates or high social expenditures? Was the productivity of the latter high due to specific, manageable problems such as malaria which could be eradicated relatively easily with public-health anti-malaria programs and therefore has little value in inferring general prescriptions? Only detailed historical analysis, carefully sifting among different hypotheses, can throw light on the issue at hand. In the meantime, the ready overoptimism that the early writings on Sri Lanka's postwar experience reflected and spread must be suspended.

In light of Bhagwati's analysis, the next section illustrates how religion and cultural endowments exert the underpinning for the island's socioeconomic progress.

3. BUDDHIST ECONOMICS AND SOCIAL WELFARE

For more than 2,500 years, Sri Lanka has been a home to Buddhists. The Buddhist philosophy advocates a well-balanced spiritual and material well-being in order to maintain a simple life and to help attain the ultimate stage of *Nirvana*.[3] Schumacher (1975: pp. 53-62), who termed this form of simple living as "Buddhist economics," explains that the maintaining of "right livelihood" is one of the Noble Eightfold Path (NEP) of the Buddhist way of living.[4] Schumacher believes that the spiritual health derives from the

[3] *Nirvana* is the highest form of eternal life which is said to be the non-existence of self. The other three stages before *Nirvana* (also called *Arhath*) are: *Sovan*, *Sakkrudhagami*, and *Anagami*.

[4] The Noble Eightfold Path (NEP) is one of the Four Noble Truths of Buddhist teaching which leads to the end of suffering. The NEP, as it relates to our discussion, provides eight guidelines for a fulfilling lay-life: the cultivation and development of right understanding, right intention, right speech, right action, right livilhood, right effort, right mindfulness, and right concentration (Karunatilake, 1976: Appendix 1, pp. i-x).

simplicity and non-violence way of livelihood. Material well-being comes from the function of work which allows people to achieve at least three objectives:

1) giving people the opportunity to purify the human character by utilizing and developing their own faculties,
2) enabling them to rise above their ego-centeredness by joining with other people in a common task, and
3) producing goods and services needed for the common existence (Schumacher, 1975: pp. 54-55).

Such teaching, which differs significantly from the economics of modern materialism, is the trust of simple and rational living in the traditional society. Through materialism, Venerable Sumanatissa (1991: p. 124) argues that people are mainly interested in satisfying the human body by consuming goods and services, but Buddhism teaches not only the way to maintain the social and economic life but also the road to attain eternal liberation. The "Middle Way," characterized by the Nobel Eightfold Path, shows how to avoid the extreme material comfort-seeking and mortification of the human body. This is not a view of modern economics of life where one seeks to maximize his or her utility in order to have a higher standard of living, which is measured by the annual consumption or the income level. Schumacher (p. 57) convincingly argues that a Buddhist economist would consider such approach as irrational because consumption is merely a means to human well-being; therefore, the aim to obtain the maximum of well-being should be with the minimum of consumption. Schumacher (p. 57) concludes "the marvel of the Buddhist way of life is the utter rationality of its pattern – amazingly small means leading to extraordinary satisfactory results." This type of Buddhist thinking, which has mainly been based on the "right livelihood," laid the foundation for the country's social and economic life for millennia.

The three pillars of ancient society, which still exist, are the *Sangha*, state, and people. The Buddhist society is primarily a simple *Sangha* (priest) society which prescribes four basic elements needed for successful living: food (*pindapatha*), shelter (*senasana*), clothing (*cheevara*), and medicine (*gilanaprathya*). These basic needs for decent human existence along with the pursuit of *Dhamma* (knowledge) would give people and their rulers a host of guidelines in order to work together in fulfilling material and spiritual needs as a community.[5] The Buddhist *Sangha,* who advocates the religious and spiritual values of community living, plays a major role in promoting social, cultural, economic, and political affairs of the country (Ariyaratne, 1980: pp. 587-589). For example, the Buddhist teaching emphasizes the close relationships between ethics and politics so that leaders who are in public life should govern the country in a manner which their moral values are consistent with those of the society (Karunaratne, 1988). The country's history thereby attests that the political leadership has inseparably been linked with the Buddhist *Sangha.*

The recorded history of Sri Lanka, which extends from the sixth century B.C., indicates an unbroken line of monarchical governments. Harry Williams (1950: p. 111), who addressed the commencement of the British rule of the entire island in 1815, stated:

> From Wijayo in 543 B.C. to Wickrama, who fell in A.D. 1815, Ceylon had never been without a king. One-hundred and sixty-five known monarchs in all, they played their little parts in the fascinating enigma of power, . . .

The Buddhist-influence on governance, however, goes back to King *Devanampiyatissa* (250-210 B.C.) who owed his gratitude to the emissaries of the Buddhist Emperor Ashoka of Northern India. The Emperor Ashoka had converted the Sinhalese King and since then the consecutive regimes of Sinhalese kings[6] who ruled the island for many centuries provide evidence that a well functioning economic and social life was maintained. For instance, the existing ruins of highly-engineered man-made irrigation networks, ancient cities, religious and cultural monuments, architectural and literature are among the artifacts found to support the theory of the flourished civilizations.[7] The evidence demonstrates that culture and religion had made an extraordinary influence on the country's evolving development strategy. Referring particularly to the colonial welfare system and the post-colonial basic needs approach, Gunatilleke (1985: p. 11) succinctly writes:

> Underlying these policies was the acceptance of a benevolent paternalistic role of the state. It was a role conceived within a

5 Some believes that "the basic human needs approach" to development has derived from this thinking.

6 The last king, *Sri Wickrama Rajasinghe*, was ousted by the British in 1815. A detailed list of heads of states and monarchies of different dynasties can be found in Nicholas and Paranavitana (1961: pp. 341-345) and Mendis (1986a: pp. 49-53).

7 For more detail on this account, see de Silva (1973 and 1977).

> framework of development values in which the dominant ideology of a Buddhist culture emphasizing the importance of "Dana" (giving and sharing) and "metta" (compassion) appears to have blended with the concepts of the modern welfare state and made political elites responsive to the need for some degree of equity in the distribution of available resources.

It is reasonable to believe that the ancient rulers as well as modern leaders have been highly influenced by the Buddhist philosophy in governance.

Buddhism also appears to be the most potent molder of the behavioral characteristics of ordinary people. Caldwell et al. (1989: p. 370) assert that "there is an individual and household fastidiousness about many aspects of cleanliness and houses are usually tidy and kept well." The awareness of both hygiene and the use of curative health services is a part of Sinhalese tradition. Caldwell et al. (1989: p. 369) also cite that travelers, since at least the time of Marco Polo (1254-1324), have noted the cleanliness of Sinhalese society, especially in frequent bathing and wearing neat and washed clothing. The explanation for this type of healthy livelihood is ancient and lies in certain emphasis on individual physical well-being. The Buddhist teachings also provide the way in which one could mitigate sorrow and pain. Thus, Buddhism urges an individual to take full responsibility for maintaining and retaining good health as well as handling the cycle of human suffering.

