

THE TRANSITION FROM WELFARE STATE TO MARKET ECONOMY AND ITS EFFECT ON SOCIAL DEVELOPMENT IN SRI LANKA*

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This paper reviews social development in Sri Lanka with special reference to the effect of transition from the development of a welfare state over the 1948 - 1977 period to economic liberalization started in 1977.¹ The social development in Sri Lanka will be discussed under the following headings.

1. Policy framework
2. Poverty alleviation
3. Employment generation
4. Social integration

The above aspects were discussed in three national seminars organized by the Natural Resources, Energy and Science Authority of Sri Lanka (NARESA) from April to August 1994 where researchers, policy makers and social development analysts participated. In preparing this review the author was guided by the deliberations at these seminars as well as by the author's own experience in social development research and interventions in Sri Lanka over the past 25 years.

In this paper a brief introduction to the social and demographic profile of Sri Lanka will be followed by a review of social development in the country since 1948 under the four headings listed above. Finally, broader policy implications of Sri Lanka's experience in social development will be discussed in the concluding section.

SOCIAL AND DEMOGRAPHIC PROFILE OF SRI LANKA

An island nation of 17.6 million people (1993) distributed over a land area of 62,337 sq. km, Sri Lanka is one of the smaller countries in South Asia. The population is multi-ethnic and multi-religious in composition, giving rise to unique problems of national integration to be discussed later.

In regard to certain measurable aspects of social development Sri Lanka's achievements over the past five decades are considered outstanding by developing country standards. As evident from Table 1, Sri Lanka has made much progress in level of literacy, life expectancy, mortality reduction and population control.

In other aspects of social development including poverty, unemployment and malnutrition, however, Sri Lanka's record is far from satisfactory. This in turn

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has led to much controversy regarding the merits and demerits of the social development policies pursued by Sri Lanka over the past five decades.

Table 1: Social indicators for Sri Lanka

Indicator	Base year	Outcome	Latest year	Outcome
Literacy, Adult Male	1963	86%	1981	91%
Literacy, Adult Female	1963	68%	1981	83%
Life Expectancy, Male	1962	62 years	1981	68 years
Life Expectancy, Female	1962	61 years	1981	72 years
Infant Mortality Rate	1965	53 per 1000	1990	19 per 1000
Crude Death Rate	1965	8.2 per 1000	1990	5.6 per 1000
Crude Birth Rate	1965	33.1 per 1000	1992	20.1 per 1000
Population Growth Rate	1963	2.6%	1992	1%
Population Density	1971	230 per sq. km	1993	282.6 per sq. km
Chronic Malnutrition	1976	35% of 6-71 months olds	1982	48% of 6-71 months olds

Sources: Dept. of Census & Stats., Central Bank & the Ministry of Health.

SOCIAL DEVELOPMENT POLICIES IN SRI LANKA

The social development policies in Sri Lanka evolved since the 19th century. The primary aim of the social welfare legislation passed in the British period was to provide security and assistance to the plantation workers who had migrated to Sri Lanka from parts of India (Alailima 1986). The worldwide recession of 1930-33 and the devastating malaria epidemic of 1934-35 led to high levels of poverty, unemployment and destitution in much of rural Sri Lanka including the plantations developed by the British planters and their local counterparts. Much of the social welfare legislation of Sri Lanka including the Vagrancy Ordinances, Poor Laws, Labour Laws as well as relief programmes such as creating employment opportunities through state-sponsored public works took shape during the period from 1930 to 1940.

Following the political independence of Sri Lanka from Britain in 1948 and the resulting expansion of electoral politics, the rural voters in particular influenced the course of evolution of social development policies in Sri Lanka. The post-independence progression of social development policies in Sri Lanka can be divided into two periods.

1. The institutionalization of welfare-oriented social policies in the 1948-1977 period.
2. The transition to a growth-oriented policy package in the post-1977 period.

The social development policies in these two periods differed in some fundamental ways as described below.

The Development of a Welfare State, 1948-1977

Sri Lanka emerged from the second world war with considerable foreign exchange reserves and an "export economy" heavily dependent on the production, export and revenues of three primary commodities, namely tea, rubber and coconut. The Korean boom of the early fifties further strengthened Sri Lanka's economy. The configuration of social development policies in post-independence Sri Lanka was influenced by a combination of factors including gradual expansion of electoral politics throughout the country since 1931, the legacy of British conceptions of a welfare state, the Fabian social theory represented in Sri Lanka by Marxist intellectuals who played an increasingly important role in shaping public policies since the 1930s and the changing character of the ruling elite in the country.

There were many political shifts and corresponding changes in policy during the first 30 years of national independence but there were some important continuities in the domain of social policy. The state became important not only as a vehicle for regulating the market but also as a substitute for the latter. Besides handling education and health services, by late 1970s, the state was controlling much of the external trade and a considerable portion of internal trade, as well as plantations, land development, telecommunications, banking and some of the larger industries. The nationalization of schools, bus services and much of import-export trade in the 1960s and the land reforms of the 1970s enhanced the role of the state in production, distribution and service sectors. As of 1975 the public sector accounted for 30% of the GDP, more than half of the total export earnings and 25% of total employment (Alailima 1986:105). Through comprehensive nationalization and land reform programmes set in motion by the electoral victory of a socialist cum nationalist coalition in 1956 the private sector activities were progressively curtailed so as to make room for public sector establishments of different kinds.

The state also maintained and expanded a comprehensive social welfare programme throughout this period. It included the following components.

