

Employment Policies in Sri Lanka in the post-independence era

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Indrajit Coomaraswamy maintains in this analysis of Sri Lanka's employment policies that sufficient weighting must be given to employment generation when evolving an appropriate framework for sound macro-economic management. He argues that employment must be clearly specified as an objective when designing policies and programmes. Failure to do this will render it impossible to absorb the backlog of the unemployed and to provide employment for the 135,000 new entrants to the labour force each year. This paper is extracted from his doctoral thesis.

Poverty and Open Unemployment

Poverty and open unemployment are arguably the most striking symptoms of inadequate development in many Third World countries. These countries experience alarming rates of open unemployment in the urban sector, and widespread poverty. In the context of the Third World, poverty and open unemployment are related but separately identifiable concepts. While many of the unemployed are confronted with conditions of poverty, a significant proportion of the unemployed tend to originate from relatively secure economic backgrounds and undergo a period of unemployment while searching for 'suitable' jobs. The former phenomenon may largely be explained in terms of an imbalance between the demand for and supply of labour, while the latter is more a result of inappropriate signals being transmitted through distorted differentials in the labour market. These differentials encourage 'over-searching' for certain types of employment. Both these factors operate in the Sri Lankan context.

Conceptual Framework

It is generally recognised that the conventional theoretical framework formulated to examine employment problem in the developed countries is inadequate when applied to the less developed countries (LDCs) because it is relatively weak in the context of undeveloped labour market structures. There is a fundamental conceptual difficulty. In the traditional sector of

the Third World much of the economic activity is organised in family production units within which the sort of rigid demarcations between work and leisure, common in more developed labour markets, which help to differentiate employment and unemployment are not observed. In this sector it is common for the "share alike" ethic to apply to work as well as to income. Hence work may be sporadic and partial and income generating activities can involve all except the very youngest children to some degree.

The labour force is usually defined as the sum of the number of people employed (for pay, on their own account or as unpaid family workers) and unemployed; the latter in turn being commonly defined as people who are not at work but are seeking work or are available for work. Two factors determine the rate of growth of the labour force: the rate of growth of the population of working age and the participation rates. As mentioned above, one of the methodological problems faced in the context of the Third World is that it is often not easy to distinguish between members of the labour force and non-active groups. This problem is most acute in the rural sector where men, women and children above a relatively young age may all devote part of their time to economic activities. For instance, there is likely to be a significant group, mainly female, whose commercial activities are essentially sporadic, but whose domestic activities often include provision of services which in more advanced communities are purchased (e.g. dressmaking and basic processing of food).

Growth, Employment and Distribution

Until recently, economists and policy-makers in both developed and developing countries assumed that economic growth would solve the problems of poverty and unemployment. In the context of the Third World it has become increasingly apparent that economic growth alone is not enough.

Even today there is a strong pro-GNP lobby which argues that only criteria associated with growth should govern decision making regarding resource allocation. It is argued that growth oriented capital intensive methods of production should be adopted. Such methods are said to lead to a higher rate of growth of income (i.e. a larger cake) the benefits of which are said to percolate/trickle down to all members of the population. From the employment point of view it is argued that though such resource allocation provides fewer jobs in the short run, in the long run higher rates of growth lead to more capital accumulation and thus more employment opportunities. Such an argument entails the sacrifice of present employment for the sake of more employment in the future. This thesis is based on the assumption that capital-intensive techniques are more productive, that "capitalists" (private or state) will reinvest the profits or the surplus and that this reinvestment will be sufficient in amount to absorb eventually more labour than would otherwise be employed by the continual use of labour-intensive techniques. The pro-GNP lobby deals with the question of income distribution by suggesting that aggregate income should be increased as much as possible and then fiscal measures used to redistribute this income.

This argument has a number of inherent weaknesses. One can argue that conditions in many Third World countries are such that there is an overwhelming argument in favour of advocating more employment for its own sake from the point of view of not only social justice but also political

stability. In addition, there need not be a trade-off between more employment and more growth "now". It is possible to obtain higher rates of both employment and output if "appropriate" policies are evolved. Furthermore, even if the governments in the Third World incline towards income redistributive fiscal policies they usually do not have the capacity to implement them. It is also the case that in many Third World countries the surplus generated is squandered by the peripheral elites on conspicuous consumption with a high import content.

The notion of viewing employment as a by-product of economic growth must be discredited. The belief that the employment problem would gradually solve itself if the rate of economic growth was accelerated is not borne out by reality. There is no automatic mechanism linking increase in production to increase in employment. In many countries where economic growth rates have been satisfactory, progress judged by other indicators such as levels of employment, literacy, life expectancy, infant mortality, nutrition, housing etc., has been very poor. Economic growth has merely increased inequalities between the "haves" and "have nots". Furthermore, it has raised expectations which it has not been able to satisfy. Growth has usually occurred in the relatively small modern sectors of developing economies. Such economies are highly compartmentalised (non-integrated). This means that the large traditional sectors remain unaffected. The fruits of growth accrue to a small selection of the population who are already wealthy. The large mass of the population remains virtually untouched by the economic progress made. The population explosion, increasing pressure on land in many countries, and the unfavourable "backwash" effects of industrialisation on traditional handicraft activities combine to keep vast numbers of people in abject poverty, deprived of any share in the benefits of a rising average income per head.

