INCOME DISTRIBUTION
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POVERTY

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I.   INTRODUCTION

In the development literature of the recent past, Sri Lanka has been referred to as a country where, at a relatively low per capita income level, respectable levels of human development have been achieved and the fruits of material advancement have been made available to a wider section of the society than was the case in most developing countries, The egalitarian trends in relative income distribution and relatively high social indicators in Sri Lanka, viewed as effects of policies of intervention, at first, received the attention of a number of Sri Lankan researchers [Rasaputram (1972); Lakshman (1975); Marga Istitute (1975); Colombage (1976); Karunatilake (1974) and (1976)[1]. The period in which this research was mounted within the country was also a period when an international effort was evident to combine "growth with redistributive justice" and the Sri Lankan case came to be examined with some interest (Jayawardane, 1974).

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1.   It is perhaps correct to argue that this domestic interest in the issue gained prominece after the publication of (Central Bank, 1974) which showed, in comparison to its predecessor (Central Bank, 1964), a significant tendency towards equality in the distribution of income in the country. The existence of a regime with socialist leanings in the early and mid-1970s with an explicit interest in equitable income distribution may also have contributed to contemporary research interest on matters pertaining to distributive justice.

The special nature of the Sri Lankan experience in this regard has attracted a wider attention and caused much controversy from around 1977 with the appearance of a series of studies, most of them in international publications, on the country's welfare achievements [Lee (1977a) and (1977b); Isenman (1980) and (1986); Sen (1981a); Sahn (1985); Edirisinghe (1987); Glewwe (1986); Bhalla and Glewwe (1986); Ravallion (1986); Ravallion and Jayasuriya (1987); Pyatt (1986); UNDP (1990)[2]. There were underlying ideological overtones in all these as well as the earlier set of writings on the subject[3]. Yet this extensive discussion has helped a great deal in clarifying issues pertaining to the theoretical and empirical analysis of the matters concerned.

A large number of the studies cited in the foregoing paragraph are related to the then contemporary and the on-going debate surrounding the effectiveness or otherwise of stabilisation and structural adjustment policies (SAPs) advocated by the World Bank and the IMF to achieve growth and equity in developing contries. The Sri Lankan case, no doubt, raised general issues worth looking into in this global policy debate. The country itself deregulated and liberalised after 1977, adopting what may be called a package of SAPs. The question whether these policies have led to worsening of the pattern of distribution of income, wealth and opportunities therefore, has become one of domestic policy relevance.

As it was the case in the related international debate, in Sri Lanka too, the distinction between issues of relative income distrbution and those of absolute poverty has made in the policy dialogue. The

2. At the time when the World Bank was promoting a "basic needs" orientation in development policy the Sri Lankan "achievements" in social justice, basic needs and social indicators received favourable comment in its widely publicised annual Worl Development Report (World Bank, 1980)

3. Those who suspected the applicability of the idea of automatic trickle down have argued in favour of the intervention policy of Sri Lankan governments which attempted to lay a "safety net" under the poor and the underprivileged. Those who believed in such automatic "trickle down" and the efficacy of relatively unbridled market forces, on the other hand, tried to show either that the so called uniqueness of the country's experience with a "mirage" or that the king of intervention used to produce the said results was less efficient than the mechanism of markets to achieve "growth combined with social justice"' One cannot avoid being struck by the variety of conclusions and interpretations, found in the cited literature, based on the same limited date set from a few household surveys.

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argument widely presented has been that one need not be concerned too much about a set of policies producing inegalitarian tendencies, in so far as they promote economic growth with an adequate trickle down so that there is a reduction in the incidence of 'absolute' poverty among the people. In respect of the social impact of the post-1977 policies of liberalisation, the trends in the incidence of poverty in the country have gradually become an important issue in the domestic policy context. Poverty alleviation, in fact became a major domestic policy concern in the late 1980s and subsequently.

The paper focuses on the trends in povety in Sri Lanka following its examination of relative distribution trends. It is noted that poverty, in a rather fundamental sense, is a relative and also a subjective phenomenon and that it may be perceived, defined and analysed by different people on different criteria - material, cultural, spiritual and so on. The focus in this chapter is restricted to its material aspect, defining poverty as a condition of material deprivation. The extensive and the rapidly growing literature on povety in the developing world clearly shows up the wide acceptance of the concept of absolute poverty based on the perception of:

> an irreducible core of absolute deprivation... which translates reports of starvation, malnutrition and visible hardship into a diagnosis of poverty without having to ascertain first the relative picture (Sen, 1981, p. 17)

A great deal of research effort has gone into the quantification of the numbers in poverty in Sri Lanka, defined as those without access to such an "irreducible core" of basic life sustaining requirements. Section IV of the Chapter reviews this literature with the objective of finding what policy lessons one could learn from this literature.