- i. A subsidized rice ration covering more or less the entire nation.
- ii. A network of free health services provided by the state extending to the rural and most remote parts of Sri Lanka.

- iii. A system of free education extending from the kindergarten to the university level. This free education was provided through an expanding network of schools and other educational establishments funded or directly administered by the state.
- iv. A state subsidized public transport system consisting of train and bus services facilitating long and short-distance travel.
- v. State investment in colonization programmes whereby excess population in the wet zone was resettled in newly irrigated land in the dry zone.

Sri Lanka's heavy public investment in social development was responsible for marked improvements in health, literacy and other social indicators reflected in Table 1. Social expenditure was as high as 8 per cent of the GDP in the 1950s, 11 per cent in the 1960s and 9 per cent in the 1970s (Alailima 1986: 106).

The social development policies during this period were based on the premise that once significant improvements in human development and social welfare were achieved economic development would naturally follow. As Ralph Pieris puts it "Of the two extreme strategies - *growth now, redistribution and education later*, and *redistribution and education now and growth later* - Sri Lanka has opted irrevocably for the latter" [emphasis added] (1977: 21). He further stated "No Asian country has gone as far as Sri Lanka in the direction of a welfare state" (1977: 27).

The welfare-oriented social policies were driven by electoral politics. As one observer puts it "a pampered electorate" (Pieris 1977: 25) invariably chose a party with the most attractive welfare package.

The concept of welfare state and redistributive justice fashioned the political thinking of all the major parties at the time Ceylon emerged as an independent nation.... Free education, free health, improved nutrition, subsidized food, a low cost of living, a fair distribution of income became the articles of faith in the political credo of all parties (Marga Institute 1974: 16).

The developmental impact of the resulting welfare package has been subject to much debate. The results of Sri Lanka's own experience under the more market-oriented policies of the post 1977 era have been compared with those of the era of social welfare. The achievements of Sri Lanka under welfare-oriented policies have also been compared with those of other countries like South Korea which pursued market-oriented policies from the very beginning. Those in favour of social development policies of the 1948-77 era argue that those policies enabled Sri Lanka to close its gap with the developed countries in respect of quality of life while still remaining at a low level of economic development. Sri Lanka's achievements in quality of life have often been presented as a justification for "a Basic Needs Approach" (Isenman 1980). Others however have criticized the welfare-oriented policies of the 1948-77 era for stressing welfare and equity

at the expense of growth (Marga Institute 1974, Bhalla & Glèwwe 1986), for creating heavy public dependency on the state (Marga Institute 1974, Pieris 1977), for inhibiting structural change of the economy (Gunatilleke et al 1992) and for suppressing economic growth resulting in an intensification of poverty (Moore 1990).

Whatever the validity of these arguments and counter arguments the limitations of the welfare-oriented policies were increasingly evident by 1977. The GDP growth rate dropped from an average of 4.6% in the 1960s to 2.3% in the 1970s. Foreign exchange difficulties as well as mounting budget deficits which in turn resulted mainly from the costly social welfare programmes led to a prolonged economic crisis in the 1970s. Due to lack of economic growth, unemployment rose to 20 percent by mid 1970s. It was against this background that a newly elected government formulated and implemented a comprehensive programme of economic liberalization with effect from 1977.

The Transition to Market-Oriented Policies in 1977

Following its massive election victory the new UNP government formed in 1977 opened up the economy for foreign investment particularly in the newly established Free Trade Zones, undertook a comprehensive programme of infrastructural development with the help of foreign aid, encouraged certain categories of Sri Lankan workers to seek employment in the Middle East and elsewhere, liberalized imports and foreign exchange transactions and permitted an enhanced role for the private sector in banking, insurance, public transport, plantation management, telecommunications and construction industries. During the 1978-82 period Sri Lanka recorded an annual economic growth rate of 6% as compared to only 3.6% during the 1970-77 period. The rate of unemployment which had reached 26% in 1973 declined to 12% in 1982.

In regard to social policies, efforts were made to rationalize and economize existing welfare programmes and institute "safety nets" for the poor and underserved groups in society. The food subsidy was converted from a rice subsidy to a grant of food stamps of a fixed value. Further the coverage of the food subsidy was reduced from about 80 per cent of the population to less than 50 per cent by 1980. Many other direct subsidies given by the state were either reduced or totally eliminated. The per capita social expenditure of the state reduced from Rs. 128 in 1975 to Rs. 82 in 1982. The role of the private sector in curative health services expanded due to state encouragement for setting up of private hospitals and increased opportunities for private practice among the doctors employed in government health services. Even though private tutorials preparing students for government examinations thrived, efforts to establish private sector educational establishments and degree granting institutions side by side with the institutions under the state had to be abandoned due to protests from student bodies in the existing state educational institutions.

The safety nets newly instituted by the state since 1977 for the benefit of the poor included the *Janasaviya* programme and the shelter programme whereby

the poorer people were encouraged to build their own houses with state assistance including credit facilities, sites and services and technical support where necessary. The shelter programmes consisting of the 100,000 Houses Programme (1978-83), the Million Houses Programme (1984-89) and the 1.5 Million Houses Programme (1990-93) were centrally implemented, targeted and patronized by a dynamic political leader in the ruling party.

Since 1977 the state encouraged the participation of both international and local Non-Government Organizations (NGOs) in social development activities especially in poorer segments of Sri Lankan population. The NGOs became active in promoting self-help community based activities in health promotion, water and sanitation, family planning, development of rural infrastructure, environmental protection, housing, employment generation, relief and rehabilitation, improved gender relations and youth affairs. Most of the NGOs involved have policies and programmes favouring community participation, empowerment, awareness raising and revitalization of moral values in society. From the angle of the state the NGOs are often seen as a mechanism for cushioning the poorer segments of society against the adverse consequences of structural adjustment and the operation of market forces.