Education, a co-product of healthy living, plays a major role in the demand for health services in detecting, preventing, and combating sickness. The teaching and learning of Buddhist philosophy is itself an educational process for the masses. The indigenous system of education, which was influenced by the Taxila Model from Northern India during the time of Emperor Ashoka, had further been improved with the arrival of Buddhism. Gamage (1991: pp. 473-74) writes:

> It was a monastery based system whereby the temple in each village performed the functions of an educational institution while the larger and more important monasteries known as *Pirivenas* functioned as institutions of higher education.

Most likely, the ancient tradition which gave the utmost importance to health and education may have been the probable explanation for Sri Lanka's higher life expectancy and literacy rates. Sri Lanka, in spite of an annual per capital income of only $420 in 1988 (less than one-forty-seventh of that in the United States), has attained an infant mortality rate of 21 per 1000 live births

(10 per 1000 in the United States) and a life expectancy of 71 years (76 years in the United States). This success cannot be achieved without a comprehensive Western medical system. A system of traditional beliefs and ancient practices has made the emergence of modern medicine feasible. The social and religious values have brought a greater awareness of sickness and have demanded preventive and curative actions by various means. The coexistence of *yantra*,[8] *mantra*,[9] *thovil*,[10] home-made medicine, *ayurvedic* treatment,[11] and Western medicine with modern and *ayurvedic* hospitals is evidence of effective adaptation of diverse methods in the health-conscious society. Education has been the most important factor in the process of this transformation. It seems that Buddhism has not only influenced the society as a religion of achieving eternal liberation but also as a teaching of maintaining the day-to-day physical livelihood of ordinary people and of guiding their leaders.

4. COLONIALISM AND THE EMERGENCE OF MODERN WELFARE

Since the arrival of the Portuguese in 1505, the ancient practices centered around the concept of total human growth began to be less important as the value of commercial trade gained momentum. The Dutch, who conquered the western coastal area from the Portuguese in 1658, did not attempt to learn about the local culture but to force the people to work in cinnamon, pepper, and coffee plantations (Mendis, 1992: p. 51). There is no known record of the existence of welfare policies during the years of Portuguese and Dutch colonialism, but their suppression of the indigenous education system imparted by Buddhist monasteries was effective. When the British ousted the Dutch in 1796 from the coastal region and captured the Kandyan kingdom of the Central Highland in 1815, they started to transform the traditional Buddhist society into an export-oriented commercial economy (Bandarage, 1985: pp. 46-86).

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[8] *Yantra* refers to mystic diagrams or letters engraved in protective copper, gold, or palm leaf.

[9] *Mantra* is a form of chanting of formula or occult verses often referring to Buddha.

[10] A type of devil dancing with *yantra* and *mantra*.

[11] *Ayurvedic* medicine draws from ancient ideas about health and sickness for millennia (Dunn: 1976, p. 148). This indigenous medicine is largely in practice in South Asia. Sri Lanka has a separate government ministry to promote *Ayurvedic* healing in addition to the Western medicine system.

The British rulers, who pursued an economic policy by developing a plantation agriculture to their benefit, also took an interest in promoting an education system to suit their colonial needs and neglected the values of traditional society. The English education system through Christian missionaries had become more prominent. In 1869, the Department of Public Instruction was established to conform all missionaries and private schools to government requirements. This system created new elite groups to work in government jobs. For example, the Ceylon Medical School in 1870 and the Council for Legal Education in 1873 were established for the purpose of training doctors and lawyers required for service in the colony; however, the majority of Ceylonese people, who inherently disliked the British, maintained their subsistence agriculture while the colonial investors were forced to search for plantation workers from South India (Mendis, 1992: pp. 53-54). A dual economy, characterized by the modern plantation sector and the traditional subsistence economy, began to emerge rapidly (Corea, 1975: pp. 510-512). In the early years, the British had neither desire nor political reasons to develop an education policy for their Indian laborers or for the local people. Instead, the British implemented a low wage package for the estate workers and enforced high taxes on traditional agriculturists.

In the early period of colonialism, the British did not provide housing, medical, or educational facilities; however, the first major attempt to improve health facilities was introduced by the Medical Wants Ordinance of 1912 (Mendis, 1992: p. 60). This ordinance levied a tax on planters and requested them to maintain hospitals in each plantation. The second major introduction to the modern welfare policy came from the Education Ordinance of 1924 which required planters to provide educational facilities to all children. Isenman (1980: p. 238), however, cites that primary education was nominally compulsory in 1901 even though not in practice. By the end of 1934, there were 578 registered schools on plantations (Mendis, 1992: p. 61).

When the Ceylonese people were granted the universal franchise under the 1931 Donoughmore Constitution, the nationalistic leaders gained a partial political influence in the colonial government. The British, who profited from the commercial economy in terms of foreign exchange, custom duties, and taxes, were pressured to formulate a comprehensive social welfare policy in order to redistribute the benefits not only to the estate workers but also to Ceylonese people. The government then got heavily involved in providing education and health services to both the traditional and estate sectors. In 1946, the Commission on Social Services reported that a population of 5.75 million was served by a network of 145 general and rural hospitals, 13 specialized institutions, 250 central dispensaries, and over 600 branch dispensaries and visiting stations in the country. The school-going population had increased from approximately 540,000 in 1930 to 870,000 in 1946 (Gunatillake, 1985: pp. 2-4). For school-going children, a new program of free school meals was also introduced. The supply of free meals to school children and free milk to pre-school children was increased from around 160,000 children to an estimate of nearly 500,000 in 1945 (Gunatillake, 1985: pp. 2-4). Furthermore, the Donoughmore Commission proposed a government-sponsored human settlement program to colonize the Dry Zone (east and north) in 1932 and passed the Land Development Ordinance in 1935 to allocate land to new settlers. This measure was taken to reduce the high population density in the Wet Zone (south and west) and to encourage people to settle in the rice-growing Dry Zone.

Due to the outbreak of World War II, the government attempted to increase the food production by using the price mechanism in a free market environment. But, the level of domestic production was not adequate to meet the local demand so that the shortage had to be met by imports. The import of consumer goods was increasingly expensive in the world market and the government was forced to intervene in the free market. In 1942, the government introduced the rice ration scheme which was followed by the first Food Subsidy Scheme to distribute rice and other essential food items. This major policy measure was formulated to reduce the impacts of scarcity of food, inflationary tension, and the considerations of nutrition and welfare of people.

Because of these internal and external pressures on the colonial government, a fully-developed modern welfare package had emerged, consisting of free education, universal health facilities, subsidized food, and free meals for school-going children. In spite of the government's increasing involvement in the economy at the eve of political independence, the country has primarily been pursuing market economic policies – importing necessary consumer goods and services and exporting tea, rubber, and coconut to Europe. For almost 450 years of Western colonianlism, Sri Lanka's agricultural-based export economy has been evolving around the country's comparative advantage (Rajapatirana, 1988).

