

CONSTRUCTION ECONOMY — ANOTHER POINT OF VIEW

In interpreting statistical figures and drawing conclusions there from one must have a fair idea of how these figures are computed and what they in reality represent. Unwary user can draw completely wrong conclusions and get into difficulties.

Statistics related to the construction industry cannot be interpreted correctly without one being aware of:

- (a) methodology used in collection of data and computation of figures presented,
- (b) the nature of the construction activity at any point of time or period in question — vis-a-vis the data collected,
- (c) identification of the work carried out by the local industry as against that by foreign contractors (from the construction industries of other countries.)

As far as the writer is aware (subject to correction), the method currently used by the Department of Statistics is to compile data on the import/production of civil engineering materials and convert this data to GDP for the construction sector, by the introduction of a factor to allow for the labour component, assuming an invariable labour to materials ratio (say 40:60). From this hypothetical value the government sector expenditure is deducted to compute the private sector contribution.

This method may have yielded an acceptable figure perhaps at the beginning of the century. Today the method is unacceptable due to the many different types of construction having completely different material/labour ratios. Another dimension that tends to be ignored is the significant contribution made by the fleets of construction plant and equipment.

Take the case of a highly plant intensive project such as an Earth Dam, land Preparation or Jungle Felling operation. The material most used, diesel fuel and lubricants, are not even classified as civil engineering construction materials. Any attempt to co-relate the value of work to the value of civil engineering materials brought to the site, in the manner described before, would end up giving disastrous results.

In the case of the construction of a concrete Dam, a Highway, Bridge, Water treatment plant, Pipeline or a similar major work the labour component of the total cost will be much less than that in a building project and will vary from one type of project to another.

A formula that is applicable to type plan government houses cannot be applied to other civil engineering or even major building works.

Therefore it is imperative to develop a more realistic method, or a set of valid formulas, for the assessment of the construction output based on the type and nature of the construction activity, using

data collected from the field as well and not from customs records alone. Until and unless such methods are developed, however laborious they may be, the usefulness of the statistical figures presented to us is a matter for conjecture.

According to available statistics, growth rates of 28.3%, 20.9% and 11.0% have been recorded for the years 1979, 1980 and 1981 respectively. Assuming that these figures are correct (subject to my observations above) these figures do not by any means reflect a GROWTH rate. It in reality reflects, in very abstract terms, the inroads made by the foreign contractors to the local industry. It is the writers hunch that the figures if correctly computed will be several times more than what has been indicated.

In order to understand the full implications of what ever happened in the construction economic sector after 1977 one must treat the foreign construction effort in this country separately from the local efforts. The reasons for the decline of the local industry and the effect of the only saving factor, President Premadasa's million houses programme, could then be identified.

The sudden influx of foreign contractors with aid packages in 1979 created a dearth of skilled manpower, which lasted perhaps till 1982. This temporary demand put spurs on several governmental and non-governmental organisations to embark on training schemes. The total number of vacancies in these organisations, irrespective, of the quality of training they impart, has been assessed at about 12,000. There is no doubt that most of these trained skills are sub-standard and that they are only fit, at the end of the course, for further proper training. If all those who have been trained and who are currently being trained are to be kept fully employed the investment in the construction sector has to be in the

region of Rs 30.0 billion increasing annually by 3.0 billion, this too if the work is to be carried out by local effort at rates prevalent in the local industry.

Skills have to be trained to take the place of the leakages from the industry, and what is most essential is training at higher skill-levels and in newer technologies. This is necessary both to meet domestic needs as well as to give the workmen opportunities of foreign employment.

In planning training courses, the most important factor is to determine the needs of manpower quantitatively (and qualitatively), which is practically impossible in the absence of a policy of steady planned investment in the construction sector. The practicality of having such a policy, with the present state of the economy of the country, is another matter, but the wide variations from year to year, almost ad-hoc, and the absence of an investment plan that could be adhered to, does not help to plan training.

This aspect unfortunately has never been given the consideration it deserves by the economic planners. The general rule appears to be to think of maintenance only after funds are appropriated for new constructions. There is seldom enough for new works, resulting in hardly any funds being expended on maintenance. 'O & M' is a fashionable phrase but we see in practice only O without M. Funds required for proper maintenance (only) of public works established after 1972 could be roughly estimated at 700 to 1000 million, without allowing for unproductive overheads and leakages in any other form. With maintenance properly carried out, expenditure on rehabilitation in the future could be considerably reduced.

If we get our priorities right, maintenance of public works should come first in the list. The idea may not be very attractive to the politicians who need new constructions to crow about, but the overall interest of the country should take precedence over the needs of party politics. ■

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LETTER TO THE EDITOR

I have been a regular reader of the Economic Review published by your bank for the past 15 years. Up to 1989, the magazine maintained a very high standard and was unafraid to be critical of policies pursued by the Governments. However, in the last few months the Economic Review has relegated itself to joining the "Lake House" chorus. Moreover, the magazine is losing its main objective that of reviewing economic events. Whilst I agree that political and economic phenomenon are not necessarily mutually exclusive, I cannot accept an overriding political commenting role for the Economic Review. Further, as a practicing Economist, I was horrified at the very low quality writings on economics related matter in the journal. Many examples of a poor understanding of economic theory and practice are evident in the recent journals.

I fervently hope that you will take immediate steps to prevent the Economic Review from deteriorating into a third-rate newspaper.

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