Comparison of the social development outcomes of the pre and post 1977 policy packages in Sri Lanka has been made difficult by the complications resulting from the adverse law and order situation in the country since 1983. The economists of the World Bank typically argue that the social development outcomes of the pre 1977 policies are not so outstanding in comparison to certain other developing countries following different policy packages and that there was no reversal of Sri Lanka's achievements in quality of life following the liberalization and structural adjustment policies pursued since 1977 (Bhalla and Glewwe 1986). As evident from Table 1 almost all social indicators except for nutrition levels show a consistent improvement between the 1960s and the 1980s onwards irrespective of the policy changes since 1977. Accordingly, Bhalla and Glewwe concluded "that the post-1977 policies have not been detrimental to equity objectives and may offer more promise than those which they replaced" (p. 62). In responding to these views, Isenman (1987) suggested the importance of a synthesis between welfare-oriented policies of the pre-1977 era and growth-oriented policies of the post-1977 era.

THE PROFILE OF POVERTY

Despite nearly three decades of welfare-oriented policies and the emphasis on equity, poverty remains a key social problem in Sri Lanka.

Concepts of Poverty Used in Sri Lanka

The researchers and practitioners in Sri Lanka conceptualize poverty in different ways depending on the objectives of their exercise, the theoretical perspectives from which they approach poverty and the nature of data available. The definitions of poverty in turn may rest on income criteria, level of ownership of

assets, physical quality of life, occupation categories, housing characteristics or subjective views of the populations. The main distinction is between 1. those using a notion of absolute poverty as against 2. those using a notion of relative poverty. While researchers dealing with absolute poverty have a notion of minimum living standards, those dealing with relative poverty stress inequities within the social and economic systems with a focus on the bottom layers of society.

The Notion of Absolute Poverty

Most programmes dealing with poverty use a notion of absolute poverty, namely an estimate of a dividing line between the poor and the non-poor usually called "the poverty line" representing the minimum income level needed for satisfying the basic human needs. Typically the poverty line is derived from an estimate of the level of income needed to ensure a minimum diet estimated in calorie terms. Considering the absolute necessity of food for human survival, growth and functioning, the concept of poverty outlined above helps us identify poverty as a basic problem faced by human kind using a quantitative formula. In this approach malnutrition is seen as a cumulative long-term outcome of absolute poverty as affecting pregnant or lactating mothers and children in particular. However as one recent study correctly puts it this formula mainly assesses what may be describes as "food poverty" and the relation between food poverty and poverty in general is not clear from the available studies (SAARC 1992: 6-7).

The first step in establishing the poverty line is to determine the minimum per capita calorie requirement for an adult taking into consideration the national, regional and local conditions. The per capita calorie requirement is usually determined on the basis of the nutritional standards specified by the Medical Research Institute (MRI) in Sri Lanka. The next step is to determine the money value of the basket of foods needed to satisfy this calorie requirement at current prices. The third step involves a survey of income and expenditure of households so as to determine the proportion of households unable to meet minimum nutritional requirement given their income, composition and expenditure on food and non-food items. Finally the above three procedures generate the Head Counts Ratio, namely the proportion of households and individuals below the estimated poverty line. In Sri Lanka the poverty line was set at a per capita daily calorie norm of 2500 since 1985-86.

A major weakness of the poverty line as a measure of absolute poverty is that it simply gives a bifurcation of the population without showing the overall income distribution within a population. Further, given the nature of poverty cycles and the marked seasonal character of rural poverty, one may get rather misleading results from poverty studies using poverty lines depending on the time of research. Similarly, Bhalla and Glewwe (1986, 1988) and Moore (1990) point to the importance of electoral cycle in as a determinant of the living conditions of the poor in Sri Lanka as the governments have a tendency to bring down the cost of living and create additional employment opportunities in preparation for the elections.

The Notion of Relative Poverty

Studies using a notion of relative poverty describes the distribution of income, land or other assets within a population so as to determine the extent of equity in society. For instance, Consumer Finances Surveys in Sri Lanka present income and expenditure data for sample households ranked according to their level of income. This enables us to compare the living standards of the different layers of society including those receiving the lowest incomes as well as to assess the share of total income held by the richest and the poorest income groups in society. Measures such as Gini Coefficient in turn are used to measure the level of income inequality in society. The studies of relative poverty enable us to place poverty in relation to the total picture of income distribution and not just a hypothetical threshold of adequacy.

Trends in Poverty and Income Distribution in Sri Lanka

The incidence of poverty in Sri Lanka is monitored through the data obtained in the Labour Force and Socio-Economic Surveys (LFSS) conducted by the Department of Census and Statistics, the Consumer Finances Surveys (CFS) conducted by the Central Bank and the Household Income and Expenditure Surveys (HIES) conducted by the Department of Census and Statistics. The LFSSs were conducted in 1969/70, 1980/81 and 1985/86 and the CFSs were conducted in 1973, 1978/79, 1981/82 and 1986/87. The latest HIES was conducted in 1990/91. The results of these different surveys are not strictly comparable due to important differences in the procedures used for estimating income and expenditure. Different observers have come up with different estimates of poverty depending on their choice of data sources, cut off points used and computation of income and expenditure. This has made it difficult to assess poverty trends in Sri Lanka over time.

Table 2: Estimates of poverty in Sri Lanka.