The objective of achieving growth must not be abandoned. Instead one must recognize that development depends on factors other than growth of GNP. Economic growth is not in itself the cure for many of the prob-

lems facing the Third World. There are other criteria of performance and progress which must be taken into account by planners and policy makers if economic growth is to result in higher standards of living for the dispossessed masses. Employment must be made a major goal and a criterion of development. Development can no longer be considered to be synonymous with economic growth. Specifically pro-poor policies must be evolved. Creation of more livelihoods which generate a regular and decent level of income must be emphasised in development policy. National plans should concentrate on those sectors and those technologies which offer the greatest scope for labour absorption while providing a reasonable rate of increase in output per head so that decent levels of earning can be obtained without rampant inflation. This line of thinking contrasts sharply with the approach which aims at a certain rate of growth while taking no account of the employment creating and distributive effects of the measures taken to attain that growth. However, one must reiterate that it is necessary to guard against choosing measures to promote employment or distribution without taking into account the impact on growth. Employment creation without growth tends to be self-defeating. If development is to lead to higher living standards for the poor, weightage must be given to all three objectives.

Trade-off between Employment and Output Objectives

Much discussion has been centred on the costs of employment-promotion. The cost that has received most attention has been the possible slowing down of economic growth. If there is no conflict between maximising growth and employment simultaneously there would be no problem.

However, one can demonstrate that in certain circumstances there is likely to be conflict between these two objectives. Conditions in the Third World are such that an increase in investment and output does not automatically lead to a reduction in unemployment. Contrary to what one would expect from Keynesian economics, capital accumulation and growth

in GNP have not brought poor countries closer to full employment. Instead there has been an increase in the level of unemployment. The employment problem in the Third World is related to the lack of co-operant factors that might be utilised productively with surplus labour. It is possible to argue that in such circumstances it can be worthwhile to sacrifice some growth in order to achieve additional employment, particularly as employment is not just an end in itself but is also a means to other important ends besides production. One must, however, recognise that there has to be a limit to the amount of growth that it would be worthwhile to sacrifice for fuller employment. If the economic growth achieved falls short of population growth, stagnation sets in, and poverty will be perpetuated. While there is no doubt that ill-chosen measures of employment promotion will reduce economic growth there is, however, considerable scope in Third World countries for policy measures that will promote employment and growth simultaneously.

The attitude of economists to the relationship between output and employment is subject to controversy. Neo-classicists contend that factor proportions are variable and that any amount of capital can be associated with any level of employment. In this Neoclassical world the limit to employment is set by real wages. Hence there can be no conflict between employment and output. This is not a realistic assumption. Though some variation in employment is possible with any given machine there comes a point when the machine is operating at maximum capacity and additional workers will not increase output.

Therefore only a limited range of employment opportunities can be associated with any given machine. This raises the possibility of conflict between employment and output.

It has also been claimed that conflict between output and employment is inevitable. Capital intensive methods of production are said to always involve lower capital cost per unit of output (and higher cost per job) than labour intensive techniques. This position is as extreme as the Neo-classical one. There is much evidence that in

many industries and many processes the most labour intensive methods also save capital per unit of output.⁽¹⁾ In these cases the maximisation of employment and output are consistent. There is no doubt, however, that conflict between output and employment objectives can arise given the scarce nature of complementary factors of production in LDCs. From a policy point of view it is necessary to determine how much scope there is for employment policies that do not run into such conflict. As mentioned above, there are areas where more labour intensive methods do save capital per unit of output. It is important R & D efforts concentrate on improving the efficiency of labour intensive methods so that more and more of them become efficient vis-a-vis capital intensive methods. Hitherto, almost all research and development has been concentrated in the developed world where labour has been relatively scarce. The labour intensive methods currently available tend to be the products of earlier and less sophisticated science and technology. This tends to lead to a trade-off between employment and output.

If there is conflict between maximising current output and employment, there are a number of reasons for preferring employment to output. (a) Employment creation and the consequent opportunities for earning an income are a potent mechanism for redistributing income to those who would otherwise remain unemployed (and often very poor). This is particularly so in the context of the Third World where few countries possess the capacity or the will to implement progressive fiscal policies. As the creation of employment can be a crucial element in a redistributive strategy one can argue that in some contexts production should be sacrificed for greater employment. It is however, insufficient to merely increase opportunities for work. There is a need for incomes as much as for work. Policy must be designed to create employment opportunities that provide a decent level of income. The trade-off involved may often be between the income of the better off and the income of the poor rather than between output and employment.

(b) Unemployment can be very demoralising.

(c) Widespread unemployment can be politically destabilising.

One must give priority to employment problems because the political instability they cause will eventually threaten levels of output and growth anyway.

If one has established the priority of employment considerations and one does not simply wish to maximise output by plumping for the capital intensive techniques, there are three possible courses of action when confronted with alternative techniques⁽²⁾ in a situation where there is a conflict between employment and output.

