

MARKET ORIENTED POLICIES AND POVERTY IN SRI LANKA*

W.D. LAKSHMAN

A distinction is usually drawn between absolute poverty and relative poverty although in a sense, all poverty conditions are relative. Poverty has existed, I believe, from the time when perceptible income and other inequalities emerged within human society. Poverty incidence had increased when the more powerful and the richer in society ceased to be responsible for the well being of the poor and the vulnerable as it was the case in feudal society. Whatever would be the arguments and counter-arguments about these general issues, there is no doubt that poverty continues to prevail in every society today. The point of relevance, however, is that the extent of poverty we have in the world today - the last decade of the twentieth century - cannot be justified, when considered in the light of technological achievements and other production possibilities open to human-kind. The world produces enough for all to be out of poverty but the numbers in poverty remain stubbornly high. It is clearly a matter of how the productive forces are organized and the results of production activity are distributed.

I have been asked to talk about market-oriented policies and poverty in Sri Lanka. The reference to market-oriented policies, I believe, is to the kind of policies we have been following since about 1977. These policies are sometimes referred to as structural adjustment policies (SAP) too. On the basis of this interpretation, I will try to ask and, within my ability, to answer two sets of questions:

- (a) Has poverty in Sri Lanka worsened during the above period? What have been the implications of market-oriented policies for absolute poverty?
- (b) How could a package of policies be devised whereby we as a society could achieve growth along with equity and reduction of poverty, and not conditions of "shared poverty" as the situation prior to 1977 in Sri Lanka has sometimes been described.

For us in Sri Lanka poverty is not at all a new phenomenon. What happened to poverty over the last one and a half decades or so, according to numerous studies that are available, is very difficult indeed to judge, as can be seen from Table 1 which summarises the available statistical studies on the subject. Statistical limitations of the type of available measurement exercises, particularly the head count ratios - the problems of defining the poverty line, the distance between poverty line adopted and families identified as poor and so on - are well known. I do not wish to go into details of these problems here. It may be sufficient for our purposes to note that according to some studies, poverty conditions worsened, according to some, they remained static and according to others, they improved during the period we are considering here. A point ignored in these comparisons over time is that the poverty line, even in real terms, tends to go up

* The text of a brief address made at a seminar on "Poverty" at NARESA in June 1994.

with time, as consumption habits change and aspirations go up. Whatever is the time trend, I consider it important that about 25-30 per cent of the people in Sri Lanka are in poverty according to "head count" researches I have referred to. And the bulk of these are in rural areas. The estate sector seems to hold the smallest proportion of the poor. I do not want to burden you any further with these poverty measurements. Let me instead raise three very important points which the statistical poverty measurement work has so far ignored.

- (i) Given the "relative" nature of poverty, it is important to look at it from the point of view of those in poverty. All available studies are, however, ones looking at the phenomenon from above and with a paternalistic concern.
- (ii) The time path of individual families which are in and around poverty is important but has not at all been analysed in the available studies. How many of these families, who were poor two decades ago, do still remain poor? How many have gone out of poverty? How many have gone into it over the recent past? What are the underlying conditions of these different categories of families?
- (iii) The statistical studies are unable to identify and analyse the forces which lie behind reproduction of poverty in a society and the process through which that reproduction takes place. To analyse this, one has to go into anthropological type of research, with or without statistical measurement studies.

Causal relationships are almost impossible to establish unambiguously. Just because, during a given period, a market-oriented policy package was in place and conditions of poverty either remained stable (in per cent terms but with absolute number of people in poverty going up) or worsened during that period, it does not necessarily mean that the former caused the latter. Along with whatever economic policies that were practised, many other things obviously have happened and what happened to poverty would have been the result of not only policy action but also the myriad of other things that happened, some stimulated by and others independent of policies.