The issues raised in the debate about income distribution and poverty in Sri Lanka since the 1970s continue to be relevant in Sri Lanka's policy scene in the mid-1990s. The policy question to which an adequate answer is still being sought is that of how to achieve equitable growth and growth with poverty alleviation in the country. The

Sri Lankan electorate has given its verdict over and over again in a series of post-Independence general elections that economic growth without equity, social justice and poverty alleviation, as well as equity and social justice without economic growth, is unacceptable. In spite of voluminous research already available and extensive policy debate that has been carried out, the Sri Lankan policy makers are yet to find the policy formula to achieve the society's expressed aspiration.

This study is basically a historical overview of the trends in income distribution, incidence of absolute poverty and various social indicators in the country over the recent past. It is based largely on a literature review. There is no new, not already analysed, national data set providing information about the subjects concerned. Instead of trying to make any alternative analysis of the same limited data sets which have their well known errors and omissions, the author attempts to collate the material presented by different writers so far and to make certain comments of a policy relevance which could be useful in the on-going search for an effective and efficient policy model for the achievement of the illusive goal of equitable growth in the Sri Lankan context.

The paper begins by analysing the trends in relative distribution of incomes (section II). Trends in the size distribution of income as well as distribution in terms of factor shares are examined here. The section also includes a brief discussion of certain structural features of the economy and trends in wage rates to facilitate the understanding of the observed distribution trends. Section III deals with the spatial aspects of distribution, followed by a review of various existing studies of poverty and poverty level measurements in Section IV. Section V then goes into a discussion of the social groups in poverty in the country, again basically on the basis of available studies. Section VI focuses on some factors behind the per sistence of poverty in the country, while section VII deals with the behaviour of various social indicators. The concluding section (VIII) tries to draw, from the foregoing analysis, whatever lessons that might be useful in formulating policies aimed at economic growth combined with equitable relative distribution and poverty alleviation.

II. TRENDS IN INCOME DISTRIBUTION

Size Distribution

Until the results of the Consumer Finances Survey (CFS) of 1978/79 (CB, 1983) were made available, relative income distribution in Sri Lanka was widely considered to have moved towards greater equality over time. The statistical basis for this argument was provided by the earlier CFSs, particularly those of 1963 and 1973. Except for occasional dissenting views of some writers like Lee (1977a and 1977b), the almost unanimous view in this regard was that there was a movement towards relative equality in income distribution in Sri Lanka during this period. The comparison of the data of the CFS of 1973, on the one hand, and the CFSs of 1978/79, 1981/82 and 1986/87[4] on the other, shows that there was a reversal of this earlier trend towards greater equality during some time in the 1970s. The relevant CFS data for 1963, 1973, 1978/79, 1981/82 and 1986/87 are summarised in Table 6.1

The Lorenz curve type analysis of income data from the CFSs shows that there was, in a relative sense, an equalising trend till 1973 and a reversal of this trend some time after that year. Since there was no similar Survey between 1973 and 1978/79 it is not possible to be precise about the time of this trend reversal. Since the structural and institutional changes, and various redistributive policies of the early 1970s continued till 1977, with a major reform effort in the form of

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4. Due to contemporary war conditions, Zone 3 (see Section III below) was not covered in the survey of 1986/87. In order to achieve comparability across the surveys of 1978/79, 1981/82 and 1986/87, the Report of the Survey of 1986/87 presents the data of the other two Surveys without the information pertaining to Zone 3. In what follows, the data in various Tables for these three Survey periods, are those with the exclusion of the information for Zone 3, obtained from Central Bank (1993). There are no such adjustment in respect of the data from the earlier CFSs - 1953, 1963 and 1973. In various Tables below in which CFS data are referred to those for these three years are therefore, not comparable to those for subsequent survey periods.

nationalisation of company estates[5] added to that package in 1975, it is quite probable that this trend reversal occurred around the policy reforms of 1977. The proportion of income received by all but the highest decile of income receivers declined from 1973 to 1978/79 and from 1978/79 to 1981/82/ As between 1981/82 and 1986/87, the income ratio of the eighth and ninth deciles increased with a slight decline in that of the tenth decile. Using the information for income receivers in Table 6.1, for the highest decile, the income ratio had gone up from 30 per cent in 1973 to 42 per cent in 1981/82, declining marginally to 41 per cent in 1986/87. The income share of the lowest 40 per cent of income receivers was, in the five years, 12.0, 15.05, 12.13, 11.56 and 11.38 per cent respectively. In 1973, the income share of the highest decile was slightly less than the income share of the lowest 60 per cent of income receivers. In 1978/79, 1981/82 and 1986/87 the highest decile had a higher income share than the lowest 70 per cent of income receivers.

In addition to data on income distribution in terms of income receivers, Table 6.1 also presents a tabulation pertaining to the distribution of income of spending units. Conceptually, income distribution is better analysed in terms of the units which would be spending the incomes received. This is of particular significance in a society like that of Sri Lanka, where many spending units have more than one income receiver. Moreover at a time like the period 1977/82 in Sri Lanka when there was some speeding up in the processes of creation of job opportunities, income distribution data by income receivers are likely to show a more inegalitarian pattern than those by spending units for two reasons: (a) new workers at the beginning of their working life would have been at initial points in their wage scales[6] and (b) the average number of income receivers per family (or household) is

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5. The redistributive significance of this measure is perhaps shown by the decline in the concentration ratio for the estate sector between 1973 and 1978/79, whereas for the whole country the corresponding ratio increased between those years (see Table 6.12)

6. Also noteworthy is the fact that most new workers obtained jobs at this time at rather low wage rates.

likely to have increased at this time of rapid creation of employment opportunities (an average of 1.64 in 1978 and 1.56 in 1981/82 as against 1.44 in 1973).