(a) One can adopt the Gandhian solution and maximise employment and sacrifice output. It can be argued that this will lead to stagnation and perpetuation of poverty; (b) There is the Nkrumah solution of installing modern capital-intensive techniques and employing the number of additional workers, who would have received employment under more labour-intensive techniques, in some minor and possibly useless capacity. This alternative does not provide the compromise it seeks to achieve. Extra workers might reduce output by getting in the way and by diverting administrative personnel. Furthermore, as modern factories pay relatively high wages, such a policy can lead to an exorbitant wage bill. This can reduce the profitability of the firm which in turn will affect the level of savings and eventually future investment. This will have adverse repercussions on future employment. (c) A third solution is to adopt modern techniques and to use some of the extra output to employ the non-employed on public works, etc. This option can lead to a dilemma. If any capital is involved in the public works then one is back to the initial problem. None of these alternatives satisfactorily resolve the trade-off between employment and output. Stewart and Streeter⁽³⁾ however, argue that certain widespread characteristics of the economies of Third World countries provide fairly wide scope for measures of employment promotion that do not conflict with growth objectives. Attention should be focused on identifying the nature and extent of possible con-

flicts between output and employment, on evolving practical ways of avoiding these conflicts and promoting both objectives simultaneously. This will also have positive distributive effects.

It is important to recognise that both employment and output occur over time. Current levels of output and employment influence future levels. Hence weighting of objectives both inter and intra-temporally becomes crucial. One may conclude that planners must know their time preferences between the present and future and evolve an appropriate set of weights when attempting to resolve conflicts between employment and output objectives. It was argued earlier that there is considerable scope for measures that promote employment without conflicting with growth objectives. The nature of technical progress influences the terms of any conflict between employment and output objectives. However, under the existing international order, technical developments are likely to be confined to a significant extent to techniques of high and increasing capital intensity. Labour-intensive techniques tend not to be affected by technical progress. Consequently such techniques tend to become inferior over time and their adoption may involve a sacrifice of output when compared with the adoption of more capital-intensive technology. However, more widespread adoption of labour intensive techniques would lead to a fall in their costs as a result of economies of scale in their production. Hence current relative costs and efficiency of different techniques may not reflect potential relative costs. The present picture is often further clouded by distorted factor prices and over-valued exchange rates. One can conclude that current possibilities understate the impact that utilisation of labour-intensive techniques

(1) Sen has suggested that in cotton weaving the capital output ratio is lowest for the most labour-intensive technique, the fly-shuttle handloom, and highest for the automatic power loom. See Sen, A.K., *Choice of Techniques: An Aspect of the Theory of Planned Economic Development*, (Blackwell, Oxford, 1975), Appendix C, pp. 93-110.

(2) Stewart, F. and Streeter, P., 'Conflict Between Output and Employment Objectives', *Oxford Economic Papers*, Vol. 23, No. 2 (July 1971), pp. 145-168.

(3) *Ibid.*

have on output. Therefore, the areas of conflict between employment and output may be less than it appears at present.

One may conclude that in a rationally planned economy where due weightage is given to the local resource endowment, conflict between employment and output objectives can be minimised.

Employment and Income Distribution

It must be recognised that more employment constitutes an important means of redistributing income.⁽⁴⁾ It is the most crucial element in a policy for ensuring widespread sharing in the fruits of economic growth.

This is particularly applicable in the Third World because few countries have the capacity to afford or administer extensive fiscal schemes to redistribute incomes. However, in all Third World countries it is possible to create more extensive opportunities for those able to work to do so productively.

In addition to making for a more equitable distribution of income, more employment can satisfy the human being's psychic needs for useful and creative activity. It also provides more opportunities for people to acquire skills and the habit of work, thus enabling them to participate both in the tasks as well as benefits of economic development. Furthermore, employment serves to reduce social and political tension.

One may argue that there is a two-way relationship between employment and income distribution. Not only does the level of employment affect income distribution but in addition, changes in income distribution may affect the level of employment. Redistribution of income leads to a pattern of consumption which has significantly lower import content. The result is an increase in the aggregate demand for local goods. This means that a greater percentage of the value added accrues to the domestic economy. This has a positive impact on the subsequent growth of GNP and the level of employment. The increase in employment may be attributed to the fact that the production of such goods tends to be labour-intensive. This leads

to an increase in the labour absorptive capacity of the output mix. This new consumption basket arising from more even distribution of income will also be more heavily weighted in favour of agricultural products (lower income groups spend a greater proportion of their disposable income on food items). This will increase aggregate demand for such products. This should have a positive impact on overall development given the sectoral distribution of the economy. (The gains are likely to outweigh any losses sustained by reductions in services consumed by the rich).

The conventional argument against redistributive measures contends that the level of consumption is likely to increase, leading to decreased savings and investment which in turn will have a negative impact on employment. This argument is highly questionable in the context of the Third World. Even if one accepted the debatable assumption that an uneven distribution of income does induce a higher rate of personal saving, much of it is likely to be siphoned out of the country either through direct outward remittances to foreign bank accounts or through conspicuous consumption with a high import component. Provided that appropriate measures are undertaken there need not be any significant trade-off between distribution and output (equity and efficiency).

Concluding Remarks

One may conclude that it is possible to evolve a policy framework which gives due weighting to the growth, employment and distribution objectives. In the Sri Lankan context such a policy package would have to concentrate on increasing the incomes of the rural poor. This would also serve to increase the labour absorptive capacity of the economy.