There are strong reasons which make me contend that market-oriented policies, as they operated in Sri Lanka, have had a variety of adverse repercussions on poverty. The impressionistic evidence at hand appears to support this contention. I do not have the time to marshal this empirical evidence in any significant way to support it, but a strong case can be made to support the following proposition:

Without planned intervention,¹ including the necessary structural and institutional reforms to produce the correct type of playing field and to guide private enterprise (not through directives but through prices), market oriented policies will invariably produce

¹ There is a lot of "intervention" in our system today in spite of lip service to markets and the price system. The intervention I seek, however, is not the type of *ad hoc* and politically motivated intervention that prevails.

growing inequalities and will keep poverty incidence high until some sort of full employment is reached - which, working merely through the price system and markets, will take a long time indeed to achieve.

The rate of accumulation in the economy during the post-1977 market-oriented regime was not adequate to produce conditions of rapid and continuous growth of employment. This was partly the result of inadequate response of domestic investors to the policy stimuli. Partly, it was due to insignificant contribution of foreign private capital to domestic accumulation. Although the policy bias has been to integrate the domestic economy with the on-going processes of globalisation of production and investment, the inflows of direct foreign investments turned out to be low in relation to expectations.

Furthermore, the prevalent patterns of social organization and political behaviour in the country have not been very helpful to produce growth with equity or a pattern of economic growth which was conducive to bring forth a speedy trickle down of benefits. Hence the need for much more planned intervention that would be allowed in a typical SAP package. There is growing lip service paid to poverty alleviation in World Bank and IMF quarters which promote SAPs globally. In Sri Lanka, the World Bank has even come to support the government's poverty alleviation programme represented by the *janasaviya* scheme. Yet these interventions represent nothing more than "safety nets" worked out from a paternalistic perspective. As implemented in Sri Lanka, I feel, the SAPs do not have any inherent, built-in mechanisms (a) to prevent the accumulation of the benefits of growth in the hands of a few, who include not only the small capitalist class, but also the few who gain power and privilege through the political and other extra economic mechanisms and (b) to generate a process whereby the poor get a fair deal, not through hand-outs, but through opportunities to participate in the production process as productive entities. (Note how market-led planning and intervention achieved growth combined with equity in the so-called East Asian "miracles").

Useful insights into the question of how market oriented policies have influenced poverty conditions in the country can be obtained by looking at processes set in motion in a number of sectors of the economy. Let me draw your attention to two such specific sectors or subject areas:

- (i) I would first take the domestic small farm agriculture where paddy farming constitutes by far the most predominant activity. The process of liberalisation has brought about a rise in product prices, but at the same time, input prices rose more rapidly - e.g. interest rates and fertilizer prices. The neglect of institutional mechanisms for produce purchase, e.g. the Paddy Marketing Board and rice purchase centres, prevented the guaranteed price of paddy from becoming an effective price support at the level of producer prices. In addition, the market orientation of credit policy, in addition to pushing up costs of credit, has also reduced the availability of credit for small farming activity. The government cut down its commitment to

maintain agricultural extension services, further weakening the small farm sector. Given certain well-known characteristic features of small farm agriculture in the country, e.g. small uneconomic holdings, prevalence of pre-capitalist forms of land tenure, information gaps etc., the ultimate result of the above policy measures has been to make the small farming community a severely disadvantaged group.

- (ii) Next, I would briefly consider the wages scene. The SAPs in Sri Lanka, as elsewhere in the labour surplus countries in the Third World, are promoting a low wage syndrome, on the grounds that it is essential if economic activity were to be made outward-oriented. There has been a deliberate weakening of the institutional framework which has developed in Sri Lanka for the protection of conditions of work, including trade unions. One may, in this regard, compare the poverty conditions of estate sector workers with those in rural and urban sectors of the country (Table 1). A major factor behind the relatively better conditions in the estate sector in this respect than in the other two sectors is obviously trade union power in the former sector.

