

The Economy

The Economy in 1981

The Minister of Finance and Planning, Mr. Ronnie de Mel warned Parliament at the end of December, 1980, that 1981 will be a critical year. The Minister made this comment in his speech at the conclusion of the Committee Stage of the Budget discussion on 19.12.80. in which he also assessed prospects of the economy in 1981. (The following is a translation from the (uncorrected) Hansard of December 19, 1980).

Mr. R. J. G. de Mel —
Minister of Finance and Planning

"Mr. Speaker, I move the third Reading of the Appropriation Bill 1981. Also I seek your permission, Sir, to refer to one or two important matters on this occasion.

Mr. Speaker, our Government inherited a bankrupt treasury. Despite the problems we faced, we have been able to make considerable progress in our country in the last three years, thanks to the co-operation and support given by our Hon. M.Ps. We have witnessed an accelerated development in various sectors during the last three years. Much economic progress has been made. In the last three years, the Government had been able to provide employment to many persons who were unemployed. No Government in the past has done so much. We have been able to improve the living conditions of the working population of our country. Investment both within and outside the Free Trade Zone have been on the increase. I have the pleasure to announce that we have achieved several gains in the last three years; it is an achievement any country could be proud of.

With the liberalised 'open' economy introduced by our Government in 1977, the era of queues and scarcities of goods has been eliminated. Looking at it from that angle too, our Government has achieved a great deal in the last three years. However, I wish to remind our Hon. M.Ps. that it is our duty to protect what we have achieved. That is more difficult.

Many constraints and problems have cropped up during the development process. We need money for the development effort. With more money in circulation inflation will increase.

With the increase in inflation, the cost of living will go up. In this context, we should particularly remember

that it is our duty to protect what we have achieved, for we have completed exactly half our term of office.

We may also fritter away the gains we have achieved in the last three years. We should therefore make every endeavour to see to it that we do not fritter away these gains. We have achieved many gains. We should protect those gains. We must not overheat our economy.

If we incur unnecessary expenditure, if we resort to printing currency notes, if we issue more and more Treasury Bills, we will have rampant inflation by about 1982—83. As a result, we will have to encounter many problems. Therefore in the next 2—3 years, careful consideration should be given to these matters in formulating our fiscal policies. If we do not take steps to control inflation now, I do not think we will be able to control inflation in 1982 or 1983. We will have rampant inflation, by 1983 if we do not take immediate steps to control inflation. Therefore I would like to tell the House that it is very essential to control inflation now. We should exercise greater control over our expenditure. Financial discipline and control should be more strict. If we work without a financial discipline and financial control, inflation will undoubtedly double during 1983. If we do not take the necessary steps to contain inflation now, all the goods produced in our country — coconut, onions, limes, fish etc. — will go up in price.

Therefore I wish to remind the House, and through the House the people of this country, to refrain from unnecessary expenditure as far as possible. We should eliminate unnecessary and wasteful expenditure if we are to avoid a crisis in 1982 or 1983. In January 1980, we took a decision not to present Supplementary Estimates except in unavoidable circumstances like cyclones, earthquakes etc. But we had to present and pass supplementary estimates to the tune of Rs. 5,600 million last year due to unavoidable circumstances. For all these supplementary estimates, currency notes had to be printed.

I wish to tell the House that it was with great reluctance and against my conscience that I resorted to that device. Hon. M.Ps. will admit that printing of currency notes would enhance inflation in the country.

Unlike last year, we should firmly adhere to this decision. Therefore I would like to appeal to you all to cooperate with me by not resorting to supplementary estimates. Otherwise, our country would face a very critical time in the next 6 months.

I think the Hon. M.Ps. too should give thought to these matters. We had a record reserve by December 1979 to the tune of Rs. 9,000 million. It was unparalleled in our history. It was indeed a record. Our reserves in December 1979 was sufficient to meet the import bill for 6 months. When the SLFP was in power, sometimes they didn't have a Reserve position even for two weeks. Due to the financial stringency we adopted, we were able to build up a reserve position for six months imports in December 1979.

However, this year, the position has completely changed due to heavy expenditure. Today, we have only about 2½ months Reserves. Though that is better than the position during the time of the previous regime, I do not think that today's position is satisfactory. Therefore we should eliminate wasteful and unnecessary expenditure and so improve the position. If not, the reserve position will gradually decline again and the era of controls and restrictions could return, with import controls, scarcity of goods, non-availability of goods and exchange control.

