

National Planning Perspectives and Development Strategies for the Next Medium-Term Plan Period

A Basic Framework

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Dr. Earle de Silva, Deputy Director, National Planning (Agriculture), Development Planning Unit, Ministry of Planning and Economic Affairs, has prepared a comprehensive paper on National Planning Perspectives and Development Strategies. This article which is based on his paper discusses the requirements and necessities for a higher level of investment, development and production.

The purpose of national planning is to organize the utilisation of the human and material resources of the country to the best advantage of the nation as a whole. This is the overall goal. A national plan therefore provides a framework within which the political executive, the public sector and the private sector could conduct their economic activities and day to day business with a view to achieving pre-determined goals.

Growth of gross national product and per-capita income will not necessarily improve the living standard of the large mass of poorer people in the community nor can re-distribution of incomes via subsidies and factors of production such as land by themselves improve standards of living, unless these are matched by a rapid rise in production of all essential consumer needs. Privation and hardship, decrease of real incomes with continuous price inflation and scarcity of basic needs have been suffered by the majority of people in recent years. A new rich class and a powerful bureaucratic class have been created while the poor and destitute have become poorer. Therefore, if, social justice is to be meaningful rapid economic development of productive sectors in particular and the total economy in general is a *sine qua non*.

During the recent years in the effort to solve the unemployment problems a very large number of educated unemployed have been placed in white-collar and unproductive jobs. This is an additional problem which has to be remedied, not only for the sake of these individuals themselves, who must be placed in gainful occupations, but also because this type of expedient employment only creates further burdens on the economy and impinges on further employment. The economy can absorb increasing numbers in employment only when there is significant growth in productive sectors, such as agriculture, industries and fisheries. This is why a rapid expansion in production is the most vital national planning need today.

Financial Crisis

The budgetary policies and financial management of the economy during the recent years have put the country in a more serious financial crisis than ever before. Public and foreign debt have reached such proportions that investment capital and even a portion of recurrent expenditure have had to be obtained from local and foreign borrowings. In macro-terms this is the main reason for the very low savings and investment ratio which has been no more than 12% and is consequently the cause of the insignificant growth and stagnation of the economy. In turn this is the cause for the scarcity of basic needs and the continuous rise in the cost of living, which have caused hardships to the majority of the people in the country. Despite inadequate investments some amelioration of the hardships suffered by the people could have been achieved if the scarce local and foreign resources had been more judiciously allocated into immediately productive fields rather than into non-productive, spectacular and prestige projects, and

wastage through corruption and mismanagement had been minimised.

In respect of the public sector the strategy of the last few years has been the takeover of more and more productive resources in the name of socialism, and the policy of overriding expansion at the expense of mass transfer of scarce local and foreign capital resources away from productive activities and essential needs for the people. This has been the major cause of poor to negative economic growth, severe drop in productivity and efficiency, greater strain on the import budget, fall in real income levels, rise in unemployment and the chronic spread of underemployment and idleness, the waste of scarce resources in the public sector and emasculation of large productive areas in the private sector. Hence a large proportion of the people were alienated from productive occupations and the spontaneous participation response was lost.

As a matter of priority in the next plan period it is absolutely essential to put to highly efficient productive use for the nation's good the vast manpower, capital, land and other factor resources lying idle and underutilised in the public sector. Until this is done the economy will remain bogged down.

The only remedy is to reorganise and revitalise the public sector. Due to mismanaged budgetary and fiscal policies a *laissez faire* price regime dominated by hoarders and black-marketeters has prevailed despite and in conflict with price control, subsidised prices and guaranteed prices at the expense of both consumers and producers.

Since 80% of the population obtains a livelihood directly or indirectly from the agricultural sector, agriculture is still fundamental to achieve national goals and development perspectives and absorb the increasing labour force.

Development and growth in any sector must be balanced, supported and integrated with other sectors.

Agriculture needs inputs from the industrial sector. Industries in turn must absorb more and more agricultural produce. An expanding agriculture must be supported by expanding transport, communications, banking, storage, marketing, rural township and amenities for the agricultural population. In the next plan period a closely integrated and balanced development should be implemented.

Development Strategies

Development strategies to achieve many of the National Plan goals are interdependent and overlap in as much as several goals are interdependent. The strategies mentioned here are neither exhaustive nor mandatory. They are possible means for achieving desired ends.