The solution of SAPs for poverty is the "safety net", artificially added to the package as an appendage. In any society there would be a very small fraction (may be 1-2 per cent) who would eternally require safety nets. Conditions of poverty in Sri Lanka go much beyond this thin margin. The overwhelming bulk of the poor are those, who, if opportunities are provided, can emerge out of poverty through productive work. SAPs do not have any in-built mechanism, integrated into the package in a symbiotic way, for a fair distribution of the benefits of growth and to take the country on a growth path which breaks the process of reproduction of poverty among this bulk of the country's poor. As implemented in Sri Lanka, what the market-oriented policies offered to the poor was an expanded package of safety nets, via top-down; paternalistic and marginal interventions in the form of food stamps, kerosene stamps, school mid-day meals, school uniforms, infant milk, emergency food assistance and *janasaviya*. Although *janasaviya* had the rhetoric of helping the poor to be self-reliant, it is doubtful whether the self-employment and informal sector activities, on which *janasaviya* depended to achieve this objective, worked satisfactorily on a country wide basis.

The brief discussion above brings me to the question of alternatives. I will present to you a few ideas in point form.

- (i) It seems obvious that the public is not in a mood to go back to a pre-1977 type of a system of closed national development and a policy framework of a controlled economy. There is also growing evidence to show that a system trying to achieve welfare (through redistribution) before advancement of production forces, leading as it does toward a situation of shared poverty, is unsustainable and unacceptable. Given the global developments and what we experienced ourselves domestically, these options appear to be very unrealistic and without much public support.

- (ii) Developments over the recent past also shows that the policy package followed since 1977 cannot be continued with small modifications by way of safety nets. On the one hand, the very paternalism inherent in the concept of safety nets speaks against it. On the other hand, the society does not appear to be in a mood to wait till the market-oriented package of policies eliminates poverty.
- (iii) What is required is a package of policies which will achieve the following simultaneously and relatively quickly through productive means: economic growth, full employment, equitable distribution and elimination of poverty. There is a widely held perception, now shared also by the World Bank, that the so called East Asian Miracles have, through a process of markets operating subject to suitable interventions (i.e. as I would describe it, through a process of market-led planning), managed to achieve the above difficult socio-economic objective. The question is whether we, in South Asia, are likely to do things in ways that East Asian "developmental states" have managed their economies. These economies appear to have effectively achieved the following: [human capital + industrial policy + agricultural modernisation strategies (with necessary institutional reforms) + policy based financing + results oriented technocracy and bureaucracy + growth oriented institutions]. Options for Sri Lanka, I strongly believe, must be sought in a modified version of this, taking into account the peculiarities of the country's socio-political situation as it had developed to date over a considerable period of time since the last stages of the colonial period.

Table 1: Estimates of the Extent of Poverty in Sri Lanka in Various Household Survey Years: 1969/70 to 1990/91.

Year, Basic Source and Relevant Study ^(a)	Urban	Rural	Estate	All Island
A. 1969/70: Based on LFSS (DCS, 1970)				
A1. Bhalla and Glewwe (1985) ^(b)	5.0	12.8	11.1	11.2
A2. Alailima (1978) as cited in Alailima (1986) ^(a)		18.0		
A3. Visaria (1979) as cited in Alailima (1986) ^(c) Household %				
Measure 1	58.3	52.3	38.5	52.0
Measure 2	57.6	52.0	38.7	51.6
B. 1973: Based on CFS (CB, 1973)				
B1. Khan (1989) as cited in Hopkins & Jogaratnam (1990) ^(d)				
Population %		16.7		
Household %			18.5	
B2. Anand & Harris (1985): Pop. %				
Measure 1 ^(e)	22.7	31.6	8.1	27.6
Measure 2 ^(e)	13.4	17.3	1.4	15.0

Table 1 Confd.