Employment Oriented Policies In Sri Lanka.

The objective of this section will be firstly to examine briefly how the employment issue has affected economic planning during the post-Independence era.

The employment input into economic planning

The 1948-56 period

This period was characterised by an essentially ad hoc approach to economic policy. The so-called Plans which were drawn up before the Ten Year Plan were either just a compilation of public projects or instruments designed for the specific purpose of obtaining foreign aid for particular projects or programmes. One could conclude that during this period there was some "project planning" related to certain public projects. The documents were only concerned with investments. However, these were not implementation-oriented and there was no administrative apparatus for continuous planning and reviewing. The employment objective did not feature in any of the documents because this period was characterised by relatively full employment. Open unemployment had not reached the alarming levels of the sixties and seventies. No attempt was made to distinguish between the objectives of combating underemployment and the expansion of production. It was assumed that underemployment was to be found chiefly among agriculturists, who failed to use their land and time to best advantage.⁽⁵⁾ The possible existence of structural imbalances was not considered.

The Six Year Plan for Ceylon covering the period 1st October, 1947-30th September, 1953 was published in 1948. This document was confined only to the public sector and consisted of the Budget Speeches made by the Minister of Finance before the beginning of the financial years 1947-48 and 1948-49, in which he discussed the future with a six year perspective.

(4) Mouly, J. and Costa, E., *Employment Policies in Developing Countries*. (George Allen and Unwin, 1974), P. 19.

(5) Work on the Ten Year Plan (1959-69) was begun in 1956

(6) Under-employment can be defined in terms of various criteria: hours worked, productivity or income.

(7) IBRD, "The Economic Development of Ceylon", (Report of a Mission organised by the IBRD at the request of the Government of Ceylon), John Hopkins Press, Baltimore, 1953.

(8) B. Moller, "Employment Approaches to Economic Planning in Developing Countries", Scandinavian Institute of Asian Studies, Monograph Series, No. 9, Stockholm, 1972, P. 126.

Hence it does not constitute a fully worked out plan even for the public sector.

The same may be said of the World Bank Report⁹ which assessed various projects which had already been carried out or were being contemplated. The creation of new employment opportunities was not one of the World Bank Mission's concerns. The growth of production was the main objective. It is interesting to note that though the existing situation did not involve significant unemployment, the Report of the Mission issued an important warning of the future.

"For some generations past Ceylon's productivity has maintained a lead in its race with population. Now the odds in the race are shifting. There is a grave doubt whether increasing production in the old patterns can any longer keep up with a greatly accelerated population growth..... an annual population increase of about 2.4%, is to be assumed as a basic factor for the coming decade..... There hangs over the island the serious threat of over-population Up to now the development of new land has kept pace with the increase in population. It is very doubtful whether it can do so much longer."¹⁰

This argument was used to make a strong plea for family planning. However, no recommendation was made to consider the possibility of structural transformation of the economy to achieve diversification which would increase the labour absorptive capacity of the economy. The World Bank Report was not a fully worked out long or medium term economic plan. The Mission, however, recognised the need for such planning and proposed that an Economic Planning Secretariat should be established.

An embryonic planning secretariat was established in 1953. It drew up the Six Year Programme of investment to cover the financial years 1954/55 to 1959/60.¹¹ This document was again limited to the government sector. However, it was a more coherent document because a greater effort was made to synchronise the various projects to be carried out by the different ministries. It is also significant that the document pointed out the possibility of future unemployment which would be qualitatively different from the cyclical un-

employment experienced by the developed countries.¹² It recognised the structural nature of the problem in Third World countries and pointed out the constraints posed by capital scarcity. This document was rejected at an early stage when a new government was elected to office in April 1956, only nine months after its publication.

In addition to the documents mentioned above, the first Colombo Plan also gave some indications of the aims of the policy makers. In September 1951, the Colombo Plan for Co-operative Economic Development in South and Southeast Asia was drawn up. The Plan sought to improve conditions prevailing in Asian Commonwealth countries. Sri Lanka was one of the original members of the Colombo Plan. Its proposals contained various projects which required governmental financing. The Colombo Plan cannot be described as an economic plan in the modern sense of the word. It was more a borrowing/foreign aid oriented document which concentrated on special projects in the public sector. However, it did make an important contribution in the early post-colonial years, when Sri Lanka did not possess any planning machinery. It made it necessary to consider more thoroughly various public sector investments.

The pre-Ten Year Plan period was characterised by some measure of "project planning", related to various public sector operations. The so-called Plans of the period were essentially collections of projects from different Ministries. They lacked coherence and internal consistency. In addition they were pre-occupied with production. Though some of the later documents displayed an awareness about the "employment problem", very little was done in concrete terms to give the employment objective its due weightage.

The Ten Year Plan (1959-68)

The objectives of the Ten Year Plan fall into two main categories: high employment and a high rate of income growth.¹³ The employment objective was given significant weightage. Employment considerations were granted an independent status as one of the aims of the Plan. Not only was employment creation one of the objectives, it also influenced working me-

thods used at the formulation stage and there were employment-related adjustments at the implementation stage.