The goal of social justice comprises reduction in the cost of living by scaling down prices of essential needs such as food, textiles, and day-to-day household needs and enhancing the supply and distribution to overcome scarcities; while simultaneously increasing real income and the purchasing power of the large mass of the less privileged 80% of the population in Sri Lanka. Any one of these is meaningless without the other, for what good is higher income without goods and services. It would only lead to more inflation and more frustration. Vice versa, no purpose is served in remedying scarcities if prices remain high and the people have no money to buy them. In the pursuit of these egalitarian goals lie also the remedies for hardship and malnutrition. And in the process of achieving these goals lie the path to overcome unemployment and generate more employment opportunities and utilise to best advantage the country's scarce resources of land and capital and the more abundant manpower. The sum total of these activities would enable the economy as a whole to register the desired rates of growth and as a result lead to the achievement of the proposed basic minimum wage of Rs. 400 per month by the end of the Plan Period.

General Strategies

Briefly some of the means by which these goals may be achieved are dealt with here.

The general principle of mass mobilisation of the population and resources such as land and capital in productive occupations is a basic goal. Every wage-earner should produce directly or indirectly more than he consumes. This means that every project and enterprise must be made profitable and must generate a surplus. If and when this is achieved is the day Sri Lanka would be on the threshold of the 'take-off' into self-sustained growth and would be well on the way to overcoming her social and economic problems. The surpluses should provide a savings and investment of over 18% of national income in order to generate and sustain continuous growth of the economy of over 5% in real terms.

In regard to mass participation of the population in a positive manner in the life of the community, in particular in development and production, the first requirement is obviously for the people to build-up confidence in the Government. There is possibly no better way of achieving this than through the strategy to quickly relieve hardship by remedying scarcities of essential needs and reduce the cost of living. Having gained the people's confidence, the next step would be the organisation of the people in development and production fields. In the established order of democratic socialism there is no better institutional arrangement by which the people's confidence is retained and participation obtained than through the co-operative organisations.

Public Sector

Since the public sector has engulfed a giant share of the capital and land resources and installed productive capacity in the country, its policies, organisation and administration must be revamped and re-organised to generate surpluses. It is the single biggest task for any government.

The public sector* also controls policies, resource allocation including

imports, banking, communications, energy, services and so forth to the private sector. The private sector** still is the largest productive force whether it be agriculture, industries, construction or commerce. The public sector should not therefore discriminate, curb and emasculate private sector production if it is the policy of the government to expect the private sector to fully participate in the life of the community and make its contribution to development and production.

Development must be planned and balanced, linking all sectors in order to achieve the required rates of growth and production. While agriculture is accorded due priority as the largest sector sustaining 80% of the population its development cannot be isolated from other sectors without constraining growth. The appropriate proportional support and impetus should be given to all sectors such as industries, transport, construction, communications, commerce and marketing, banking and social amenities, so that the whole economy will be geared to a harmonious and balanced development.

Applying the same principle to employment strategy to give jobs to the unemployed, to generate more jobs in the future for those who will enter the labour market, and to transfer the idle in employment—all into productive fields, it is essential for existing productive capacity in the public and private sectors to generate surpluses which in turn can then be mobilised together with the resulting net savings of resources such as capital and land, in organised productive activities. Thus the multiplier-accelerator effect could be brought into play and in each round of growth in production, more job opportunities could arise.

The priority delineation of resources must necessarily be to imme-

*The Public Sector means the State Sector which in the socialistic idiom is also the People's Sector. The Government is of the people, run by the people, for the people. It therefore comprises the total government and semi-government institutional framework with the political executive in power at the apex moving down to every government paid employee, even the unskilled worker, at the base.

** The Private Sector by definition therefore comprises everything and every activity which is non-governmental. It includes every citizen in his or her private capacity as a citizen of the country, every farmer, non-governmental industry and business, commerce, banking and the mercantile sub-sector.

diately relieve the scarcity and high prices of basic needs. Together with the strategy for employment and mass-gainful participation, the corresponding distribution of resources can be achieved only by re-introducing systematic capital and foreign exchange economic budgeting and allocation of land and other factor inputs accordingly. To do this, the Planning Ministry itself must first be re-organised to re-introduce the continuous evaluation of the performance of the economy and its programmes, projects and investments and systems for continuous planning and programming. This in turn requires a re-organised and closely integrated development administration between the Ministry of Planning and Development and Implementation Ministries and their relevant departments and corporations. The strained relations which now exist among some of them must be remedied.

Decentralisation

The economic distribution of resources and their effective mobilisation into immediate production would be achieved by a fuller decentralisation of the Government's implementation and servicing institutions on a regional and sub-regional (district) basis, corresponding with the decentralised budget and the district development planning framework, and the responsibilities given to the Members of the National State Assembly in this regard.

Adequate supplies should be ensured through crash programmes of accelerated production supported by selective import programmes where necessary, while the distribution system has to be re-organised to ensure accessibility of essential needs even in the remotest parts of the country. With adequate supplies there will be no need for the over-indulgence in controls by Government with the resulting mal-distribution and corruption. The strategy of the controlled distribution system should be restricted to the more essential and dearer items and for the benefit of the most under-privileged groups in the population.