Year, Basic Source and Relevant Study ^(a)	Urban	Rural	Estate	All Island
B3. Marga (1981) ^(b)				
Population %	3.7	17.6	0.5	13.1
Household %	6.4	26.1	1.7	19.1
C. 1978/79: Based on CFS (CB, 1983)				
C1. Gunaratne (1985a) ^(f)				
Population %	19.4	25.0	7.6	22.3
Household %	15.8	21.2	6.0	18.5
C2. Khan (1989) as cited in Hopkins & Jogaratnam (1990) ^(d)				
Population %		11.8		
Household %				12.5
C3. Gunaratne (1989) as cited in Hopkins & Jogaratnam (1990) ^(f)	16.0	22.7	5.9	19.5
C4. Anand & Harris (1985): Pop. %				
Measure 1 ^(e)	24.4	23.8	8.9	22.7
Measure 2 ^(e)	14.3	12.8	3.6	12.3
D. 1980/81: Based on LFSS [Korale (ed), 1987]				
D1. Bhalla and Glewwe (1985) ^(b)	16.9	25.9	25.0	24.1
D2. DCS (1983) ^(g)				
Population %	51.5	50.9	42.7	50.5
Household %	58.0	58.7	55.7	57.3
D3. Khan (1989) as cited in Hopkins & Jogaratnam (1990) ^(d)				
Population %		39.2		
Household %			34.8	
D4. Sahn (1985) ^(c) as cited in Alailima (1986): Household %				
Measure 1	49.0	42.9	32.6	
Measure 2 (2A+2B)	24.5	20.4	13.3	
2A	8.7	3.7	3.8	
2B	16.4	16.7	19.5	
E. 1981/82: Based on CFS (CB, 1984)				
E1. Gunaratne (1985a) ^(f)				
Population %	17.7	26.1	12.3	23.6
Household %	15.8	21.2	6.0	18.5
E4. Anand & Harris (1985): Pop. %				
Measure 1 ^(e)	19.6	23.2	13.8	21.9
Measure 2 ^(e)	12.4	13.6	5.8	12.9
F. 1985/86: Based on LFSS [Korale (ed), 1987]				
F1. DCS (1987) ^(g)				
Population %	27.6	45.7	5.7	39.4
Household %	32.7	51.1	9.9	44.7

Table 1 Contd.

Year, Basic Source and Relevant Study ^(a)	Urban	Rural	Estate	All Island
F2. Khan (1989) as cited in Hopkins & Jogaratnam (1990) ^(d)				
Population %		28.6		
Household %			25.1	
F3. World Bank, Poverty Assessment Study of 1994				
Measure 1 ⁱ	31.67	16.43	14.31	27.33
Measure 2 ^j	45.48	26.78	30.85	40.60
G. 1986/87 : Based on CFS (unpublished)				
G1. Gunaratne (1989) as cited in Hopkins & Jogaratnam (1990) ^f				
	12.3	32.4	5.9	27.4
G2. Edirisinghe (1990) ^{ch}				
Measure 1	12.2	32.9	13.4	13.4
Measure 2	10.5	28.7	11.1	11.1
H. 1990/91: DCS, Household Income and Expenditure Survey, 1990/91				
F3. World Bank, Poverty Assessment Study of 1994				
Measure 1 ⁱ	24.41	18.31	12.62	22.36
Measure 2 ^j	38.05	28.43	27.51	35.34

Notes:

- The years taken for analysis have been dictated by the availability of household survey data. Two official institutions have been responsible for the surveys concerned, the Central Bank of Sri Lanka responsible for the Consumer Finances Surveys (abbreviated CFS) and the Department of Census and Statistics for the Labour Force and Socio-economic Surveys (abbreviated LFSS). The CFS, started in 1953, was repeated in 1963, 1973, 1978/9, 1981/82 and 1986/87, with the report of the last mentioned survey yet to be published. The LFSS, started in 1969/70, was repeated in 1980/81 and 1985/86.
- Poverty line as defined by Gunaratne (1985a) as explained in the note (f) below. The Rs. 70 per capita food expenditure poverty line for 1978/79 has been deflated/inflated to arrive at per capita food expenditure poverty lines of Rs. 21 for 1969/70 and Rs. 106 for 1980/81.
- On the basis of calorie requirements. Alailima takes 2200 calories per day per person as the necessary minimum requirement, and Visaria, 2250 per capita and 2750 per adult equivalent. Visaria's two measures refer respectively to these two calorie norms adopted by him. These calorie requirements turned out to be equivalent to Rs. 200 monthly household income for the urban sector and Rs. 150 for the rural in the case of Alailima. Marga (1981) arrives at its estimates through a complicated analysis of food consumption data from the CFS for low income groups in the backdrop of daily (age wise) nutrient allowances as recommended by the Medical Research Institute and a table of food-to-nutrient conversion factors, thereby determining the per capita income needed for food adequacy. The study estimated that in 1973, the cost of required minimum calorie requirements was Rs. 36.50 per month per capita. The cited numbers for Marga are the percentages of spending units/households said to be characterized by "serious dietary inadequacy" (1981, p. 40). Sahn uses FAO/WHO recommended daily calorie allowances. Measure 1 refers to the ratio of households not achieving this level and measure 2 to that of those