It was Professor Joan Robinson's visit to the country at the time the Plan was being prepared, which caused employment to be given greater importance. Employment effects became a central factor in the calculations on which the Plan was based. It came to be placed among the most important factors in determining the methods of coordinating and adjusting the different sectoral studies. When the Plan was almost completed it became apparent that it would generate an insufficient number of jobs. As a result the allocations for small industries were increased and investments in other areas had to be pared down. This provides a clear indication of how employment as an objective was able to influence the Plan. Despite these positive aspects the Ten Year Plan was inherently weak from an operational point of view.

The Plan does not examine in detail the "means" of realising the objectives set out. Though the requisite amount of savings for the proposed investments are worked out, operational means such as changes in credit conditions, savings stimuli, tax rates, etc., necessary to achieve an adequate level of savings, are not discussed. In addition, means for achieving set targets regarding family planning are not enquired into.

Another such shortcoming was the lack of a budget of skilled manpower. This may be attributed to the fact that there was little physical planning in the document. The Plan was essentially concerned with the allocation of sums of money.¹⁴ Another weakness, from an implementation point of view was the lack of alternative (contingency) planning. This was particularly important as the Plan made optimistic assumptions in such high risk areas as the savings level, rice subsidies, and the terms of trade.

(9) IBRD, op.cit.

(10) IBRD, op.cit., cited in Moller, op.cit., p. 133

(11) The document was not published until July 1955

(12) Here one must recognise that "post-industrial societies" may be faced with another set of problems

(13) Moller, op.cit., p. 146

(14) Ibid, p. 155.

One of the most glaring weaknesses in the Ten Year Plan was the proposed level of governmental saving. The figure was unrealistically high. This meant that the investment programme was not likely to be realised. If the programme was forced through there would inevitably have been a currency crisis. The unrealistically high levels of savings required also meant that the targetted increase in employment would not be achieved. The Plan envisaged providing sufficient livelihoods to absorb the increase in the labour force during the Plan period and to reduce the number of unemployed by 65,000.¹⁵ In order to do this, the planners assumed that 1,390,000 new employment opportunities would be created. From the outset it was extremely unlikely that this target would be met, given the shortfall in capital accumulation (investment).

The implementation of the Plan was also set back by the foreign exchange situation. The terms of trade deteriorated significantly, after 1960. The favourable trends in the 1958-60 phase were offset by negative trends on the consumption side. Regular deficits in the balance of payments on current account led to the rapid drawing down of the currency reserve. In 1962 reserves dwindled to the equivalent of only two months' imports. The acute currency problem led to the curtailment, delay, or abandonment of several programmes. In addition to the adverse trends on current account, the outflow of private capital continued. This process was speeded up by the nationalisation measures undertaken. In sum, from the outset severe resource constraints made the full implementation of the Ten Year Plan impossible.

Another negative factor was the increase in rice subsidies. They increased from Rs. 112 million in 1957/58 to Rs. 248 million in 1960/61. These figures completely overturned assumptions made in the Plan. Such increases in consumption expenditure had a significant negative impact on public capital expenditure.

There was no doubt that the Ten Year Plan had a number of shortcomings, which made its realisation very difficult. However, the Plan constituted an important watershed in

three senses. Firstly, it marked the first economic plan for the country which covered all sectors of the economy. Furthermore, it was based on a far higher level of planning techniques.¹⁶ Secondly, it propagated the notion that it was necessary to attempt to insulate the Sri Lankan economy from the negative effects of the International Economic Order. It was the first document to recognise the need to reconsider the way in which the Sri Lankan economy was articulated into the international capitalist economy. The strategy recommended was import substitution industrialisation.¹⁷ Finally, it marked a breakthrough in Sri Lanka for an employment approach to economic planning. Though the Plan became obsolete as early as the beginning of the 1960s, it was a very important pioneering document.

The Short-term Implementation Programme

The Short-term Implementation Programme (STIP) was initially designed to operationalise the Ten Year Plan for the financial years 1961/2, 62/3 and 63/4. However, it marked a qualitative shift in emphasis. It will be argued below that the employment input into planning was significantly less than in the Ten Year Plan.

The Programme sets out five objectives: to increase the welfare of the people, to eliminate unemployment and under-employment "as rapidly as possible", to diversify the economy, to keep the price level relatively stable and to aim at an equitable distribution of national income. The STIP continued the emphasis on industrialisation. However, within this overall strategy there was a significant shift in emphasis towards capital intensive projects. Hence the programme was less employment oriented than the Ten Year Plan.

The STIP was also much vaguer than the Ten Year Plan. There were deficiencies in consistency, often production figures were not presented, the private sector received little attention, and total figures for employment creation were lacking. It must also be pointed out that calculations were not made in shadow prices. In addition la-

bour intensive methods were not enquired into, make-work attitudes were not discussed, and no manpower budget for sub-groups was drawn up. The general technical standard of the STIP is perceptibly lower than in the Ten Year Plan.

From the point of view of implementation, the STIP faced the same problems as the Ten Year Plan. In this respect, the deterioration of the foreign exchange position was particularly important.

The Department of Labour, with the help of the ILO, conducted a study in 1959/60, which estimated that 340,000 persons were unemployed and 550,000 were under-employed and were "available for additional work".¹⁸ There was every indication, that the employment situation was worsening rapidly.