The spending units data in Table 6.1 do not lead to any fundamental alteration of the conclusions pertaining to trends in patterns of distribution derived above using the data for income receivers. In terms of the Gini coefficients (Table 6.1B), the spending units data for all five survey years show a lower degree of concentration than income receivers data. This supports the preceding a *priori* reasoning about the distribution patterns likely to be shown in the two data sets. Yet even in terms of spending units data, the income share of the lowest 40 per cent declined from 19.3 per cent in 1973 to 16.6 per cent in 1978/79, 15.3 percent in 1981/82 and 14.1 per cent in 1986/87.

There are numerous social, economic and political factors behind changes in income distribution in a society over time. Changes in policy regimes are but one among a complex of these factors. Yet it is difficult to resist the temptation to argue that changes in policy regimes in Sri Lanka were of great significance in determining the changes in income distribution in the country over the past several decades - an improvement in relative size distribution of income till about 1977 and a tendency towards greater concentration of income since 1977. The strength with which one can present this argument, of course, depends on the quality of the income data from the surveys. In the case of sample surveys of this kind, complete elimination of sampling and non-sampling errors from the data generated is obviously not possible.

With respect to non-sampling errors, all these survey reports warn the reader against possible errors due to under-statement of incomes by high income groups and low income groups alike for different reasons (Central Bank (1974):15-16; (1983):11; (1984):19-20; (1993): 26-29). Other non-sampling errors, due to indifference or lack of co-operation of respondents and their memory lapses, have also

been noted[7]. These reports provide no clue, however, to the extent of under-statement of incomes resulting from these non-sampling errors and how such under-statement of income varied from one income group to another. No doubt, these data have to be used with care.

The CFS data can also be used to examine the behaviour of mean income levels of different income groups. The available data at current and constant prices are set out in Tables 6.2 and 6.3. Since mean income data ate not available for pre-1973 survey years these two Tables cover the period since 1973. At current prices, average incomes have registered significant increases in the case of all income groups but the benefits from this income growth were eroded substantially by price inflation. Because of possible sampling and non-sampling errors in the current price income estimates and the various well known problems affecting the reliability of the Colombo Consumer's Price Index (CCPI), one should not place much confidence on the rates of real income growth shown in the last three columns of Table 6.3. Those rates of growth nevertheless bring out several interesting points.

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7. Eddy Lee (Lee. 1977a) examining the CFS data for 1963 and 1973 had seen contradictory distribution tendencies income data from these surveys, on the one hand, and their consumption expenditure data, on the other. He argued that generally expenditure data from such family budget surveys tend to be more reliable than income data. His argument therefore, was that the expenditure data from the CFSs of 1963 and 1973 must be used to derive the correct implication about trends in distribution during the period between these two years. On the basis of an examination of certain discrepancies and inconsistencies in the data in the detailed tabulations, it has however, been argued that whatever one expects on a priori grounds, consumption expenditure data in these particular surveys, are not necessarily a more reliable indicator of changes in economic welfare than income data (Lakshman (1980):165). It has been argued further that in order to arrive at reasonably firm conclusions about income distribution trends in Sri Lanka during this period other pertinent evidence as is available has also to be carefully examined and interpreted.

Table 6.1

Relative Income Distribution Data 1963, 1973, 1978/79, 1981/82 and 1986/87

A, Percentage of Income Received by Decices of Income Receivers and Spending Untis

Per cent

Decile	Income Receivers					Spending Units				
	1963	1973	78/79	81/82	86/87	1963	1973	78/79	81/82	86/87
Lowest	1.17	1.80	1.19	1.17	1.09	1.50	2.79	2.61	2.19	1.93
Second	2.70	3.17	2.57	2.45	2.45	3.95	4.38	3.65	3.53	3.13
Third	3.56	4.3	3.57	3.41	3.40	4.00	5.60	4.68.	4.31	4.09
Fourth	4.57	5.74	4.80	4.53	4.39	5.60	6.52	5.70	5.22	4.99
Fifth	5.55	7.10	5.19	5.53	5.69	6.27	7.45	6.62	6.32	6.01
Sixth	6.82	8.75	7.37	6.86	6.79	7.54	8.75	7.17	7.03	7.37
Seventh	8.98	10.56	9.10	8.54	8.37	9.00	9.91	9.12	8.66	8.69
Eigth	11.46	12.65	11.96	10.68	11.08	11.22	11.65	11.37	10.74	11.40
Ninth	60.01	60.26	60.36	40.87	50.37	50.54	40.92	40.31	40.61	40.90
Highest	39.24	29.98	38.73	41.93	41.37	36.77	28.03	34.63	37.35	37.40