5. POST-INDEPENDENT DILEMMA: SOCIAL WELFARE OR ECONOMIC GROWTH?

The politically sensitive post-independent governments, both left and right, kept the Food Subsidy Program intact as an income and food supplement. The main purpose of this program was to reduce poverty and to stabilize basic food prices of rice, lentils, milk foods, dried fish, kerosene, and others. The rationing system, based on **quantity** of rice and other essential food items per household, was established to provide the required amount of calorie intake. The growing internal and external pressures on the economy had, however, led the policy makers to make difficult choices as to whether they should maintain the consumption-oriented expenditures or reduce the welfare package in order to increase the investment-oriented programs for economic growth.

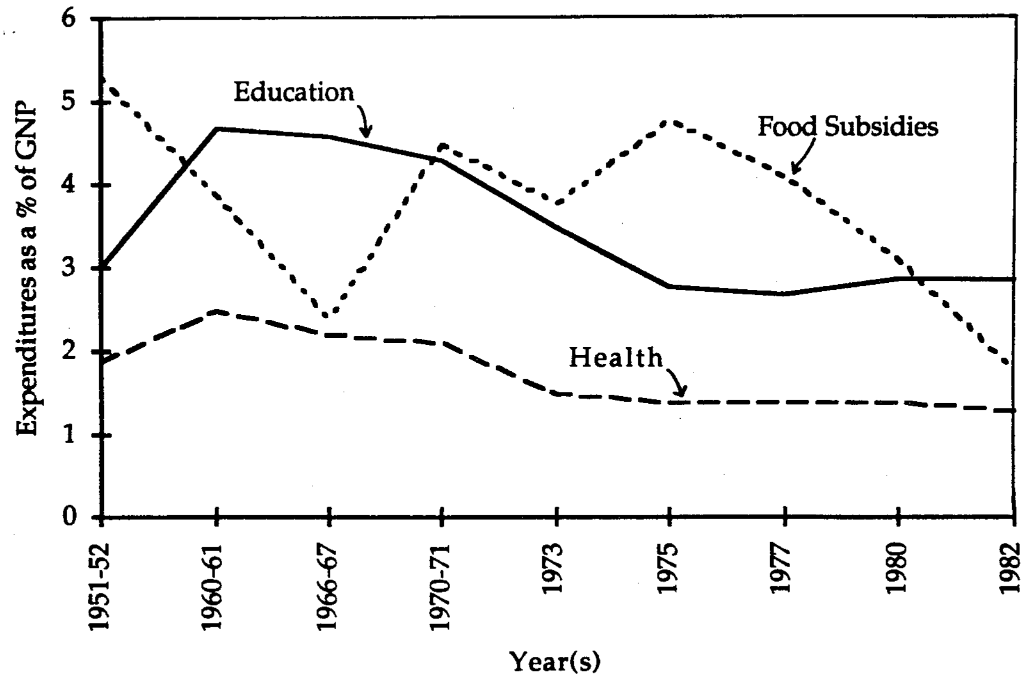
The cost of total welfare programs, amounting to about 20 percent of the government expenditure at the beginning, increased as the world market prices of food items rose and the internal demand expanded as the population increased. For example, the population of seven million in 1948 had doubled in 30 years. The poor performance in the export sector and increasing prices of imports also posed severe budgetary problems and inflationary pressure on the economy. Hence, the post-independent governments were not only restricted to growth-oriented economic policies but were also pressured to curtail the expenditures on social welfare programs (Figure 3). The Food Subsidy Program has been the primary target in reducing welfare expenditure. The reduction of expenses on education and health facilities was relatively less drastic. The government food subsidy expenditure figure of 5.3 percent of GNP in the early 1950s has declined to 1.8 percent by 1982 (Figure 3). The per capita daily calorie intake on the average dropped from 2,306 calories in 1966-71 to 2,071 calories in 1972-77.[12]

The first post-independent government preserved open economic policies but Ceylon failed to attract foreign investors who were more interested in investing in oil, minerals, and the timber industries in other countries. The government, however, continued with the policy of providing extensive welfare services which included subsidies on essential food items, free education, universal health services, and subsidized public

[12] The Medical Research Institute of Sri Lanka established a calorie level of 2,200 as the minimum per capita daily requirement (Poleman, 1973: p. 4).

FIGURE 3

Government Expenditure as a Percentage of GNP, 1951-52 to 1982



Source: Based on data from Alailima (1985).
Note: The intervals between years are not consistent.

transportation. These measures improved the living standard of the population, but the national economy had neither domestic savings for capital investment nor revenues for budget deficits.

The 1956-elected government sought greater state intervention in economic affairs and increased the welfare expenditures. The government took measures to nationalize passenger transport, port services, oil, and insurance. There exists a pattern of drastic decrease in foreign investment in Ceylon during this period while a flow of increased foreign investment can be seen in Malaysia, Singapore, Hong Kong, and South Korea. The rising social expenditures and the low investment severely affected the budget deficit and the balance of payments but the government maintained the free flow of imports. This trend continued until the late 1950s and early 1960s.

Since 1960, the economic policy could be characterized by an inward-looking development strategy which advocated import substitution to increase domestic agricultural production and to achieve self-sufficiency in rice and other food items. The greater public sector involvement in economic and social welfare continued in order to achieve the objective of a more egalitarian society. The government's commitment to provide the existing welfare services was reassured. But the government failed to solicit private sector investment; whereas, public investment was constrained by the continuous food subsidies and social welfare programs. The government also used funds to maintain state-owned corporations and state agencies. Moreover, the economic policies and exchange control were not designed to attract foreign investment; therefore, the growth rate remained low while welfare expenditures increased in order to support the growing population. During 1960-77, the population increased at an average of about two percent per year while the per capital income grew only at 1.5 percent. This is not a sufficient rate for domestic growth. The low income, low savings, and low investment created a vicious circle, as Ragnar Nurske described, by leaving the economy stagnated.

Since the early 1970s, several monetary and fiscal instruments were used to close the budgetary gap but inflation and corruption (largely due to state control) gradually increased. Despite these measures, the national budget deficit had increased because of deteriorating performance of the export sector and the rising prices of imports. The budgetary deficit became wider due to subsidies given not only to consumers and producers but also to state-owned corporations.

The socialist government elected in 1972 first decided to remove the free rice ration cards from income tax payers and their families. This measure reduced the number of recipients by 10 percent. But the Consumer Price Index rose to 203.2 in 1977 (100 = 1952), by increasing the cost of living, especially among the poor. The terms of trade also deteriorated in spite of the policy on import substitution and export diversification. The balance of payments was unfavorably affected by external shocks due largely to the world energy crises and protectionist policies by Western industrialized nations. Because of these events and the low growth rate, the government could not adequately provide employment opportunities for the increasing labor force growing at two percent per year. The main consequence was that it had created social upheavals, especially among unemployed youth; thus, the increasing consumer prices led the work force and students to go on strikes which eventually forced the government to have a general election in 1977.