"It is actual a paradox that the interest of the country's policy-makers in employment creating measures diminished as soon as unemployment was believed to have risen steeply. The reaction can be summed up by saying that the greater the degree of unemployment that existed or was known about the less important it became for economic planning."¹⁹

The Development Programme 1964-65.

In early 1964 the Department of National Planning began work on a three year plan. However, no such plan was presented. Instead the government wanted a plan produced in time for the measures to come into effect before the next General Election in 1965. Hence a one-year "plan" covering the budget year 1964-65 was produced.

The employment issue was given only peripheral attention. This marked a complete retreat from the hopes of the Ten Year Plan. Employment creation was a working method in the lat-

(15) The Plan assumed the total unemployment figure to be 113,000. This was unrealistically low

(16) It was prepared by a relatively well-developed planning secretariat

(17) The Plan did not take into account the severe drawbacks associated with such a strategy especially in a dependent small country.

(18) These figures are subject to various reservations due to the conceptual and methodological problems involved in estimating the under-utilisation of labour.

(19) Moller op cit p. 281.

ter, and it was hoped that sufficient employment would be generated to absorb all new entrants into the labour force, during the Plan period, and also to reduce existing unemployment. By 1964, despite increased knowledge about the worsening unemployment situation, the employment input into economic planning became very marginal.

Planning in Ceylon 1965-70

With the change of government in 1965, several new features of economic planning were introduced. The country's planning apparatus was reinforced both politically and organisationally. The Prime Minister himself took the Ministerial portfolio. A new orientation was adopted to the actual planning process itself. It became more oriented towards current economic decisions. It was felt that earlier development plans had been too aggregate and had not been followed up by detailed programmes and projects which were ready for execution. Emphasis was placed on producing practical programmes for the "critical sectors" of the economy rather than on preparing a new long-term plan. Attention was focussed on project oriented work, which was capable of being implemented quickly. The first document of this nature was the Development Programme 1966-67.

In the main planners during this period concentrated on government projects and their implementation and the possibilities of securing foreign aid. Generally projects were compared only within the relevant sector, inter-sectoral balancing was haphazard. Greater emphasis was given to agricultural development, particularly the paddy sector. This was due to the rapid rise in the price of imported rice. Attention was focussed on the growth of production and strict economy with foreign exchange. These were the main objectives which preoccupied the planners. Employment generation, as an explicit aim in the short run was very much in the background. The failure to give sufficient weighting to the employment objective over the years had disastrous political implica-

tions. It was probably the most significant underlying causal factor for the Insurrection (1971).

The Five Year Plan (1972-76)

The Five Year Plan (1972-76) was presented at a time of grave social and economic crisis. The Insurrection (1971) had threatened the political stability of the country. The foreign exchange situation was critical.

There was a radical shift in the ideological underpinnings of the Plan.

"While the Five Year Plan attempts to formulate programmes and policies designed to achieve the maximum development of resources, it must do so within a social framework consistent with the country's commitment to a rapid advance towards a socialist society."²⁰

The Plan set out to achieve "redistribution with growth"

The objectives and strategy of the Plan were also qualitatively different from the goals emphasised in the preceding years. The employment issue was brought very much into the forefront (in the aftermath of the Insurrection). In addition, urgent attention was still paid to the Balance of Payments problem. Less emphasis was placed on capital-intensive industrialisation²¹ while the importance of agricultural development in any economic strategy for the country was recognised. While recognising the importance of import-substitution, particularly in agriculture, the Plan called for an export drive. In general, the programme constituted a move towards a more directed economy.

During the '60s, the country had, on average, been spending about 88% of its annual income on consumption. During the period 1959-69 domestic savings averaged about 12% of Gross Domestic Product, while investment averaged about 17% of Gross Domestic Product. The need was recognised for budgeting policies which generated savings and mobilised resources for investment.

The inadequacy of resources for investment was due not only to the low

rate of saving but also to the serious shortage of foreign exchange.

Exchange and import controls were introduced. A strategy of export diversification and promotion was also recommended.

The social and economic objectives of the Plan were as follows:

- (1) to carry through the structural changes in the economy necessary for long-term growth. This means investment in basic industries which can provide the inputs for other industries, the growing of new types of crops and the creation of entirely new sectors in industry and agriculture based on non-traditional commodities. It is necessary to understand that this transformation is not only an investment operation but also involves modernisation of small-holding agriculture, attracting the young to agriculture, training highly skilled personnel to man the new industrial plants, and building the infrastructure and skills necessary to support a major export drive;
- (2) to implement the short-term measures necessary to correct the growing imbalances in the economy - in particular the widening gap in the Balance of Payments and the increasing number of the unemployed;
- (3) to reduce social tensions by the elimination of wasteful consumption and by redistributive measures;
- (4) to raise the living standards of the low income groups by improving housing and sanitary facilities. Also to raise the nutrition levels of these groups, especially by increasing the production of essential food items such as fish, milk, eggs and fruits and by gearing the production of consumer goods to the needs of the masses;
- (5) to take measures to regenerate rural society and to make it more attractive to the young by modernising agriculture and by siting agro-based industries in rural areas.²²

The inadequacy of the financial system was also highlighted, and the need to gear the structure of credit to the developmental needs of the coun-

(20) Ministry of Planning and Employment, "The Five Year Plan" (1972-76), Colombo, Nov 1971.