B. Gini Coefficient of Concentration for Income Receivers and Spending Units, Three Sectors and Whole Country.

Source	Income Receivers					Spending Units				
	1963	1973	78/79	81/82	86/87	1963	1973	78/79	81/82	86/87
Urban	0.49	0.40	0.51	0.54	0.53					
Rural	0.44	0.37	0.49	0.49	0.50					
Estate	0.27	0.37	0.49	0.49	0.50					
Whole Country	0.49	0.41	0.49	0.52	0.52	0.45	0.35	0.43	0.45	0.46

Source : Central Bank, (1964), (1974) and (1993)

Table 6.2
Mean One Month Income per Income Receiver by Deciles and Mean and Median Income for Total Sample Population, 1973, 1978/79, 1981/82 and 1986/87

Decile	Mean One Month Income			
	1973	78/79	81/82	86/87
Lowest	41	72	130	199
Second	72	155	271	446
Third	100	216	379	617
Fourth	130	291	502	797
Fifth	161	359	613	1034
Sixth	199	441	770	1234
Seventh	240	551	946	1520
Eigth	288	688	1184	2013
Ninth	362	930	1648	2794
Highest	682	2347	4648	7517
Mean	311	606	1108	1817
Median	250	402	682	1119

Source : Central Bank (1984), (1993)

As a result of the wide-ranging policy reforms during the intervening period, the five year period between 1973 and 1978/79 had witnessed sharp increases in real incomes of a wide cross section of the society. This is shown in the increases in real incomes of all deciles of income receivers during this period (Table 6.3). The elimination of the rice subsidy in 1978 pushed up rice prices in the domestic market, boosting incomes of rural paddy farmers. There was independent evidence of increases in real incomes of even the other types of self-employed persons and the casual workers in rural areas. Yet systematically stronger was the stimulus provided by policies of de-regulation and liberalisation to raise incomes, the higher on the income ladder were the beneficiary groups. The increment to real incomes was thus the lowest for the first income decile (21 per cent) and the highest for the tenth income decile (137 per cent), the percentage increase for the

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latter group being more than six times that for the former. The strong manner in which the economy responded to forces of liberalisation in the immediate aftermath of the policy reforms of 1977 can be seen also from aggregative data. The average of the annual rates of GDP growth in the two years from 1977 to 1979 was 7 per cent. The post 1977 liberalisation included a 'safety net' in the form of food stamps. Social sectors continued to be subsidised and certain production subsidy programmes were allowed to remain. In spite of these features, the positive influence of liberalised market forces on the income position of the society's wealthy classes was much stronger than on poorer ones.

In contrast to the period of 1973-79, the following three years (i.e. the next inter-CFS period) witnessed lower rates of real income growth for all income deciles, as the initial shock therapy type of impact of de-regulation and liberalisation was followed by the economy getting back on to its more normal growth path. The average rate of GDP growth declined to 5.5 per cent during the three year period of 1979-82. As shown in Table 6.3, during the period between 1978/79 and 1981/82, for all income deciles, real income growth was less than for the preceding period. Still, the inegalitarian tendencies continued with the highest income decile recording the largest income gain. It is also interesting to note that the next highest rate of real income growth, at 9.5 per cent, was recorded for the lowest income decile.

After the policy reforms of 1977, the country moved along a smooth path of economic expansion until about 1983, although it was a path of growing inequality. This period witnessed satisfactory performance of the economy on many counts: inflow of foreign resources on official account, the rate of capital formation, particularly in the state sector infrastructure investments, rate of economic growth, creation of employment opportunities and so on. The stimulus given to economic activity by large foreign funded infrastructure projects in the state sector was in the wane towards the middle of the 1980s. Political problems came to exercise a strongly debilitating influence on the economic performance of both the private and the public sectors. There

was a gradual decline in the economy's growth rate- the average annual growth rate during the five years, 1982-87, coming down to 4 per cent with that of 1987 being as low as 1.5 per cent. This was a period in which the attention of policy makers began to be attracted to issues of poverty and inequality of income distribution, malnutrition among children, growing unemployment and such other social issues. Of all three inter -CFS periods in Table 6.3, income growth was the lowest on the average during this period. Most importantly, the lowest income decile lost a part of its previous income gains registering a negative real income growth. The highest rate of real income growth was in the ninth income decile, with the highest decile remaining virtually stagnant in terms of their real income position.