Year	Survey	Source	Sector			
			Urban	Rural	Estate	All Island
1969/70	LFSS	*	5.0	12.8	11.1	11.2
1980/81	LFSS	*	16.9	25.9	25.0	24.1
1990/91	HIES	**	18.2	34.7	20.5	30.4

Sources: * *Bhalla & Glewwe 1985*
 ** *Ratnayaka 1994*

The data indicate a consistent and sharp rise in incidence of poverty in Sri Lanka from a low of about 11 percent in the 1970s to a high of 30 percent in the 1990s. The highest level of poverty is reported in the rural sector, followed by the estate sector and the urban sector. In the rural sector comprising the bulk of population in Sri Lanka the incidence of poverty increased by nearly 100 percent

between 1970 and 1980 and by nearly 40% between 1980 and 1990. While the other two sectors also reported even sharper rise in poverty levels between 1970 and 1980 there is a trend towards stabilization of poverty levels between 1980 and 1990 in these two sectors.

Table 3: Percentage of income received by different segments of the population.

Income level	% of income receivers			
	1973	1978/79	1981/82	1985/86
Top 10%	30.0	39.1	41.7	49.3
Middle 50%	54.9	48.8	46.5	43.7
Bottom 40%	15.1	12.1	11.8	7.1

Source: CFS 1973, 1978/78, 1981/82, 1986/87 and LFSS 1985/86 cited in Jayamaha 1994.

According to Table 3, the share of income received by the bottom 40% of the population has gradually decreased from 15% in 1973 to a mere 7% in 1985/86. The income inequality as measured by the Gini Coefficient also indicates a consistent rise in income inequality between 1973 and 1990/91 (Table 4).

Table 4: Gini-Coefficient of spending units.

Year	1973	1978/79	1981/82	1986/87	1990/91
Gini Coef.	0.35	0.426	0.452	0.464	0.52

Sources: CFS 1973, 1978/79, 1980/81, 1986/87 and HIES 1990/91 cited in Jayamaha 1994

The data presented in the above sections clearly show that both the incidence of absolute poverty and income distribution have deteriorated from the pre-1977 period to the post 1977 period. While the transition to market oriented policies since 1977 and the accompanying process of structural adjustment may be mainly responsible for this trend, other factors including cumulative effects of lack of economic growth in the pre-1977 era and social and economic disruption caused by the ongoing war in the North and East may also have contributed to this situation. Some observers tend to treat the reported rise in poverty in Sri Lanka since 1977 as a short-term impact of adjustment policies (Gunatilleke *et al.* 1992). Others however see it as a long-term trend structurally associated with the post-1977 policy of economic liberalization and market-led growth (Lakshman 1994).

Description of the Poor

According to recent studies, the central highlands, the intermediate zone and the dry zone have the highest incidence of poverty in Sri Lanka (Edirisinghe 1990, Gunatilleke *et al.* 1992). The rural poor consists mainly of the small farmers, landless labourers, rural artisans and female-headed households. Due to the slow rate of rural-urban migration in Sri Lanka, which in turn can be attributed to a variety of factors including large investments in land and irrigation development in the rural areas and the wider distribution of health and educational facilities, the urban poverty has not reached the levels in other developing countries. However, the urban poor have emerged as a distinct social category with their own urban neighbourhoods typically called the "wattas", which have increasingly become significant in discussions on organized crime and urban violence in Sri Lanka (Silva & Athukorala 1992, Silva K.T. 1994).

A survey conducted in 1986/87 found that over 50% of the poor households had more than ten members, the average for Sri Lanka (Gunatilleke *et al.* 1993). The chief income earners were over 60 years of age or under 24 years of age in 11% and 6 % of these households respectively. Nearly 14% of the main income earners had no schooling and 49% had educational achievement between Grade 1 and 5, compared with 10% and 37% in the general population. Thus the incidence of poverty decreases with level of educational attainment. The level of unemployment in the poor households was about 22%, even lower than the national average. The researchers concluded "While employment is a factor in poverty alleviation in this group, unemployment by itself does not appear to be a major determinant of poverty" (Gunatilleke *et al.* 1992: 171).

Causes and Consequences

The prevailing levels of poverty in Sri Lanka cannot be attributed to any single cause. Considering that the highest levels of poverty are reported in the rural sector, low productivity in the rural sector, landlessness, lack of diversification in the rural economy and the absence of non-farm income earning opportunities together with the slow rate of industrialization preventing the absorption of surplus rural labour remain important factors contributing to high levels of poverty. Even significant public investments in rural infrastructure under projects like the Accelerated Mahaweli Development Programme have only made a limited contribution towards improving the productivity and economic growth of the rural sector.

While Sri Lanka has made considerable progress in terms of regulating population growth, the poor tend to have larger families suggesting that the rate of population growth may be higher among the poorer segments of the population. Some researchers also point out that lack of access to decision-making and resources distributed by the state have an important bearing on income levels, social security and survival of the marginal rural populations. For instance, Moore and Wickremasinghe reported that "The volume of material and non-material resources distributed through the public sector is such that the degree

of access to these resources constitutes one of the important determinants of relative wealth and poverty" (1980 :152).