6. OPEN ECONOMY AND TRADE LIBERALIZATION

The democratically elected new pro-capitalistic government had seen the experience of stagnating per capital income and rising unemployment so leaders decided to change the country's development strategy by reallocating resources for economic growth through investment-oriented activities. Rajapatirana (1988: p. 1148) indicates that the impressive performance of NICs also provided the basis for the 1977 liberalization attempt. These open economic and liberalized trade policies constituted a significant break away from the inward-looking and regulatory policies of the previous governments. The existing multiple exchange rate policy was replaced by a single floating exchange rate. The government created a new agency (i.e., Greater Colombo Economic Commission) to attract foreign investment and to coordinate the activities of the newly established Investment Promotion Zones (in Katunayaka and Biyagama near Colombo). These policies were designed primarily to encourage greater private sector participation in economic and trade activities.

Within four years, this policy package made significant progress by increasing the annual economic growth rate to six percent from 2.9 percent during 1970-77. This is mainly attributed to the increase in foreign investment. The investment as a ratio of Gross Domestic Product (GDP) rose to 30 percent during 1978-82 compared to 16 percent during 1970-77. The production-oriented investment programs, such as the Free Trade Zone, One Million Housing Program, and the massive multi-purpose Mahaweli irrigation project, contributed in achieving a higher growth rate and increasing employment opportunities.[13] The rate of unemployment dropped to 12 percent in 1982 from 24 percent in 1973. This economic success has been significant given the country's deeply rooted low investment base which has entrapped the economy in a vicious circle for more than three decades.

Despite this economic performance, the government had to cope with the deteriorating balance of payments and budget deficit. The worsening gap in the balance of trade due mainly to import liberalization was the major factor in the declining balance of payments. For example, the surplus trade balance of SDR 29 million in 1977 turned into a deficit of SDR 890 million in 1982. The budgetary deficit largely resulted from the declining tax revenues from income, profit, capital gains, and custom duties. The government kept

[13] The reduction of unemployment after 1977 was not only due to domestic economic restructure, but the promotion of labor migration to the Middle East countries has greatly attributed to this.

the concurrent expenditures on capital investment in order to provide the necessary infrastructure for the market economy. The budget deficit as a result increased to 21 percent of GDP in 1982 from 16.8 percent in 1978.

In the meantime, the government decided to limit the entitlement of food subsidy to those families whose annual income was less than Rs. 3,600. This income cut-off point was based on criteria that an average family of five required Rs. 300 per month to obtain the minimum calorie intake of 2,200 per day (Edirisinghe, 1987: pp. 25-26). This arbitrary cut-off point has created about one-half of the population (7.7 million) to receive pubic support, which in turn, became the basis for the Food Stamps Program. The new Food Stamps Program, introduced in 1979, replaced the almost four-decade old Food Subsidy Program. The Food Stamps Program, which was designed to reduce the expenditure on food subsidy and to maintain it at the current level, was a money saving device compared to the earlier food rationing program. The old program was totally based on a **quantity** rationing and a subsided price system but the new program is fixed at a **rupee amount** so that the government expenditure on food stamps can be maintained at a relatively stable or decreasing level in terms of the real rupee value (Table 1).

Table 1 illustrates the nominal rupee value as well as the real value of food stamps which began to decline since 1979. The total cost of the program as a percentage of government expenditure and GNP also declined. The dual objective of reducing the number of beneficiaries and the government expenditures had been achieved, but the declining purchasing power prevented the poorest groups to obtain adequate daily calorie intake. The overall daily per capita calorie consumption in the country had noticeably declined from 2,400 in 1970 to 2,250 in 1980 (James et al., 1989: p. 198). Due to liberalized trade policies, consumer goods were readily available in open market but the poor income groups could not afford the open market prices. The average rate of inflation had been running around 11 percent annually.

The poorest income groups were the most adversely affected by the decrease in expenditures on food stamps. The comparative data in Figure 4, for example, shows that the nutritional position of the bottom had deteriorated significantly by 1981-82. The upper expenditure groups, except the richest, were able to improve their nutritional level. The poor were not flexible enough to change their personal budget because their non-food expenditures, such as clothing, housing, and transportation, were also covered by the Food Subsidy Program. The loss in social welfare due to price

TABLE 1

Fiscal Analysis of Food Subsidy and Stamps Programs, 1966-67 to 1984

Year	Value of Total Subsidies and Stamps**		Total as a Share of Government Expenditure*	Total as a Share of GNP
	Nominal	Real*		
1966-67	202.0	175.9	8	2
1967-68	296.3	243.8	10	3
1968-69	328.8	251.9	10	3
1969-70	327.4	236.9	9	3
1970-71	534.5	276.6	14	5
1971-72	525.2	384.2	10	4
1972-73	677.2	409.6	13	4
1974	950.5	409.6	16	5
1975	123.4	620.5	17	6
1976	937.6	467.2	11	4
1977	1424.1	700.8	16	5
1978	2162.7	949.4	12	5
1979	2893.3	1146.6	14	6
1980	2082.0	654.3	7	3
1981	1995.0	531.4	7	3
1982	1746.0	419.6	5	2
1983	1742.0	418.0	4	2
1984	1802.0	432.0	3	1

Source: Central Bank of Ceylon Annual Reports, (Colombo: Central Bank of Ceylon, various years).

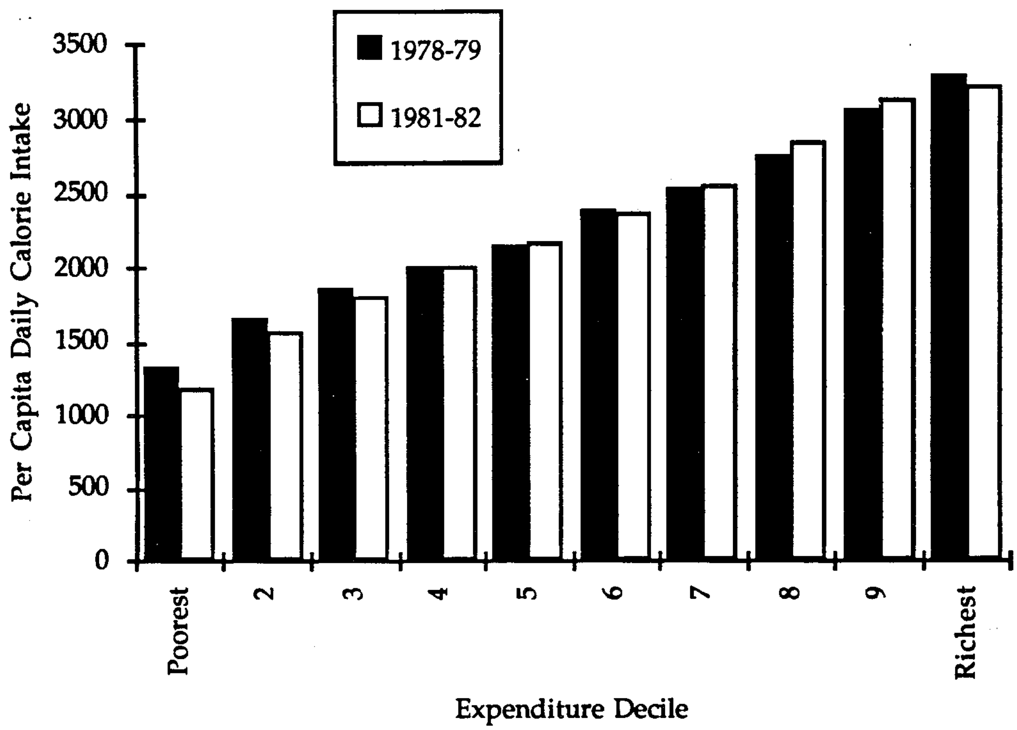
Notes: *Based on 1952 Rupees. **Value in millions of 1952 Rupees.