Table 6.3
Mean Income at Constant Prices[a] by Deciles, Overall Mean and Median Income 1973, 1978/79, 1981/82 and 1986/87 and Rates of Growth for Inter Survey Periods

Income Decile	Mean One Month Income Constant (1970) Prices (Rs.)				Rate of Growth (%)		
	1973	1978/ 79	1981 82	1986 87	1973 78/9	78/79 86/87	81/82 86/87
Lowest	34	41	45	44	21.1	9.5	-3.7
Second	60	89	94	98	48.5	6.0	3.6
Third	83	124	132	135	49.0	6.4	2.5
Fourth	108	167	175	175	54.4	4.6	-0.1
Fifth	134	206	214	227	53.8	3.5	6.2
Sixth	166	253	268	271	52.8	5.9	0.9
Seventh	200	317	330	333	58.3	4.1	1.1
Eighth	240	395	413	441	64.8	4.3	7.0
Ninth	302	534	574	613	77.2	7.4	6.7
Highest	568	1349	1620	1648	137.3	20.1	1.8
Mean	259	348	386	398	34.4	10.9	3.2
Median	208	231	238	245	10.9	2.9	3.3

Note : a Deflated by Colombo Consumers Price Index converted to a 1970 =100 basis.
Source : Central Bank (1984), (1993) and Central Bank, Annual Review of the Economy (various)

As are result of highly unequal income growth, income differentials between. for example, the lowest and the highest deciles had widened substantially since 1973. In current Price terms (Table 6.2), the average income of the highest decile was a little more than 16 times that of the lowest in 1973, In 1978/79 this ratio was 33 times, in 1981/82, 36 times and in 1986/87, 38 times tat of the lowest decile, Income growth achieved during this period was thus heavily concentrated in the hands of high income groups, particularly those of the two highest deciles. Except perhaps in the case of particularly those of the two highest deciles. Except perhaps in the case of the lowest decile from 1981/82 to 1986/87, there was some trickling down of the benefits of growth to low income groups by way of real income gains. Yet given the widening disparities and the widespread availability of numerous consumer goods of luxury and semi-luxury type which low income groups were unable to purchase, it is questionable whether the people at the lower levels on the social ladder were satisfied with the results of the policies of deregulation. As the second half of the 1980s unfolded itself, one could find substantial evidence of widespread social despair, turning into forms of violent expression of protest.

Income Distribution by Source

The Department of Census and Statistics (DCS) in Sri Lanka prepares a national accounting time series indicating the break down of the country's national income into factor shares like wages, property income (interest and rent), profits and dividends from incroporated businesses and income from unicorptated businesses. The basis of calculation of these factor share aggregates is not known and therefore, the limited infomation as is available inthe Labour Force and Socio-economic Surveys (LFSSs) of the DCS on source-wise classification of incomes has been used in the following analysis ins prefernce to the formerset of aggragative time series data[8] (Table 6.4).

Given the elements of ambiguity and non-comparability in the data, Particulary as between those for 1969/70 and late years, one

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8. The DCS which prepares these aggregative time series data is also the agency responsible for the LFSSs. The time series data are, therefore, presumably fed by LFSS data.

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should bot read too much into Table 6.4. Two tendencies these data show can be highlighted with some confidence. Recent CFSs also seem to support the two hypothesized tendencies, though not in terms of identical conceptual cat egories.

(a)   There has been a drop in the share of wages and salaries in total incomes. According to Table 6.4, the drop was from 60 per cent in 1969/70 to 50 per cent in 1981 and 37 per cent 1985 in the all island case. This decline was the most pronounced in the case of the urban sector and the least pronounced in the case of the estate sector, The CFSs referred to indicate a drop in the share of the number of "regular employees" and "casual employees" among income receivers from 62 per cent in 1978/79 and 67 per cent in 1981/82 to 58 per cent in 1986/87 (Table 6.5). There is also evidence to show that, after an initial spurt in informal sector wages (and also to some extent the formal sector wages) after liberalisation in 1977, wage rises in both formal and
•   informal sectors became relatively sluggish [Table 6.7 for formal sector and Sanderatne (1985): Table 15 for informal sector wage trends from 1979 to 1984.]

(b)   The other tendency shown in Table 6.4 is the rise in the share of "profits from business" - from 31 per cent in 1969/70 to 35 per cent in 1985 (all island). While the relevant ratio for the estate sector remained the same, it rose by 18 percentage points in the urban sector and 7 per centage Points in the rural. In terms of the number of income receivers, the CFSs report a tendency of employers and the self employed to increase - from 24.5 in 1978/ 79 to 31'6 per cent in 1986/87 (Table 6.5). The consistent Policy emphasis on the Promotionof self employment and small enter- prises and the Policy environment of facilitating business growth seems to have produced some results during the Period under consideration.