In recent decades Sri Lanka experienced considerable political instability and social tension. There were two aborted insurrections in the South led by unemployed youths in 1971 and 1987-89. Since 1983 some of the Tamil youths in the northern and eastern parts of Sri Lanka have been involved in a violent struggle for a Tamil homeland. In all of these political agitations most of the activists tend to come from the educated unemployed youths rather than from the poor per se. Their social discontent, however, may be at least partly related to high levels of poverty accompanied by a strong sense of social injustice and discrimination. In addition to social protests noted above, since the 1960s Sri Lanka has seen a dramatic rise of suicide particularly among the younger age groups with the highest rates reported in newly migrated populations in rural areas. The extent to which rural poverty and indebtedness may be responsible for this "rising spiral of suicides" (Kearney and Miller 1986, Silva & Pushpakumara 1994) is a hotly debated issue in recent political discourses in Sri Lanka.

Poverty Alleviation Programmes

Until recently poverty was dealt with under general social welfare programmes of the country discussed in the earlier sections. Some special relief measures like expansion of public works as a job creation measure were adopted in emergencies like the malaria epidemic of 1934-35. In contemporary Sri Lanka too improving the living standards of the poor has remained a major objective of a variety of government programmes including irrigation development, land development and human settlement, integrated rural development, opening up of opportunities for foreign employment and setting up of export processing zones and garment industries. In addition, certain welfare programmes like the Food Stamp Scheme, School Mid-day Meal Programme and the *Janasaviya* Programme have been specially targeted for the poor. Of these welfare programmes we discuss the *Janasaviya* programme in somewhat detail as it remained the principle poverty alleviation programme in the country in the 1989-94 period.

The Janasaviya Programme

The *Janasaviya* programme began in 1989 as a centrally implemented and target oriented anti-poverty programme led by Mr. R. Premadasa, the then President of Sri Lanka. "Janasaviya" means "people's strength". Its aim was to eliminate rural poverty in most of Sri Lanka by the year 2000. Those with a monthly family income of less than Rs. 700 (US\$ 17) were considered eligible for support under this programme.

The households who are beneficiaries of the *Janasaviya* programme are provided with two forms of financial assistance. First, a monthly allowance of Rs. 1,458 (US\$ 33) worth commodities is given to each household for a fixed 24 month period. This consumption support is conditional upon compulsory participation

in certain community activities for a given number of days for a month. Second, a total of Rs. 25,000 (US\$ 570) is deposited for each beneficiary household in a savings account over the period of the same 24 months as a fund for initiating self-employment/income generating activities. At the end of this period each of the beneficiary households is expected to reach a level whereby they no longer require any direct support from the state.

At the national level this programme is implemented by the Janasaviya Ministry with the support of the civil administration at various levels. In each village a Support Team selected by the poor themselves facilitate the administration of this programme. This aspect of the programme together with various public work projects designed and implemented with the participation of the poor are perceived as a social mobilization process.

By 1992 this programme had completed three rounds of implementation and covered a total of 346,543 households distributed in 73 out of the total 310 divisions in the country. In 1992 the annual budget of the programme for consumption support was Rs. 4.9 billion (US\$ 114 million). A total of Rs. 856 million (US\$ 20 million) had been issued as credit for 124,728 households with an overall recovery rate of 60 percent. In addition, a variety of improvements in rural infrastructure had been achieved through the labour contributed by the Janasaviya beneficiaries.

As far as we know the Janasaviya programme as a whole has not been subjected to any independent evaluations. An objective evaluation of the programme was made difficult by the fact that it occupied a high profile in national politics. In an internal review of the first round of Janasaviya, it was found that about 57% of the beneficiaries had crossed the threshold of poverty at the end of round one. In an independent longitudinal study of 65 beneficiary households Hettige (1994) found that only 20 percent of the households had achieved a significant improvement in their socio-economic level at the end of the 2 year period covered by the programme. Another 20 percent was reported to have achieved marginal improvement in their position while the remaining 60 percent had not made any lasting gains at all under this programme. As one commentator puts it this raises the fundamental question: what would happen to the beneficiaries who may not sufficiently be integrated into the productive economic force at the end of the two year period? (Mendis 1992: 296).

Even though the Janasaviya programme claims to be based on the participatory approach to poverty alleviation, given the fact that it is centrally directed, target oriented and implemented through a bureaucracy responsible to a political leadership, its ability to stimulate a genuinely participatory process among the rural populations was quite restricted.

The Role of the NGOs

Numerous national and international NGOs as noted earlier, have become involved in community-based participatory development activities in Sri Lanka

in a big way since 1977. They range from indigenous organizations like the Sarvodaya Movement inspired by an indigenous synthesis of morally guided development drawn from Gandhian, Buddhist and other philosophies to international NGOs like Red Barrna, Save the Children (UK) and Care International. Many of the NGO initiatives in poverty alleviation involve the principles of self-reliance, reciprocity, skill development, awareness and consciousness raising and voluntarism of some kind. The Sarvodaya Movement, for instance, heavily relies on mobilizing *shramdana* labour, namely, voluntary donation of labour for projects that benefit the whole community. In a context of increasing limitation of social expenditure of the state and its focus on economic growth, the NGOs make a significant contribution to improving living standards of the target beneficiaries and towards social mobilization of the poor and the underprivileged. However, the relations between the NGOs and the state as well as that between different NGOs have posed some problems in recent years. Due to the nature of assistance given the beneficiaries often tend to gradually increase their dependence on external support contrary to the goal of promoting self reliance.

Future Prospects

The analysis of trends in poverty in Sri Lanka clearly indicates the necessity of instituting proper safety nets for the poor, side by side with the implementation of structural adjustment policies. Sri Lanka's transition from a welfare state to "an open economy" has been welcome by all but it has been a traumatic experience for the poorer segments of the population. The success of economic development programmes in future will depend on how far they will simultaneously fulfil the twin objectives of growth and equity. There needs to be a greater collaboration and a closer partnership between the state and the NGOs in addressing the socio-economic problems and arresting the trend towards growing inequalities in society.