increases in non-food items cannot easily be quantified but the loss in calorie consumption is clearly shown (Sahn, 1987).

On the national average, however, the population had achieved the minimum calorie intake requirement of 2,200 by 1978-79, an increase from the 1972-77 period. This is partially attributed to the higher calorie consumption by the rural sector and the increase in domestic agricultural production, especially rice. The open and liberalized trade policies appeared to have satisfied the demand for consumer goods at least at the higher income recipients in the urban sector. The lower 50 percent expenditure groups, whose daily per capital calorie consumption remained below the minimum requirement, failed to maintain their nutritional level simply because these

FIGURE 4

Per Capita Daily Calorie Consumption by Expenditure Decile, 1978-79 and 1981-82



Source: Data from Edirisinghe, (1987: p. 39).

people could not afford food items at higher prices even if they are available in open market. It shows that policy makers failed to design a safety net for those who were badly affected by trade liberalization.

Since 1983, the economy further encountered more obstacles to economic growth both internally and externally. The ethnic violence internally disrupted the economic activities including the tourist industry and the foreign investment inflow. The domestic agricultural production declined due in part to the severe droughts during 1987-89 and to the reduced agricultural subsidies. As a result, the quantity of consumer goods imported had increased. The higher world prices of oil and food items made the balance of payments worse. Table 2 shows the increase in defense expenses and the reduction in revenues which widened the national budget deficit. The defense expense had risen from 3.1 percent of the total expenditure in 1972 to 9.6 percent in 1988. During this two periods, however, the

TABLE 2

Government Expenditures and Revenues as a Percentage of Total, 1972 and 1988

	1972	1988
Expenditure		
Defense	3.1	9.6
Education	13.0	7.8
Health	6.4	5.4
Housing/Social Services	19.5	11.7
Revenue		
Taxes on income, profit, and capital gains	19.1	11.1
Domestic taxes on goods and services	34.7	40.8
Taxes on world trade and transactions	35.4	29.9

Source: *World Development Report 1990,* (Washington, D.C.: The World Bank).

expenditures on education, health, and other social services reduced as a percentage of the total. The government revenues decreased from all taxes except from domestic goods and services because there prevails a policy which exempts investors from taxing income, profit, and capital gains.

The 1989 reelected government continued their austerity programs and included more liberalization measures according to structural adjustments proposed by the IMF and the World Bank. The government removed subsidies on wheat flour, rice, and fertilizer in order to reduce public expenditure and began to privatize (known as "peoplization") state-owned enterprises.

Several economic growth indicators have shown that these policies could generate economic dynamism through a market economy. The investment as a percentage of GDP had regained slightly to 22.6 percent in 1990 from 21.7 percent in 1989, though this is a significant decline since 1982. The annual growth rate continued to grow around six percent annually. The volume of agricultural production, without state subsidies, is estimated to have increased by 8.8 percent in 1990 (*Growth and Social Progress in Sri Lanka,* 1991: p. 12). The balance of payments had improved due to industrial exports, high tea prices, and the recovery of the tourist industry. These achievements demonstrate that the economy could grow with open market policies and made it easier to withstand internal shocks resulting from the civil war. The greater integration with the world economy has also allowed the attracting of much needed investment capital and export earnings to maintain domestic macroeconomic stability.

But none of these policies have diminished the number of people in poverty in terms of income and the calorie consumption. The inequality of income distribution, though this is not synonymous with poverty, also widened, noticeably after 1977. As shown in Figure 2, the Lorenz curves illustrate how the disparity of income between the poor and the rich increased from 1973 to 1985-86. Many of the policy reforms imposed by international agencies and Western governments do seem very healthy in the short-run and most importantly they are politically fashionable to leaders. These structural adjustments, which were intended to balance the national budget by removing subsidies and privatizing state enterprise, are conducive to the market-friendly economy but they did not reduce the level of poverty. There should have been a safety mechanism to sustain the potentially marginalized people at least until the "trickle-down" policies reach the bottom. It has been more than a decade now but market economic policies have still failed to prove in practice the socially unacceptable Kuznets curve proposition which describes that the rich must be made richer before the poor can hope to become better off (Bacha, 1979: p. 69). It seems that the "trickle down" takes longer and longer, if ever, to reach the poor.

7. POVERTY ALLEVIATION PROGRAM AND SAFETY NET

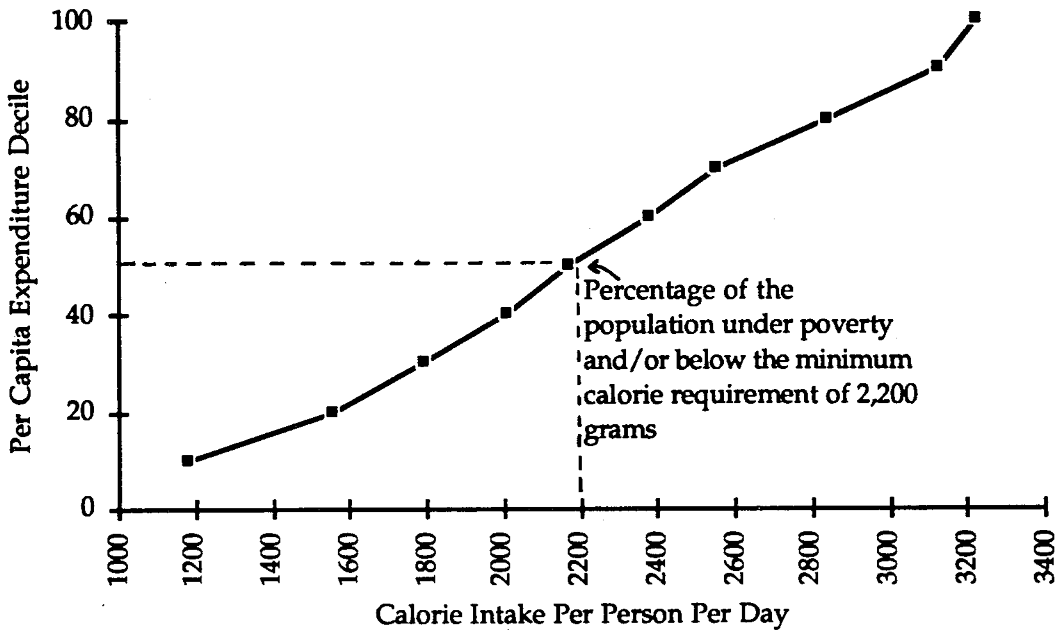
The 1989 government early on recognized the failure of imperfect market economy and introduced a massive poverty alleviation program ("Janasaviya")[14] in order to integrate the poorer income groups into the mainstream of the production process (Mendis, 1991). This program seeks to achieve a dual objective: growth with equality.