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Table 6.4

Distribution of Income by Type and Gini Ratios for Some Income Types

Income Source	Urban 1969/70	Urban 1981	Urban 1985	Rural 1969/70	Rural 1981	Rural 1985	Estate 1969/70	Estate 1981	Estate 1985	Sri Lanka[a] 1969/70	Sri Lanka[a] 1981	Sri Lanka[a] 1985
A1. Wages & Salaries	63.4	49.8	33.3	53.6	41.5	35.2	92.1	84.9	78.6	59.8	49.8	36.7
A2. (Gini Ratio)											0.25	0.31
B1. Rent, Dividends & Interest	4.0[b]	3.4	2.8	0.6[b]	0.7	0.9	0.2[b]	1.0	0.4	1.5[b]	–	
C1. Other Cash		11.4	9.8		11.4	8.7		4.2	1.9		11.5	8.7
C2. (Gini Ratio)											0.19	0.55
D1. Profits from Business	23.0	23.7	40.7	27.7	29.0	34.5		4.0	4.2	30.6	23.7	35.2
D2. (Gini Ratio)											0.47	0.62
E1. Rental Value of Owner Occupied Houses		8.0	6.7		4.4	4.5		0.2	0.2		8.0	5.1
E2. (Gini Ratio)											0.39	0.42
F1. Other	9.6[d]	3.7	6.7	8.1[d]	13.0	16.2	3.5[d]	5.7	10.5	8.1[d]	7.0	14.3

Notes:

a   The blank in these two columns against the second income item (B1) is due to the absence of relevant data in the source. The source provides the Gini ratios only for the whole country. The source is not comparable with other columns.

b   Though not clearly specified in the source, these appear to be basically net incomes from unincorporated businesses including various self employment activities.

c   Rent only

d   Pensions and others

Source: DCS, 1974 & 1987

Table 6.5
Percentage Distribution of Numbers Employed by Employment Status [a]

Per cent of total employment

Category	1978/9	1981/2	1986/7
Regular employees	36.5	30.4	29.7
Casual Employees	25.6	36.2	28.6
Employer	1.5	2.2	1.6
Own Account Worker or Self Employed	23.0	22.8	30.0
Unpaid Family Worker	13.5	8.5	10.2

Note: The relevant information within this classification is not available in earlier CFSs.

Sources: CB (1983), (1984) and (1993)

These tendencies clearly had their impact on the pattern of size distribution of income over the period discussed in the foregoing section, In terms of the degree of concentration, employment income (Gini ratios of 0.25 and 0.31 for 1980/81 and 1985/86 respectively) appears more equally distributed than enterprise/profit income (Gini ratios of 0.47 and 0.62 for the same years) and the extent of concentration in the latter type of income has increased over time more rapidly than the former. In so far as this enterprise sector includes small businesses of the self-employment type, this heavy concentration of profit income tells us that the relevant sector included a variety of businesses with widely varying degrees of profitability. The strategy of promoting self-employment and small-scale business activity appears to have spawned a local business sector consisting of a few highly profitable firms, interspersed with a large number of firms with low profits eking out a marginal existence [see also Lakshman et al. (1994) and (1995)].

Employment and Wages

This sub-section intends to examine changes in the structure of employment and wage trends since the early 1970s. This examination is expected to help understand two related analytical questions. First, how did changes in employment structure and wage trends over time

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influence the change in income distribution by source as discussed in the preceding subsection? Second, how did real wages and real earnings of different classes of wage workers behave over time? The first question requires the analysis of changes in employment structure and wage trends over time in relation to developments affecting the non-wage-worker groups in the society. The second requires an analysis of trends in wages and other earnings of different segments of wage-workers in relation to contemporary inflation so that some light could be thrown on the subsequent analysis of poverty trends in the society. The examination of both issues is rendered extremely hard by various inadequacies in the available statistical and other data.

Unemployment and under-employment were characteristic features of economic underdevelopment in Sri Lanka throughout the period reviewed in this volume. Yet it would be correct to argue that these have become significant policy issues only from around the end of the 1960s. The period since then, particularly after the youth insurrection of 1971, witnessed a high policy priority placed on employment. Yet the rate of generation of employment opportunities in the early part of the 1970s was slow due to stagnant economic conditions of that period. It is believed that employment opportunities expanded more rapidly than the labour force since the policy reforms of 1977 until about 1983. The rate of unemployment (as a percentage of labour force) declined from 15 per cent in 1978/79 to 12 per cent in 1981/82. Since 1983, however, the rate of growth of employment opportunities appears to have suffered a set back. The estimate of the rate of unemployment presented in the CFS of 1986/87 was 15.5 per cent. The fact that this last Survey did not cover the war torn areas of the North and the East of the country must be noted here. It is reasonable to surmise that if labour market conditions of these two regions were included, the rate of open unemployment in this year would have been higher, For the period around the end of the 1980s, there were references to unemployment rates as high as 18 per cent in policy discussions. Subsequently however, as economic growth picked up momentum in the early 1990s, the rate of unemployment declined to 14 per cent in 1994. (See also Chapter Seven.)

The high rate of unemployment has traditionally been, largely, a phenomenon among the relatively young and the more educated members of the labour force. Those with 8 years and more of formal education formed 63 per cent of the total unemployed in 1985/86 and those in the age group of 15-29 years, 76 per cent [DCS (1987): 50-51]. According to the CFS of 1986/87, 88 per cent of the unemployed in that year had a formal education beyond the primary level and 77 per cent of the unemployed were between 14 and 25 years of age. The Quarterly Labour Force Surveys of the DCS since 1990 show the significant presence of the young and the more educated among the unemployed even in the early 1990s.