EMPLOYMENT GENERATION

The Profile of Unemployment

The employment and unemployment trends in Sri Lanka are monitored through a variety of surveys and studies. The 1981 Population Census, latest census in Sri Lanka as of 1994, defined the unemployed as follows. "The unemployed are those persons who are not employed but seeking work or if not seeking work want to work and are available for work" (1981 Census Report: 154). This definition includes both active job seekers who are currently looking for work and passive job seekers who are not currently in search of work but may work given the opportunity. For census purposes housewives who do not work in any family farm or family business are not treated as a part of the economically active labour force. In the 1981 Census a person was considered employed if he or she worked for pay, profit or other economic gain for a minimum of 15 hours per week on the average. In the recent Labour Force Surveys, however, a person was considered employed where he or she had worked as defined above for a minimum of one hour in the preceding week. Due to these differences in the

concept of unemployment used comparison of results of different surveys must be done with caution.

Table 4: Unemployment estimates for Sri Lanka, 1968-1991.

Source	Unemployment Rate	% of unemployed who are female
Socio-economic Survey 1968/69	14.3	37.5
Population Census 1971	18.7	43.5
Consumer Finance Survey 1973	24.0	NA
Land & Labour Utilization survey 1975	19.7	49.2
Consumer Finance & Socio-economic Survey, 1978-79	14.8	NA
Labour Force & Socio-economic Survey, 1980-81	15.3	64.6
Population Census 1981	17.9	44.3
Consumer Finance & Socio-economic Survey, 1981-82	11.7	52.7
Labour Force & Socio-economic Survey, 1985-86	14.1	48.4
Household Income & Expenditure Survey, 1990-91	14.4	NA

Source: Adapted from Rodrigo 1994.

Over the past two and a half decades the unemployment rate in Sri Lanka fluctuated considerably. It shows a marked increase in unemployment from late 1960s upto about 1973 when it approached nearly 1/4 of the labour force. It dropped to about 12% of the work force in 1981-82 and tends to have stabilized at about 14% in late 1980s and early 1990s. The proportion of female unemployment ranged from 37.5 in 1968/69 to 64.6 in 1980/81. The trends in female unemployment are more difficult to assess as changes in the definition of employment and unemployment tend to affect the females more than the males.

According to the Quarterly Labour Force Survey of 1993, the unemployment rate in the urban sector was 19.5% as compared to 12.3% in the rural sector. The females reported a substantially higher unemployment rate (21%) compared to males (9.9%) (Rodrigo 1994). About 75% of the unemployed had been unemployed for 12 months or more. A vast majority of the unemployed were young often first-time job seekers, with nearly 60% of the unemployed in the 15-29 age group. Nearly 44% of the unemployed had GCE (OL) or higher educational qualifications, showing that Sri Lanka's unemployment problem is predominantly a problem of educated youths. A total of 32% of the unemployed desired technical-industrial jobs, followed by 14.8% clerical jobs and 2.7% professional jobs. Less than 1% of the unemployed desired jobs in the agricultural sector highlighting the mismatch between job expectations of the youths and the structure of the economy.

Factors Responsible for Unemployment Trends

While the post-1977 policies in Sri Lanka tend to have contributed to an increase in the incidence of poverty as reported in the earlier section, paradoxically the same policies appear to have brought down unemployment levels. This raises a number of important issues regarding the long-term social impact of economic liberalization, relation between poverty and unemployment, relative validity of data on unemployment and income distribution and relationship between poverty, unemployment and level of social discontent. We can not explore all these issues in the current paper, but it is evident that the connection between unemployment and poverty may be far more complex than is commonly assumed.

It is well known that labour force size and trends vary with population trends. The annual population growth in Sri Lanka dropped from 2.5% in the 1960s to 2.0% in the 1970s and 1.5% in the 1980s. This demographic transition is not immediately reflected in parallel changes in the labour force. In the 1970s the labour force continued to expand at a rate of about 3% per year contributing to high levels of unemployment in the 1970s. Another important factor is the rise of labour force participation rate of women which increased from 27% in 1980 to 33% in 1985 and 39% by early 1990 (Alailima 1991, Rodrigo 1994). Since 1980s there has also been a net outmigration from Sri Lanka due to repatriation of some Indian plantation workers and the migration of workers to the Middle East and other parts of the world. This raises the possibility that more than economic and social policies demographic shifts may be responsible for observed changes in unemployment levels reported in the preceding section.

In recent years due to increased government spending on defence the state investment in infrastructural development and human resource development has been curtailed. Even though defence spending does generate employment it typically has negative implications for productivity and growth. From the available data it is not clear what proportion of the labour force is engaged in the armed forces including guerilla fighters in underground political movements, but it appears to be a quite significant avenue of employment particularly for the new entrants to the labour force. The significance of military employment for a segment of the labour force implies a high degree of hidden unemployment.

Further it poses the problem of how to convert ex-military hands to productive employment once the war situation eases.

Review of Recent Employment Policies and Programmes

The current employment policy is closely guided by the principles of economic liberalization and structural adjustment. Accordingly a rationalization of employment opportunities in the public sector, the main source of white collar employment, which is much sought after in Sri Lanka, is currently under way (Rodrigo 1994). Programmes for encouraging early retirement as well as retrenchment are planned or implemented in many of the public sector establishments. In 1992 the civil service reforms contemplated a plan to reduce the public service cadre by 20% within a period of two years. In 1990, as reported by Rodrigo (1994), 44,000 employees in public service (13% of government employees) retired prematurely. This process is also accompanied by a trend towards privatization or "peoplization" (the process whereby the employees of the establishment become joint share owners) of state-owned enterprises. By mid-1992 about 60 public enterprises including large employers like the Central Transport Board were in various stages of privatization/ peoplization.