The earlier Food Subsidy Program (1942-78) and the Food Stamp Program (1979-89) were implemented merely to sustain the poor but the Janasaviya program is aimed at providing more than subsidized food. The Janasaviya concept, which evolves around both consumption and investment components, is designed to address the current economic realities of the country. It provides a grant of Rs. 2,500 ($63) per month per family for a two-year period to 1.4 million families (about one-half of the population) who are

[14] The word Janasaviya means "peoples' strength" in Sinhalese.

FIGURE 5

Relationship Between Expenditure and Calorie Consumption in 1981-82



Source: Based on data from *Consumer Finances and Socioeconomic Survey 1981-82* , (Colombo: Central Bank of Sri Lanka).

below the official poverty line. Those who could not meet the minimum daily calorie intake of 2,200 are considered below the poverty line (Figure 5).

The entire program, which includes 272 Assistant Government Agents (AGA) Divisions in all 25 districts, is implemented through the existing institutional and administrative system.[15] The poorest groups in selected AGA divisions are given the first priority and will continue in 11-rounds to cover all three sectors of the economy: urban, rural, and estate.

A network of Post Office Savings Banks and Cooperative Rural Banks (along with other major banks, such as state-owned People's Bank, Bank of Ceylon, and National Savings Bank) has been set up to transfer money at the

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[15] The Sri Lanka Administrative Service is considered to be sophisticated among developing countries (*World Development Report 1991*, p. 138). The present institutional and administrative structure is one of the legacies of the British colonialism.

lowest level of government (Gramasevaka) units. The purpose of providing Rs. 2,500 per month for a family below the poverty line is to empower their economic base and to help them break away from the vicious circle (Table 3). The consumption allowance, nearly 50 percent of the Janasaviya grant, will be given in a form of food stamps (Janasavipaths) to purchase the essential food items, largely locally produced, from the respective Multi-purpose Cooperative Societies. The rest is deposited in a savings account in the National Savings Bank branches or local post offices. This investment, which amounts to over Rs. 25,000 at the end of two years, can be used as collateral (individually and/or collectively) to obtain a loan for a micro-enterprise.

TABLE 3

The Major Components of the Janasaviya Program (in Rupees)

Period	Consumption (Janasavipath)	Savings (to be invested)	Total
Monthly	1,458	1,042	2,500
Yearly	17,496	12,504	30,000
Two Years' total	34,992	25,008	60,000

The overall program emphasizes the investment in human base and attempts to link the small producers with big investors. Policy makers assumed that village-based self-reliant organizations and small production units would provide a network of linkages with larger urban industries. Such linkages would increase production, reduce overheads, maintain low inflation, and generate sustainable employment for the rural poor. It seems that the village-based self-reliant economic thinking is similar to that philosophies of Buddhism, Gandhian, and the *Sarvodaya* Movement.[16] The idea of big investors in large urban industrial sector comes from the concept of industrialization which would hopefully bring about modernization to the rural sector. The Janasaviya investment money is instrumental in creating a culture of small-scale enterprises and linking them with those large industries. A country with over 70 percent of people whose livelihood is

[16] *Sarvodaya* is a progressive non-governmental organization (NGO) which advocates grass-root development through its village awakening programs (Ariyaratne, 1988). This internationally acclaimed NGO, though it is highly successful in removing poverty, is not considered here in order to maintain the focus on government policies; however, it should be noted that *Sarvodaya's* contribution to social and economic development has been widely acknowledged.

closely linked with the agricultural sector needs such a development strategy to promote the "informal economy." The informal economy, which had been largely neglected in the past, constitutes a highly dynamic economic sector even though it is hardly reflected in national accounts. There prevails numerous productive activities which actually contribute to national development but are unaccounted for in the GDP. The Janasaviya program focuses on developing the potential benefits of the informal sector through its investment component. The consumption component serves as a safety net until the recipients are able to invest their savings in productive enterprise to generate self-sustained income.

Two similar successful stories come from Bangladesh and the Republic of Korea. The Grameen Bank of Bangladesh was organized on a small-group basis to give small sums of credit to absolutely landless and illiterate villagers (Hossain, 1988). Within 10 years, the bank has grown rapidly to over one million members. Of this, 70 percent are women and their repayment record is 98 percent. In the Republic of Korea, through its Saemul Undong (New Village Movement), the government gave 300 bags of surplus cement to each of over 33,000 village communities to start development projects. Today, it grew up to build university-type training institutes.

The Janasaviya Program is integrated with other programs, such as entrepreneurial training, extension services to cover agricultural and agro-industry, credit, housing, nutrition, primary health, and child development. Among them, a welfare program has resumed to provide a free mid-day meal for all school-going children in the country. The Provincial Councils, implementing this program, utilize locally produced food items as far as possible. This will provide an incentive to the local producers to grow more and to improve their income base. The popularizing slogans such as "Income to Parents and Nutrition to Their Own Children" are being used to revitalize this pre-independent welfare program.

This self-sustaining approach to reduce poverty could be successful, like in Bangladesh and the Republic of Korea, for the people of Sri Lanka if the initial program succeeds in the implementation. If it succeeds, the possible impacts of Janasaviya in the macroeconomy can be summarized in terms of food prices, employment, and income generation in urban, rural, and estate sectors (Figure 6).