(21) There was, however, recognition of the need to develop such small industry and crafts.

(22) Ministry of Planning and Employment, op.cit pp. 11 and 12.

try was recognised. A strong case was also made for the adoption of labour-intensive techniques of production, based on domestic inputs.

The basic strategy of the Five Year Plan was to be composed of the following essential elements:

- (a) the maximum use of labour which is the resource available in abundance;
- (b) an investment policy which makes the best use of the limited foreign exchange which is available;
- (c) the reduction of food imports by the immediate development and diversification of agriculture;
- (d) full and efficient utilisation of existing industrial plant expansion of selected industries and investments in new industrial projects on the basis of national priorities;
- (e) development of a new export sector; and
- (f) the involvement of the people in the formulation and execution of development projects at the local level.

It was recognised that while the Plan provided a framework of national policies and targets, the implementation required more specific and detailed short-term programmes. It was intended that detailed annual plans would be prepared for this purpose. The annual plan was also to contain overall targets for public and private expenditure and a foreign exchange budget.

It was anticipated that the total employment generated by the stream of investment proposed in the Plan would amount to 810,000. The sectoral distribution was to be as follows:

Employment created during the Plan Period

Agriculture	300,000
Industry	165,000
Construction	60,000
Services	285,000
Total:	810,000

Source: The Five Year Plan (1972-76)

It was estimated that 1.1 million new livelihoods would have to be created to absorb both the backlog of unemployment and the additions to the labour force during the Plan period. Hence there was a shortfall of 290,000 employment opportunities. An effort was to be made to mop up this surplus through special works programmes, financed from the government budget. It was hoped that these projects would strengthen both the infrastructure and productive base of the rural areas. The recommended activities included: Minor Irrigation Works, Restoration and Desilting of Village Tanks, Land Development, Land Reclamation, Reforestation, Soil Conservation, Construction of Roads, Construction of Community Wells, Construction of Community Buildings, Rural Housing and Animal Husbandry, etc. There was no doubt that employment was one of the crucial issues which influenced the planners at the formulation stage.

The investment programme was based on a savings rate of 17% of the GDP. This constitutes a significant increase from the average of 12% that persisted during the previous decade. The magnitude of the task becomes more evident when one considers that the marginal rate of saving worked out to 26%. There is an inevitable lag between the initial increase in the rates of savings and investment and the returns that eventually accrue in the form of higher incomes. Hence during the initial stage of the Plan period, the country was required to accept the burdens of short-term restraints on consumption and additional taxation. Given the open political system, relatively well-developed welfarism and the strength of the organised sectors of the labour force, it was always extremely unlikely that the investment, and therefore employment targets set out in the Plan would be reached. However, this question became purely academic when a number of exogenous and endogenous factors combined to render the Plan obsolete, at the outset of the Plan period.

The important exogenous factors were: (1) the rapid increase in world

inflation arising from synchronised expansion in the developed countries; (2) the energy crisis and the resulting explosion in fuel prices; (3) the food crisis brought about by the grain shortages due to a very bad international harvest. As a result the price of imported fuel and food soared. The government could not pass on price increases of such magnitude to the consumer. Consumption expenditure could not be dampened. Furthermore, the worsening foreign exchange position meant that public and private enterprises could not import essential machinery, spares and raw materials. This meant that they were forced to operate at very low capacity levels. The resulting fall in profitability had a negative effect on savings. This tendency was reinforced by relatively poor performance in the agricultural sector (domestic and export) as well. In fact, the savings and investment targets of the Plan were quickly in disarray. However, not all the blame can be apportioned to external factors.

There were a number of endogenous factors which hampered implementation of the Plan. Considerable mismanagement and corruption led to a wastage and misallocation of resources.²⁵

The radical transformation of society outlined in the Plan was not achieved. A number of innovative measures were undertaken. The Land Reform Laws were passed, the compulsory savings scheme (ceiling on incomes) was introduced, fiscal measures were taken to redistribute wealth, restrictions were placed on house ownership. Divisional Development Councils were set up as catalysts for participatory development, a network of rural institutions were set up to provide easier access to inputs; credit and coverage of the banking system were extended to increase coverage in the

(23) This is the proportion that has to be saved out of the additional income accruing during the Plan period.

(24) This may be attributed to a combination of factors: adverse weather conditions, shortages of inputs and mismanagement of land, water and other resources

(25) Though economic performance was poor during this period there were some bright spots. A degree of export diversification took place, e.g. Precious Stones (Gems) and Garments. In addition, some local entrepreneurs took advantage of the highly protected domestic market. A new more indigenised breed of businessmen (mudalalis) came to the fore during this period.

rural sector. (It was hoped that this could both provide easier credit and mobilise savings).²⁶ However, none of these measures achieved the impact they should have had. This was partly due to resource constraints brought about by external factors and partly due to negative internal factors born out of the socio-economic matrix into which these measures were introduced. Nothing was done to strengthen the countervailing power of the weaker groups in society.