The major thrust of the policy package after 1977 has been to attract foreign investment especially in the Free Trade Zones and private-sector led growth coupled with promotion of labour intensive exports and state investment in development of hydro-power, irrigation and road networks. These programmes successfully absorbed large numbers of youth including many women into the gainfully employed category. The 200 Garment Factory Programme launched in the early 1990s sought to take industries to the rural areas and prevent disruption of families typically associated with industrialization. Even though incomes and living conditions of the FTZ workers in particular have been subject to criticism, the significance of these policies in bringing down unemployment levels particularly in the 1977-82 era cannot be underestimated.

Another significant thrust of the employment policies of the post 1977 era has been the tendency to encourage overseas employment for both skilled and unskilled categories. According to the estimates of the Sri Lanka Bureau of Foreign Employment (SLBFE), as of early 1990s annually an average of 65,000-69,000 left the country for foreign employment (Jayamaha 1994: 3). Of these only 30% are arranged through official channels, the rest being either privately arranged by relatives or friends already working abroad or arranged through unregistered employment agencies. Nearly 75% of those proceeding for foreign employment are females. Nearly 50% of them are in the 26-35 age group. As of 1993 the private remittances from abroad constituted the second largest foreign exchange earner in Sri Lanka the first being garment exports. This avenue of employment too has come under considerable criticism due to its reported negative effects on the institution of family, welfare of children, exploitation of females and social values in relation to goals of life. In both FTZ and Middle-East employment the workers typically do not have trade union rights and the ability to engage in collective bargaining *vis-a-vis* the employers.

The mismatch between employment aspirations and skills on the one hand and employment opportunities available on the other makes it necessary to re-examine the available educational policies and programmes. Successive governments identified the need for reforming education in line with the manpower requirements of the economy. Currently a Technical and Vocational Education Commission (TVEC) is reviewing the necessary policy reforms. The need to diversify the curriculum especially at secondary and tertiary education levels and the importance of changing existing social values in relation to employment have been highlighted in many recent discussions (Rodrigo 1994).

SOCIAL INTEGRATION

Until the 1971 youth insurrection, Sri Lanka was often described as a model democracy in Asia with peaceful transition of power between the two main political parties in the country in every national election held since 1956. Even though the Sinhala-Tamil riots of 1958 marked the beginning of a prolonged conflict between the majority and the chief ethnic minority in the country, the 1971 JVP uprising, where frustrated Sinhala youths typically from rural backgrounds, took up arms against a leftist-oriented government controlled by the Sinhalese themselves indicated that the social conflict in Sri Lanka had much deeper roots than unequal ethnic relations *per se*.

The degree of social integration in a society rests on the extent to which its constituent elements are held together through a framework of workable social relations and a core of common values shared by the population at large. Traditionally the framework of social relations in Sri Lanka consisted of social bonds within the family and kinship group, village community, caste system and the religious community. Since the colonial era each of these social institutions has undergone radical social change with the result that they can no longer hold the society together to the same extent and in the same ways as in the past. Further, new social divisions created through economic differentiation, competitive party politics and ethnic polarization have posed formidable challenges for the unity, solidarity and the very existence of the society at large.

In traditional Sri Lankan society family and kinship group played a key role in socialization of children, property transmission, marriage arrangement, child care and care of elderly, sick, any physically handicapped and any maiden women or women deserted by their husbands. While the household and the family served as the basic social and economic unit within which assets were jointly owned, resources pooled and produce shared according to the needs of the individuals concerned, extended kinship supported by a classificatory kinship terminology served as a broad social idiom for reciprocity at work, house construction, jungle clearing or even paddy cultivation and social relations in general. These extended kin groups began to disintegrate with westernization, urbanization, increased social and spatial mobility and the rising tide of individualism. Some recent social and economic processes in Sri Lanka, including population displacement and resulting family disruption caused by development programmes and the war in the North-East and the high rate of both internal

(eg. FTZ) and international migration of women workers (e.g. to the Gulf region) served to further weaken the kinship bonds.

A majority of Sri Lankans live in villages which are well-defined communities/localities with clearly delineated physical boundaries. The population in a village range from 200 to 4000. Often two or three neighbouring villages comprise the lowest administrative unit in rural areas. Within each village or cluster of villages there are multiple social ties including kinship, caste and neighbourhood ties. Traditionally the formal unity of a village and its collective spirit were expressed through village level rituals which involved the widest possible participation of the inhabitants of a village irrespective of their social standing and level of prosperity. The village communities too have undergone radical social changes over the past several decades. Since late 1950s, party politics entered village communities in a big way giving rise to factionalism, fierce competition for resources and heavy dependence on political patrons from outside the village.

While the notion of a hereditary social ranking is central to caste, caste traditionally provided a model of "organic solidarity" where those from each social rank held a special duty or obligation towards those of other social ranks. Of the various traditional social institutions caste system has eroded most in recent times due to its incompatibility with modern values of egalitarianism. The legitimacy of caste is increasingly questioned by the more educated particularly from low caste backgrounds. As of now caste only plays a marginal role in the exchange of goods and services. On the other hand, side by side with increased class differentiation in society caste has simply added another dimension to social discontent in some of the poorer and more deprived sections of the population.