The food prices are likely to increase because of greater demand created by the consumption allowance. A higher rate of inflation may

FIGURE 6

Anticipated Directions of Change in Food Prices, Employment, and Income Generation by the Janasaviya Program

Components of The Janasaviya Program (First Two Years)	Food Prices	Urban Poor			Rural Farmers			Estate Workers		
		Employment	Income		Employment	Income		Employment	Income	
			N	R		N	R		N	R
Use of consumption allowance	+	0	+	+	0	+	+	0	+	+
• Imported goods	+	0			-			0		
• Locally produced goods	-	(+)			+	+	+	(+)		
Savings (invest in micro-enterprises or/and productive activities)	0/(-)	+	+	+	+	+	+	0/(-)	+	+

Notes: 0 = No effect; + = Increase; - = Decrease; ( ) = Parentheses indicate a(n) small/indirect effect

N = Nominal; R = Real

continue until the domestic food production reaches a level that could satisfy the new demand; however, the liberalized import policy may have a neutralizing effect on local food prices. If world prices are higher than the domestic prices, which is more likely, there exists an incentive to increase local production. The anticipated direction of change in employment and income generation may vary from one sector to another, but if the domestic food production emerged due to expanded demand it would generally lead to increase both income and employment. The savings, which can be used as collateral to finance a host of productive ventures in every sector, would increase the potential for employment opportunities and the sustainability of income for families.

Analysis of Public Financing

The Janasaviya program is an indigenous innovation by its people rather than an imported development package from the West. Unprecedented commitment, therefore, comes from the highest level of government. It is one of the highest national priorities as reflected in the 1990-91 budget allocation (Rs. 4.9 billion). The viability of the program is, however, based on the ability of public financing. The necessary funds have to be generated either within or outside (or both) the country. The level of national savings, which increased from 12 percent of GDP during the 1985-89 to 14.8 percent in 1990, is only sufficient to finance 76 percent of the total investment in the economy; therefore, the necessary funds for Janasaviya must be obtained either by reducing capital investment expenditures or by attracting more foreign aid. Table 4, for example, illustrates that the allocated national budget for the first round is not adequate (Rs. 1.2 billion deficit) so that external financing should be considered. But, the available funds would certainly cover the required consumption component of Rs. 3.3 billion; whereas, the savings component is concerned the budgetary allocation would not be sufficient. One may argue, however, that the required funds for investment would not immediately be necessary because the savings are internally circulated within banks until funds are actually discharged for investment activities at the end of the two-year period. The actual expenditure for the program would then only be a consumption component at least for two years.

TABLE 4

The First Year Expenditure and Budget Allocation for Selected 188,000 Families in 25 Districts

Expenditure:				(in billions)
Consumption	(Rs. 17,496 x 188,000)	=		3.289
Savings	(Rs. 12,504 x 188,000)	=		2.351
Total		=		5.640
Budgetary allocations:				
1980-90 total PAP allocation		=	4.9	
(-) Administration		=	.5	
Actual funds for the program		=		4.4
Deficit		=		1.240

Source: Basic data from *Ceylon Daily News,* October 31, 1989, p. 1
Note: The amount of Rs. 7.2 billion was approved, but only Rs. 4.9 billion will be spent initially for the program.

The funds for investment component have actively been sought from external sources. The Janasaviya Trust, which was established by a World Bank grant of $100 million (about Rs. 4 billion) for three years, plays an integral financial role in three different areas:

1) providing credit to poor without collateral. Those who productively use the credit are further eligible to more loans without collateral.

2) providing training to individuals and organizations to plan and manage their projects and programs.

3) providing funds to public works so that rural poor can find employment in building and maintaining common amenities, such as roads, bridges, schools, hospitals, and libraries.

The Trust also facilitates organizations from various regions to work as partner-organizations. A partner-organization can be formed with or within governmental, non-governmental, banks or rural groups. The Trust Fund, which is primarily designed to invest in projects and public work programs, only provides a three-year budget of Rs. 4 billion but the investment component at the current level would require over Rs. 7 billion for three years. For the entire program to cover 1.4 million families, a total of Rs. 49 billion at least for the consumption is needed (Table 5). The investment allocation, which is estimated over Rs. 35 billion to complete all 11-rounds, cannot be generated within the country since there exists a low level of savings and investment. In addition, the annual growth rate, the interest rate on savings, the rate of inflation, and the political environment would considerably affect the savings and investment component.

TABLE 5

Total Funds Needed for 1.4 million Families
(billion Rupees)

Period	Consumption	Investment	Total
Monthly	2.04	1.46	3.5
Yearly	24.50	17.50	42.0
Two Years' total	48.99	35.01	84.0

The Janasaviya program would increase the per capita income of a family to Rs. 30,000 ($750) and this would help increase the average per capita income of $420 (1988) to a higher level. The government also needs to increase the minimum public employee salary to a Rs. 2,500 base (there were public employee strikes when the Janasaviya bill was introduced in the Parliament) in order to maintain the public servants' morale and effectiveness. This measure has increased the salary in the public sector. The financing of the Janasaviya program has itself created a higher income level with a greater purchasing power while fueling the current 11 percent inflation rate. This is more likely as long as the domestic food production remains low and the liberalized import exists. The country may face more difficulties in the balance of payments as well as in the budget deficit. It is, however, assumed that the domestic production would increase through investment activities and the consumption money would create a necessary demand for food items.

Analysis of Market Problems and Entrepreneurship

The Janasaviya Program seems to emanate from the Keynsian thinking that the increase of aggregate demand would increase employment and real income; thereby, the economy would take off from its existing level of unemployment towards its full use of resources. The aggregate demand comprises of both consumption and investment so that autonomous increase in both is expected to raise employment opportunities and sources of income. It is anticipated that a multiplier effect would emerge as the economy begins to expand.

The Keynsian solution may work in developed free market economies but it would be unlikely to be operating in Sri Lanka. Indrarathna (1989: p. 12-13) argues that structural rigidities tend to inhibit the response of productive resources to increase money demand. The government intervention as an agent of facilitating free market conditions at every level is needed. For example, the 1991 Janasaviya Exhibition has demonstrated that small-scale production can be generated but there exists problems of marketing. Potential markets for those products do not yet adequately exist in Sri Lanka. More importantly, the domestic food production needs to be a high priority rather than pure income-generating ventures where no sufficient markets prevail.

The higher level of income through the increase of Janasaviya allowance may also create a new set of consumption needs which can be met by the increase of imports (more likely within open market conditions) or by the increase in domestic production. Since domestic production does not meet the needs of food consumption at least at the initial stage, the prices of goods and services would rise. It is, however, possible that higher prices would not respond immediately to increase the production. This unresponsive situation had occurred prior to WW II when the government allowed the free market forces to stimulate domestic food production. As

Keynsian model predicts, the money multiplier would work only if the level of production increases. The response of real multiplier on potential production usually takes longer to be operational, especially in agricultural sectors. Until the production activities are organized and the domestic production is streamlined to match the increased demand, some price escalation could temporarily be anticipated. In the meantime, the government should monitor price levels and re-enforce various channels of marketing and distribution activities as a part of price stabilization. When and if the production level is on the rise, these measures would no longer be necessary and the government can and should leave the market itself to govern. If this situation takes place, the level of consumer prices would increase at least moderately; if not, the increasing price level would further fuel the rate of staggering inflation.