It has been noted that, in terms of the generation of employment opportunities, the economy performed better during the post - 1997 period of liberalisation and deregulation than during the preceding period. Employment opportunities which grew most rapidly during the post - 1977 period (see Table 6.5) were of the casual and self-employment types. Perhaps as a result of the relative contraction of the state sector, regular employees among the total employed declined. Although the basic problem in respect of employment has been one of inadequate expansion in the demand for labour resulting from inadequate accumulation and growth, the well known and well publicised Sri Lankan condition of the mismatch of opportunities and aspirations (ILO, 1971) also contributed to these trends to some extent.

CFS data pertaining to the activity - wise structure of employment for the four CFS years are presented in Table 6.6. A comparison between 1973 and 1978/79 indicates certain significant structural changes in the employment scene, the major trends being the decline in agricultural, and the increase in manufacturing employment. The intriguing point, however, is that these trends did not continue after 1978/79 at the same rate, The contribution of agriculture to total production declined substantially but its contribution to employment remained high at around 50 per cent, indicating generally low productivity conditions and earnings in the sector. The other significant characteristic in the pattern of change in sectoral composition of total em-

ployment as between 1973 and subsequent years (Table 6.6) is the substantial decline in the share of other services - the category including the different types of government service. In respect of the sectoral composition of total employment. there has been a gradual increase in the significance of sectors in which the dominant forms of employment are casual and irregular - agriculture and fishing, animal husbandry, construction, and to some extent, retail trade, This includes many self-employment opportunities created, As shown later, wages too, informal as well as in formal sectors, do not appear to have registered significant increases. Under these circumstances, it is not difficult to understand the reported decline in the labour share of total national income. (Table 6.4)

The second analytical issue raised at the beginning of this subsection - how did real wages and real earnings of different classes of wage workers behave over time- is not easy to examine in the existing conditions of data availability. Impressionistic evidence, combined with sparsely available statistical data, however, indicates that the bulk of the labour force continued to be engaged in low-wage low-labour-income sectors of the economy and in such occupations. Though investment expanded, it did not happen to such an extent as to bring the economy anywhere near full employment. When open unemployment remains at 15 per cent, with very high levels of under-employment, the prevalence of low wage conditions in the economy is to be expected. As a deliberate policy, the government worked towards weakening the country's trade union movement, thus ensuring the required institutional conditons for maintenance of a low wage system.

Table 6.6
Sectoral Classification of the Employed, 1973, 78/79, 81/82 and 86/87

Per cent

ISIC Category	1973	1978/9	1981/2	1986/7
Agriculture, Forestry and Fishing	54.5	51.48	49.26	49.33
Mining and Quarrying	0.3	1.19	1.70	1.30
Manufacturing	9.3	13.61	12.59	12.63
Construction	1.8	4.70	5.60	4.42
Electricity, Water and Gas	0.3	0.51	0.34	0.41
Wholesale and Retail Trade	7.0	9.68	10.65	10.02
Transport, Storage and Communications	4.3	4.56	4.41	4.29
Banks, Insurance and Real Estate	0.3	0.52	1.58	1.27
Other Services	21.9	13.03	13.50	12.30
Unclassified	0.3	0.72	0.35	4.03

Source: CB (1994), (1984) and (1993)

A discussion of wages and labour earnings must necessarily take into account the dichotomy between the formal and informal sectors in the economy on the one hand, and the existence of a difference between wages/ salaries and "earinings", at least in the case of large sections of certain formal sector employees, on the other.

The limited information as is available on the behaviour of real wages in the formal or organised sector (Table 6.7) supports some of the arguments presented above concerning wage trends. The formal sector real wage indices available in Sri Lankan statistical compilations, however, have to be interpreted with extreme care [9]. Even for wage workers covered, these indices do not accurately reflect trends in real 'earnings', as the proportion of those with subsidiary incomes among wage workers is not negligible. These non-wage incomes of the em-

9.   These indices are based either on minimum wages set by wages boards in the corporate sector or on initial commencing wages in government service. The wages and own account earnings of the bulk of the working population in Sri Lanka, engaged in non-plantation agriculture and other informal activities, are not covered in these indices. Even for corporate and government sectors, the indices based on minimum and initial wages exclude income supplements like annual increments, overtime payments, bonus earnings and other incentive payments, although the statutory and living allowances are included (Rodrigo, 1980). On top of all this, there are questions arising from the reliability of the CCPI deflator as an indicator of inflation.

ployees in private and pubic sectors would come from holdings of land and other property, tuition earnings of teachers outside normal school hours, earnings from hiring their skills on a private basis and so on.

Wage rate (real) indices in Table 6.7, used carefully, taking account of the above reservations, point towards certain significant conclusions, which should be valid at least for the wage workers without secondary sources of income. Wages Boards sectors in this Table, covering plantation agriculture, industry and commerce, and services, normally consist of large scale enterprises. It is relevant to note in the present discussion that since about 1975[10], quite a large proportion of such large enterprises has come to be in the public enterprises sector.