The Five Year Plan (1972-76) is the most employment-oriented planning document drawn up in Sri Lanka. However, as mentioned above, a series of factors combined to make the Plan a dead letter at the very outset. The employment situation in fact worsened during the Plan period. This was inevitable, given the economic stagnation experienced during these years. The economic paralysis, combined with the failure of the redistributive measures designed to have a significant impact on the quality of life of the weakest economic groups, served to bring about widespread public disaffection. 1977 saw a change in government and the introduction of a completely different economic strategy. One may, however, contend that the Five Year Plan contained much that was laudable. Its failure was due to an unfortunate conjuncture of international events, lack of commitment and mismanagement internally.

The post 1977 period

The new government elected to office in 1977 undertook a dramatic shift in economic strategy. It was assumed that despite the impressive performance of Sri Lanka's social indicators (the relatively equitable distribution of income, containment of population growth and the maintenance of a quality of life not matched by many other countries with higher per capita incomes), the country's capacity to maintain these living standards

had been eroded by economic stagnation in the middle '70s. The new policy was based on the premise that a continued allocation of a large volume of resources to consumption was inimical to economic growth and the generation of employment, it was assumed that the rigid control system that had been built up over the years had seriously distorted relative prices and had reduced private sector incentives. In addition the public sector which had expanded rapidly, had become wasteful and inefficient. In accordance with such an analysis of the situation, the government embarked on far reaching policy of reform. Government subsidy programmes were significantly reduced and better targeted in an effort to divert resources from consumption to investment while protecting the most vulnerable. Rigid trade and payments controls which were merely maintaining an over-valued currency were dismantled. This also served to remove various disincentives in the private sector. Measures attempting to make the public sector more efficient were introduced. Various state trading monopolies were to be eliminated and an atmosphere of public and private sector competition was introduced. In summary, one may contend that the new package of policies adopted was designed to channel more resources to investment and to free the economy from some distortionary controls, so as to allow market forces a greater play in the allocation of resources.

Attention has been focussed on a number of development projects within a rolling plan framework. Three large projects initially formed the corner stone of the government's development strategy. They were the Mahaweli Development Project, the Free Trade Zone and the Greater Colombo Area Urban Development Programme. The unemployment problem has continued to be in the forefront of the minds of the policy makers. The employment objective has been given significant weightage in the formulation of the major development projects.

The investment and production oriented strategy pursued over the last decade or so has had favourable employment effects. The Consumer Finances Survey (1981/12) of the Central Bank recorded an unemployment rate of 11.8 percent. This compares very favourably with the 24.0 percent recorded in the 1973 Consumer Finances Survey and the 25.8 percent estimated in 1977. Unemployment fell in all three sectors of the economy. The reduction of the incidence of unemployment in all three sectors indicates increased labour absorption in many areas of the economy. This may be attributed to the increased tempo of economic activity evidenced during the 1978-82 period. In addition, significant emigration, particularly to the Middle East, would also have served to ease the unemployment problem. Thus both demand and supply side factors seem to have contributed to the dramatic improvement in the employment picture.

The more liberal economic environment combined with a more realistic exchange rate and substantial investment incentives have attracted unprecedented flows of both foreign aid and foreign investment which have helped to generate new employment opportunities. Private investment, both local and foreign, has been attracted into such labour intensive areas as textiles and garments, tourism, transportation, construction and the retail trade.

The Public Investment Programmes, supported by considerably higher levels of foreign aid, much of it in the form of grants and very concessional Official Development Assistance, has been the major source of locomotion in the economy. Much of the private sector economic activity and employment creation has also been linked to the Public Investment Programme.

Considerable progress was made on the employment front during the period 1978-82. The unemployment rate was halved and this was largely due to the new economic policies introduced in the Budget in 1977. The

(26) In addition the Convertible Rupee Account (CRA) scheme was introduced to promote non-traditional exports and attractive incentives were provided to encourage savings

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economic reforms initiated at that time created an environment which fostered innovation and entrepreneurship.

Since 1982, the momentum in employment generation has slowed down. Some of the major development schemes are nearing completion. The construction and trading sectors are less buoyant. As a result additional employment opportunities have become more scarce. The prospects for foreign employment have also deteriorated. The effects of these negative trends have been compounded by the uncertain security situation.

The impressive gains made on the employment front since 1977 need to be consolidated and improved upon. This requires two sets of policy initiatives. At the macro level, it is essential that the economic fundamentals are maintained in sound order. Fiscal, monetary and exchange rate policies must all be in line. Employment generation cannot be sustained in the absence of sound economic and financial management. Above all the Finance Minister's efforts to contain the Budget deficit, in the face of escalating defence expenditure and greatly reduced revenue from export taxes, must be supported. A large budget deficit pre-empt resources from productive private sector investment with high employment potential. In addition, it fuels inflation thereby necessitating high interest rates. In a context where the cost of funds is high, it is difficult to generate the investment necessary to increase the labour absorptive capacity of the economy. It is, therefore, of paramount importance that the Budget deficit is contained and that sound macro-economic management is pursued.

When evolving the appropriate macro economic framework, sufficient weighting must be given to employment generation. Employment must be clearly specified as an objective when designing policies and programmes. Failure to do this will render it impossible to absorb the backlog of the unemployed and to provide employment for the 135,000 new entrants to the labour force each year.