not achieving 80 per cent of the norm. Measure 2A refers to what Sahn calls the "ultra-poor" who spend more than 80 per cent of expenditure on food, yet obtaining less than 80 per cent of the required nutrition. Measure 2B referring to the group spending less than 80 per cent on food and also obtaining less than 80 per cent of the minimum required nutrition are described "nutritionally at risk". Edirisinghe (1990) adopted the following calorie requirement norms: recommended daily allowance of (a) 2750 for an Adult Equivalent Unit and (b) 2200 per capita.

- d. A poverty line of Rs. 50.80 per capita (for 1978/9), arrived at on the basis of a minimum cost bundle method. The poverty line adopted for 1981/2 was a per capita income of Rs. 110 and for 1985/86 one of Rs. 175.
- e. For measure 1, the poverty line as defined by Gunaratne [see note (f) below] has been adopted. The poverty line behind measure 2 is given by a per capita food expenditure of Rs. 60 (for 1978/9). The all island poverty lines, Rs. 70 (measure 1) or Rs. 60 (measure 2) as the case may be, were used to derive urban, rural and estate sector poverty lines using sector specific food price indices. Price indices were used also to derive poverty lines for other years concerned which are comparable to those for the year 1978/79. The lower poverty line was arbitrarily selected (in technical jargon, for purposes of analyzing the sensitivity of the ratios to choice of poverty line) to see what happens to poverty percentages when poverty is redefined according to just the whim and fancy of someone observing it from a distance!
- f. A poverty line defined by a level of all island per capita monthly food expenditure of Rs. 70 (for 1978/79) is used. This figure has been derived from the per capita monthly food expenditure of the bottom 40 per cent of households. This figure has been inflated by using a food price index calculated by the author himself to derive the 1981/82 poverty lines. Sectoral price indices have been used to derive poverty lines for different sectors on the basis of the adopted all island poverty threshold. The same principles may have been adopted in the author's 1986 study cited by Hopkins and Jagaratnam (1990) but exact details of the computational procedures are not available. Nor is it clear how Gunaratne comes out with two sets of numbers for 1978/79 in the two studies cited.
- g. Poverty line has been defined as the monthly income required to purchase minimum nutritional requirements and other basic needs. The following poverty lines figures (in terms of average household income) are behind the percentages given: For 1980/81: Urban - Rs. 1466; Rural - Rs. 1101; Estate -Rs. 845. For 1985/86: Urban - Rs. 1920; Rural - Rs. 1610; Estate -Rs. 1451.
- h. Measure 1 is called POOR (ONE) by the author and measure 2, POOR (TWO). Households whose food expenditure is insufficient to purchase food to meet between 90 and 100 per cent of recommended calorie requirements are included in POOR (ONE) and those between 80 and 90 per cent of requirements in POOR (TWO). The numbers in the highest decile who came within these limits, however, were not taken into account in the calculation of the relevant ratios.
- i. Measure 1: Reference poverty line is Rs. 471.20 per person per month at 1990/91 prices;
Measure 2: Reference poverty line is Rs. 565.44 per person per month at 1990/91 prices

Sources: As Indicated