As production and supplies are increased and price stability is achieved more and more items can be removed from the controlled distribution system allowing a free-flow of goods

from producers to consumers. The government machinery of resource allocation, import system, marketing institutions and fiscal measures such as duties and taxation, should be used increasingly as against controls to achieve the production and price adjustment goals.

Raising Real Incomes

This policy of production and productive occupations and raising real incomes as the primary strategy also implies the progressive shift away from the burden of consumption subsidies. Initially this welfare policy will be necessary for sometime, but it must be selectively and efficiently administered so as to reach and benefit the most under-privileged and destitute and relieve the excessive strain on the economy. First, by selective reduction in the numbers enjoying welfare subsidies and secondly reducing the subsidised items to essentials, the strain on the economy can be relieved substantially, apart from enabling a re-allocation of resources to increase the supply of essentials.

A major conflict in the economy during the last one and a half decades has been between welfare consumption and distributive policies; and development, production and growth of the economy. The latter have been so affected by over-indulgence in the former for so long, much beyond the capacity of the economy to sustain them, that the economy has today reached a breaking point. The methods of subsidising consumption and public amenities, price control and rationing and writing-off waste and losses of government institutions on the one hand, and, on the other subsidising production factors and offering guaranteed prices and tax relief, all taken together as a package of interdependent measures have not been successful. Whatever political economy we subscribe to, 'price' still remains the key factor on both the consumption and production sides of the national economy. It is urgently necessary to adopt a simplified strategy. Let us assume that the aforementioned short-term production goals will be achieved and public sector efficiency will also be established. Then the solution lies with distribution and prices. The government machinery comprises a vast marketing network in the Food Department,

Marketing Department, the C.W.E., the M.P.C.S., the Paddy Marketing Board, State Trading and Corporations such as Fertiliser, Oils and Fats, Petroleum, Chemicals etc. There is also the other kind of institution engaged in both supplying vital inputs and services for production and also marketing the produce like the National Milk Board and the Sugar and Fisheries Corporations. They are responsible to a considerable extent both due to pricing policies and cost of inefficiencies and losses in raising both consumer and producer prices. The strategy is to declare certain of them essential non-profit making service institutions run on straight-forward government budgeted allocations. Through them could be achieved price reductions, price stability in the market and efficient distribution of selected essentials, while the same institutions will support and promote production with incentive buying prices.

Maximising employment and resource use also demands a narrow capital to labour ratio. This means that, every unit employed will require so much smaller amounts of capital than in the past, so that a given amount of investment could generate more employment. Consequently, more employees will gain better incomes. The technological base to achieve this is the adoption of appropriate technology which is capital non-intensive and indigenous. This does not preclude the introduction of foreign technology nor foreign aid and foreign participation. It does however require the utmost care in selecting foreign technology in order not to undermine the development strategy, prevent being made a dumping ground for obsolescent machinery and surplus goods and being taken for a ride in prestige projects which are only prestigious for Aid donors and local bureaucrats who are also motivated by personal gain such as foreign trips and commissions abroad. This strategy does not also preclude some capital intensive and heavy industry; for in order to develop the economic base, Sri Lanka must soon become self-sufficient in the heavy industries which would support small industries, agriculture and construction, and so on.

In this respect we are faced with the dilemma of lack of local mineral

resources, industrial technology for heavy industries, transport rolling stock, machinery spares and a wide range of raw materials; while we continue to be under constraints of a negative balance-of-payments and rising foreign debt which exceeds aid flows. For this very reason it is vital to exert the utmost care in the choice of technology and aid in order not to burden ourselves further with foreign costs specially in operations and production.

People's Participation

The strategies of mass productive employment, rapid development of productive sectors and overcoming unemployment and idleness has at its core the need to obtain a response for mass participation by the people themselves. What are the conditions necessary for this purpose?

Since the state controls essentials such as services, production factors, credit and prices, directly and indirectly, and determines the priorities in development and production, state policies more than any other set of factors determine the opportunities and the economic climate for fruitful participation and investment.

A sense of confidence in the government and its policies specially in regard to those which affect the cost of living, cost of production, profitability and state-controlled factors is necessary. This means, less risk and greater certainty of a stable market.

In respect of participation in development activity in self-employment, for wages or shramadana a similar sense of confidence and social responsibility should pervade the country. To generate these conditions, people's basic needs should be available and accessible. Hungry people cannot participate. Participation through coercion and political gambits is very temporary. The DDC projects, Janawasas and non-elected Co-operatives are good examples.