The logical basis for financing an employment opportunity comes from a Central Bank study which indicated that at least Rs. 30,000 (1984 prices) would be needed to create one productive job through a credit scheme. It is anticipated that every Janasaviya recipient in a family of four or five will be employed by the end of the first year. This would amount to at least 150,000 employment opportunities per year (300,000 in two years). The reduction of unemployment is assumed through the involvement of additional income generating activities which could bring a multiplier effect. The unemployment figure, which is more than 12 percent of the labor force (about 1.2 million people) is too high for an anticipated reduction within a few years, given the number of people joining the productive labor force each year (at a rate of two percent). The Keynsian solution may well be worked out in a long-run when labor-intensive small industries in agriculture, livestock, poultry farming, and other rural "informal" industries (handloom and handicraft) become possible avenues of sustainable employment.

At present, the country's entire development strategy is centered around Janasaviya which emphasizes the reform of agricultural, industrial, and service sectors. Numerous facilities in fertilizer, seed, raw material, chemicals, and other inputs are organized to target local needs. Extension services for agriculture, cottage industry, and industrial sectors are put in place. The question may still remain as to whether the education and training of Janasaviya recipients would lead to an entrepreneurial class by developing technical, organizational, and managerial skills. In the past, Sri Lanka has experienced greater social and educational achievements but the people from the lower income groups were not developed with entrepreneurial spirit for two reasons: lack of financial resources for micro-entreprises and unfriendly business environment. The Janasaviya investment component and prevailing market-oriented policies may well be conducive to unleash entrepreneurs from the lethargic past. It is, however, premature to predict the potential outcome of Janasaviya which is less than three years old.

Secondary Safety Net

The Janasaviya program emerged as a two-facet solution to the budgetary problem and to the increasing poverty. It is expected that the budgetary expenditure on food stamps can systematically be phased out as the Janasaviya program comes to its completion. The fundamental question still remains: What would happen to the beneficiaries who may not be sufficiently integrated into the productive economic force at the end of two-year period?

There is no independent evaluation to justify this but the government data, based on the May 1991 program review of the first round, asserts that about 57 percent of Janasaviya families in the country had already achieved a stable income level above Rs. 1,500 while 27 percent achieved an income level between Rs. 1,000 - 1,500. The remainding 17 percent, whose income stayed below Rs. 1,000, is still considered as the vulnerable group (*Growth and Social Progress in Sri Lanka*, 1991: p. 84). For those who are still marginalized in the process do need a further safety net to succeed. The government cannot discontinue the program after a two-year period to reduce poverty. One may strongly argue that the poverty could remain unchanged (or increase) even if families have reached a stable income, because of the decreasing purchasing power in the economy. The Janasaviya program does need to focus on re-targeting the peripherized people on a continual basis because the poverty reduction is itself a process.

The future success of the program would derive from the development of the following areas:

1) The ability of public financing without distracting other investment programs which provide necessary infrastructure for the market economy and by avoiding inflationary pressure on the economy as a result of internal (i.e., printing money) and external means of financing,

2) Further strengthening of the institutional system and promoting the efficacy of administrative mechanism,

especially at the lower levels where politically motivated negative forces could obstruct the program,

3) Increasing the avenues of developing entrepreneurial and managerial skills in order to increase the industrial and agricultural production, and

4) Developing a marketing process and effective distribution network by strengthening the Multi-purpose Cooperative Societies.

Should the program be successful, it will change the economic landscape by completely removing the Food Stamps Program, which had in almost five decades been a burden to economic growth.

8. CONCLUSION: WHICH WAY NOW?

The international comparative indicators and empirical studies showed that Sri Lanka has been, and still is, an exceptional performer in the developing world and especially among South Asian countries.

Bhalla and Glewwe (1986), however, argued that Sri Lanka's social progress derived from its colonial legacy. But it is reasonable to state that Sri Lanka had a welfare society based extensively on Buddhist teachings and its traditional culture long before Westerners landed in the coastal areas. A historical analysis, as Bhagwati (1988: p. 551) urged, on the social and cultural endowments prior to the Portuguese colonialism should therefore be considered because the inertia of "superculture" is still pervasive in the Sri Lankan Buddhist society. The emerged social welfare policies during the British administration, for example, were not purely a result of colonial past but they were developed in part due to the advocacy of Buddhist nationalistic leaders.

Bhalla and Glewwe further cited that the post-1977 policies were not detrimental to equity objective. Their findings failed to recognize that the widening income gap between the rich and the poor during their study period of 1960-84. The Lorenz curves in Figure Two have clearly shown the increasing income disparity in the island. The daily per capita calorie consumption among the poorest groups had also declined while the higher income groups had slightly increased their calorie intake levels. It is true, however, that the open economic and liberalized trade policies had led to increase rates of economic growth while reducing unemployment. This does not necessarily mean that the post-1977 policies had reduced the number of people below the poverty line. In a later study, Bhalla (1988b) admitted that absolute poverty increased in Sri Lanka.

In general there exists a consensus that Sri Lanka has demonstrated remarkable economic and social progress over the years. The relative success of Sri Lanka experiments is attributed not only to a single policy but to a combination of historical, cultural, social, and economic factors. In a summary, they are:

1. The legacy of Buddhist teachings, which laid the foundation for the value of simplistic living and promoted the benefits of physical work and spiritual upliftment, is still pervasive in community life. Thus, Buddhism has put a greater emphasis on human resource development throughout the history.
2. The colonial free trade policies linked the island with the world economy and developed the necessary infrastructure such as transportation and communication for economic growth. It was the British colonial government that introduced the modern social welfare policies.
3. The post-independent government policies emphasized on the basic human needs approach to development in achieving a more egalitarian society through active government intervention in the fields of health, education, and food consumption. This approach is complementary to the Buddhist philosophy and Sinhalese tradition.
4. The 1977 outward-looking economic policies created a relatively higher economic growth by attracting foreign investment and promoting private sector participation in development activities.
5. The 1989 growth with equity policies addressed the importance of investing in a human base through a participatory development strategy while maintaining open economic policies.

The experience after 1977 shows that the removal of macroeconomic barriers in monetary, fiscal, trade, and consumer policies has helped in attaining a higher economic growth. But the "trickle down" policies increased the poverty level and demonstrated no signs so far to validate the Kuznets curve. The social progress achieved through the welfare program has focused on the development of human capital with a relatively low economic growth.

Janasaviya attempts to sustain both human development and economic growth strategies. This illustrates that social and economic progress comes with a paradox. The challenge would still be in finding a right policy mix.

This island nation has, however, uniquely demonstrated a greater possibility in achieving both social and economic development among developing countries. The "exceptional" success may well be associated with the influence of Buddhist heritage, socio-cultural endowments, and the risk-taking abilities of Sri Lankan leaders and people who have consistently been challenged by both internal and external shocks. Janasaviya would be another bold experiment.

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