If we do not take firm steps on financial controls now, we will face a frightful situation in six months. That is unavoidable. I warn the Members of the House, and through the House the people, that if we do not observe strict financial control, eliminate wasteful expenditure and move supplementary estimates like last year, in short, if we do not take steps to protect our financial position, there will once again be an era of scarcity of goods in the next six months. The era of queues and scarcities that prevailed in the past, which was totally denounced by us, will be brought back again.

The country has now reached a "Danger Level" and we are facing a very critical situation. Therefore I should remind the Hon. M.Ps. that economically 1981 will be the most critical year Sri Lanka will have to undergo since 1947. Next year will be a very difficult year. It will not be a prosperous year. Again and again I have to emphasize that 1981 will be a very difficult year.

The entire world is facing an economic crisis that will affect us in every respect. In such a situation a developing country like ours, a small country, a country not producing petroleum,

will have to face many economic problems. When we think of economic problems, we cannot be happy about 1981. The world has not faced such an economic crisis since the 1929 — 1931 crisis.

Very often we think that the United States of America is a very powerful country. But I wish to remind you that even that country today is facing a serious crisis. The situation there is very serious. A Board of Advisers has already informed the President-elect of USA, Mr. Reagan that looking at the present economic situation in the USA they hold the view that there is an economic 'Dunkirk' now in the USA, similar to 'Dunkirk' — the biggest retreat that occurred during the last World War. The unemployment figures in USA stand at 8 million. Some are under the impression that USA is a land flowing with milk and honey. Today, there is high inflation in USA. The lowest Bank Rate at which banks in the USA lend money has gone up to 24 percent. The value of the US Dollar has declined. So serious is the economic crisis the US is facing.

It is not only so in USA. In UK or England, the unemployment figure stands at 3 million. England has reached a very low economic level. Factories are being closed down. The economic situation in UK is such that next year there will be 'minus growth'.

Some are under the impression that Germany is a powerful country. Today, Germany is balancing its Budget with loans from Saudi Arabia. Very recently, Germany obtained a loan of \$ 5 billion to balance its Budget. There are about 1 million without jobs in Germany. In France, the unemployment figure is about 1.5 million. The situation in Italy is worse. I think that the 'crisis of capitalism' Lenin talked of, is fast spreading in those countries. I do not say that these countries will go bankrupt in one or two years. But the fact remains that these countries are facing a long term crisis now. I admit that socialist countries do not experience such a crisis. However, they too have economic problems to some extent. In China, there are economic problems. It is the same in Poland. But looking at the global situation, we should sincerely admit that socialist countries do not experience economic problems to such an extent. All these problems do affect small countries like ours. Therefore I should inform the House and through the House the people that 1981 would be the most difficult year in recent history.

Do not blame me later that I did not warn you beforehand. We should tell the truth and inform the people of the situation.

Recently, the price of oil went up by 10 percent. I am sure that the price of oil will shoot up once again before the end of the first half of next year; do not say I didn't tell you. I think that the price of oil will be going up at the same rate that it did in 1973 — 1974. With the price escalation of oil, all the goods will go up in price. The price of steel will go up. The price of iron will go up. The price of lead will go up. The price of copper will go up. The price of flour will go up. Even though the price of sugar has come down temporarily, it will go up in price again. Everyone should know about these things. I would like to say that we will be able to face this situation and adjust the economy if the Government and the people realise this situation and act accordingly. There are remedies. There are solutions. In the face of such a crisis, a dangerous situation facing us, we should concentrate more than ever before on production. We should work harder. We should increase production. We should increase the volume of exports. If we increase production and cut down wasteful and unnecessary expenditure and adopt measures to control inflation, even to some extent it is possible we could perhaps be able to create a better situation by 1982 irrespective of the 1981 crisis. Though we have to face a crisis in the short-term, if we exercise financial control, discipline and cut down wasteful expenditure, I am sure we would be able to improve the situation by about 1982-83. So I call upon all of you to give careful consideration to this problem adjust our programmes accordingly and move forward.

I am ready to give the Hon. Minister of Mahaweli Development my fullest co-operation. I would have been very happy if I was able to refrain from reducing 25 percent of the amount allocated in the estimates for his Ministry. There wouldn't have been a happier person than me if I was able to do so. But in this situation as far as the money in my budget is concerned, there was no other alternative open to me other than to cut down the votes by 25 percent.

Finally, irrespective of the many economic problems facing us, I wish you all personally — Mr. Speaker, and all Hon. Members of the House, a prosperous New Year in 1981"