Since 1958 the ethnic polarization between the majority Sinhalese and the minority Tamils has escalated leading to violent attack on innocent Tamils in the South by the Sinhalese mobs in nationwide riots in July 1983 and the formation of a ruthless guerilla movement among Tamil youths in the North with the objective of gaining political independence from the Sinhala-dominated state. The ethnic problem has gradually evolved into a main obstacle to peace, stability and economic growth in Sri Lanka. This has led to a marked increase in defence spending, disruption of normal economic activities especially in the North and the East, slowing down of foreign investment, increased brain drain of Tamil professionals in particular and the spread of the so called "gun culture". Discriminatory social policies adopted by successive governments in the fields of education, formulation of the language of government and land settlement whereby the opportunities for ethnic minorities gradually decreased were mainly responsible for the current impasse in evolving a mutually acceptable solution to the ethnic problem in Sri Lanka.

In addressing the main obstacles to social integration in contemporary Sri Lanka, namely the ethnic problem and youth discontent, the state has adopted a variety of strategies. Steps have been taken to decentralize decision making

through the establishment of Provincial Councils with wide-ranging powers and responsibilities in the respective regions. The idea was that the ethnic minorities would be able to control the Provincial Councils at least in the northern and eastern parts of Sri Lanka where the highest concentrations of Sri Lanka Tamils and the Muslims are found. However, the Provincial Council system could not be successfully institutionalized in the North and the East due to opposition to it by the Liberation Tigers of Tamil Eelam (LTTE), the leading of the guerilla organizations in this region. Several efforts to establish peace talks between the government and the LTTE were abandoned in part due to the failure to arrive at a mutually acceptable solution but also due to disillusionment with the peace process by extremist groups. Throughout the past decade the Sri Lankan state has been compelled to seek "a military solution" to the so-called "terrorist problem", with periodic search for "a political solution" to the ethnic problem.²

The principle that Sri Lanka is "a multi-ethnic and multi-cultural society" and that each ethnic group has a right to preserve its own cultural traditions and identity within the framework of a unified Sri Lanka has been a guiding principle in social and cultural policy in Sri Lanka in recent years (Silva 1994). Within the central government separate ministries have been created to promote Buddhist, Hindu and Islamic affairs. Within the educational system the Sinhala, Tamil and English languages are taught to all children from primary level onwards as a means of facilitating communication between different ethnic groups. Electronic and printed media have programmes in all three languages so as to promote commitment to multiculturalism. The extent to which these policies have served to promote tolerance, mutual understanding and integration between different ethnic groups is not clear due to lack of research focusing on these important issues.

Following the JVP uprising from 1987 to 1989 a Youth Commission was appointed in order to identify solutions to increased unrest among the youths. This Commission proposed wide-ranging solutions including curriculum change in the education system, removing inequities in access to educational facilities, recruitment to government employment on the basis of merit rather than on the basis of political loyalties and promotion of cultural and recreational activities among youth particularly in remote areas. The recommendations of this Commission have been accepted by many organs of the state and arrangements have been made to implement some of them.

Some of the NGOs too play an active role in promoting social integration and peace at various levels. For instance, the Sarvodaya Movement, the largest NGO in Sri Lanka, has been active in promoting mutual help among poorer populations through organizing shramadana campaigns and fostering social values such as respect for elders, non-violence, avoidance of extravagance and dignity of labour. On the other hand other NGOs like the Red Cross have been active in refugee and rehabilitation work as well as in peace initiatives involving the government and the liberation fighters. Most of the NGOs in Sri Lanka are committed in some measure to affirmative action on behalf of the poor, underprivileged, women and ethnic minorities.

CONCLUDING REMARKS

In conclusion, while Sri Lanka has achieved high levels of social development in areas such as literacy, education and health, the limitations of a purely welfare-oriented social policy became evident by late 1970s necessitating a shift towards economic liberalization. Interestingly some of the social welfare policies and programmes themselves have been the subject of criticism or even protest by segments of the population in view of perceived discrimination, poor coverage and inefficiency. This highlights the importance of addressing issues of discrimination, social justice and participatory development in future social policy in Sri Lanka.

Much of Sri Lanka's achievements in social development can be attributed to the welfare-oriented social policies pursued since the 1930s. Free education, free health care, a free rice ration and subsidized public transport constituted key elements of a "basic needs approach" which, in turn, led to improved health, improved longevity and high literacy for both males and females in all ethnic groups in the country. If Sri Lanka's pursuit of welfare-oriented social policies led to unusually high social development outcomes for a low-income developing country, the results of the same policies indicated that welfare without growth is hard to sustain and can even contribute to social instability and unrest in so far as the state cannot keep up with "the revolution of rising expectations" in a literate public.

Sri Lanka's transition to "open economic policies" in 1977 was, therefore, by no means surprising. The early indications of the results of rapid economic liberalization are that at least initially it had the effect of reversing some of the social development gains under the welfare-oriented policies. This includes evidence of increased poverty, increased income disparity and growing malnutrition in the post-1977 era. Even though some authors have attributed the increased manifestations of ethnic and other forms of violent social conflict since 1983 to the liberalization policies of the UNP government formed in 1977 (eg. Gunasinghe 1984), such conflicts can only be seen as a cumulative outcome of social policies started much earlier perhaps intensified by the abrupt transition towards an enhanced reliance on the market economy. Perhaps the greatest lesson that can be learnt from the experience of Sri Lanka over the past 5 decades is the need to maintain a smooth balance between welfare and growth in social and economic policies in developing countries.

Notes

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2. This paper was prepared before the latest peace negotiations in Sri Lanka got under way.

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