The True Co-operative

Well chosen institutional devices and organisations promote participation. Organisations are necessary for planned programmes and projects. The institutional arrangement most acceptable in a proclaimed social democracy is the true co-operative. Not the kind prevalent in this country

which are established by the Co-operative Development Department and controlled by administrators and politicians and their agents. The true co-operative must arise as the need of the people to get together to find strength in numbers and to pool their resources and activities for economic and trading advantage and gain countervailing power against damaging market forces. The true co-operative whether it be for production, development, marketing or multi-purpose must be for the common good of its members who would elect periodically a body of members to manage it, take decisions, run it, and improve its finances and develop its economic activity corresponding to similar improvements in the lot of its members.

Investments for Development

A country's ability to transfer net savings into investment determines its ability to expand productive capacity and finance development. In turn it determines the ability to provide essential needs and goods and services to the people, bring down high prices of essentials and the cost of living, and, provide avenues of employment to new entrants into the labour market at all levels and for the unemployed.

For this purpose real net savings must come from government revenue and a surplus from its external account. Sri Lanka has been in a financial crisis for a long period of time with government expenditure exceeding revenue and an unfavourable balance-of-payments. The worsening of the unfavourable balance-of-payments is largely an external influence of the deterioration in the world monetary situation, drastic price inflation of imports, and export earnings deteriorating in real terms or at best remaining stagnant. But mismanagement of the external account is also responsible for making the situation worse confounded because of the continuous recourse to short-term borrowing to bridge local and foreign deficit budgetary gaps, and, import bills for goods which have consistently exceeded export earnings. Thus, external debt repayments have exceeded Aid inflows and external invisible payments have been about 75% of invisible earnings.

Government expenditure has consistently exceeded revenue on account of the disproportionate expenditure in terms of national income and revenue on subsidised consumption and transport and free health services and free education; and on account of the grossly unwieldy and costly expansion of the public sector. Being directly unproductive expenditure year in year out and of an order beyond the capacities of the productive sectors to sustain, the financial crisis has got progressively worse. With a low income majority and a narrow tax base and shrinking of revenue due to curbs on consumption, the government has been compelled to resort to bank borrowing to finance not only the capital budget but also some of the current account from time to time. Price inflation has been partly due to this, because of money being pumped into the market without being matched with an added supply of goods.

To stir the economy to start expanding its productive capacity and output of goods and services in order to immediately ameliorate the scarcity of essential needs and scale down high prices and open up new avenues for employment, the exceedingly low savings to investments ratio of not exceeding 12% must be raised immediately to not less than 18%.

But the narrow tax base precludes obtaining a substantial contribution for this purpose from taxation, except by roping in the undeclared assets of those who have suddenly become rich through various means out of L.R.C. lands, C.R.A. and non-traditional exports. Broadening the tax base would be harsh until a national minimum wage of Rs. 400 is reached. Then a fair cross-section of the farming community, small businessmen and small industries can be roped into the tax net.

Forecasts for export earnings and experience with Foreign Aid rule out any possibility of financial assistance from these sources to bridge completely the investment gap. Therefore, the government has only a Hobsons' choice. That is, to immediately cut public sector spending drastically and prevent mismanaged excessive and unrealistic welfare spending progressively.

Public sector capitalism has engulfed so much of productive assets that every enterprise must generate a surplus after setting off recurrent and development capital. The surpluses must be adequate to sustain non-productive activities. Welfare expenditure must be made selectively effective to reach only the most needy in the community. Welfare itself must be redefined. The middle and upper income groups need to be excluded from subsidised food and free health services and free education. The Sri Lanka voter has ingeniously changed governments despite extended social welfare. A socially emancipated and maturing population is becoming increasingly conscious of other social amenities and economic needs, employment and the quality of life, apart from a few items of subsidised food and free but crowded hospitals and subsidised but crowded transport.

The time has come to make the shift to economic development and social progress. It requires political courage to re-orientate. And the big changes must be made within the first 6 months of any government. The simultaneously stabilising force must be the provision of essential needs and reduction in cost of living even if it has to be done at the cost of more foreign debt in the immediate short-term.

There is no better appeasement for cutting welfare even if it were only the wasteful component, than by applying the socio-economic instruments of cutting prices of essentials and raising wages in the lower income groups, and, enforcing simultaneously the social reform of ceilings on incomes and ostentatiousness of the high income groups. Compulsory savings is a very useful instrument provided the people are sure it is not lost by permitting it to be set off against taxes in each succeeding year.

Therefore, in the final analysis, the strategic thrust for a take-off into a high level of investments, development and production must come from :

1. Curbing public sector expenditure;
2. Making viable all public sector productive capacity;
3. Cutting out unrealistic and excessive welfare policies and
4. Broadening the tax base where possible.