From 1970 to 1979, there was a consistent rise in real wages in Wages Boards sectors. Since 1979, those in industry and commerce, and in services, declined. Organised trade unions were active in the bulk of theses sectors. They were quite powerful in wage bargaining prior to 1977, but subsequently, their bargaining strength in these sectors has declined. This was partly the result of the deliberate anti-trade union policy of the post 1977 period that has already been referred to. Partly, this resulted from market-orientation of general economic policy, in which prevailing demand and supply conditions in the labour market were allowed to play a greater role in wage determination.

The Plantations in the Wages Boards sector, however,enjoyed rather exceptional conditons as the political wing of the most powerful trade union of estate workers has been a constituent part of the government since 1977 with its leader having occupied a place in the cabinet of ministers[11]. Real wages of estate workers thus consistently increased into the mid 1990s. The performance of government teachers,out of the groups in the state sector noted in Table 6.7, has been the weakest in terms of real wage growth. Unlike in all other groups of formal sector employees, their wage sin 1994 were significantly less than what they were in 1970.

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10. This is the year in which large Plantation companies were nationalised. There was also a large number of industries and commercial enterprises in the public sector during the period under consideration.

11. This has been the case even after the change of government in 1994.

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Table 6.7
Real Wage Rate Indices

December 1978=100

| Year | Workers under Wages Boards | | | Central Government | | |
	Plantation Agriculture	Industry & Commerce	Services	Non-Executive Officers	Minor Employees	School Teachers
1970	51	75	-	108	103	120
1971	50	78	-	105	99	117
1972	49	75	-	99	94	110
1973	51	76	-	95	91	102
1974	57	80	-	95	92	101
1975	61	87	-	98	96	102
1976	61	88	-	103	101	106
1977	76	94	-	103	102	107
1978	99	103	-	105	105	105
1979	116	105	108	111	113	107
1980	116	105	99	97	99	91
1981	98	96	93	93	96	85
1982	104	93	98	104	112	96
1983	100	83	90	103	114	95
1984	108	79	83	100	113	105
1985	117	87	81	113	129	105
1986	114	89	75	109	125	98
1987	110	94	72	102	116	91
1988	122	87	74	117	133	107
1989	126	97	71	114	128	106
1990	123	90	64	104	122	96
1991	122	97	71	103	123	94
1992	126	97	70	96	116	88
1993	137	90	62	106	124	96
1994	129	87	68	109	121	93

Source: Central Bank

The price index underlying the real wage indices of Table 6.7 is known for its understatement of inflation. This further complicates the conclusion one may derive from Table 6.7. It is quite possible for real wages to have declined even in sectors in which an increase is shown in Table 6.7. In any case, the actual improvement in real wages within those sectors was less than is indicated in the Table. Another complication here is that wages in the formal sector are not always the same as earnings of labour. In order to compensate for the decline or stagnancy in real wages, the organized sector workers - perhaps excluding unskilled workers in estates and other institution - have been found resorting to secondary earning activities. The liberalised economic framework was seen to be providing greater opportunities for such moon lighting than under conditions of a control regime. The decline in real wages, even where it was genuinely so, would not have necessarily implied a decline in real earnings as well of the employee groups concerned.

The conditions pertaining to wages in the informal sector during this period presented certain special features for consideration. As a result of relative stagnancy in the economy, in the years preceding the policy reforms of 1977, wages in the informal sector, in comparison to the formal sector, were at low levels. Immediately following the policy reforms of 1977, there was a significant rise in informal or unorganised sector nominal wages. Nominal wages in these sectors responded more easily and quickly to post-1977 price increases than those in organised sectors (Sanderatne 1985). This more rapid increase in nominal wages in the informal sector was helped, among other things, by (i) heightened economic activity within sectors like construction, trade, transport, tourism and so on following the policy reforms of 1977, and (ii) increased outflows of skilled workers to the Middle East since around the time of the second oil shocks, thereby tightening the supply conditions pertaining to certain types of skilled workers like masons, carpenters and so on within the domestic economy. Apart from impressionistic evidence, there is some statistical information in the CFSs which can be interpreted as supporting this idea of a significant initial increase in informal sector nominal

Distribution by Agro-Climatic Zones

The question of distribution by agro-climatic or administrative regions of the country is extremely difficult to analyse quantitatively due to lack of data. The country's administration was a highly centralised one within a unitary system of government until the establishment of Provincial Councils in 1988[13]. The country's national accounting system does not, as yet, have any regional accounting component. Any analysis of inter-regional distribution at the level of agro-climatic or administrative regions also has to, therefore, depend on the limited number of family budget surveys that are available-for example, the data presented in the CFSs for five agroclimatic zones into which the country was divided for purposes of survey sampling and data collection. The following are these five zones and their geographical compositions :

Zone 1 :   Districts of Colombo (excluding the Colombo Municipality) Gampaha, Kalutara, Galle and Matara.

Zone 2 :   Districts of Hambantota, Monaragala, Ampara, Polonnaruwa, Anuradhapura and Puttalam.

Zone 3 :   Districts of Jaffna, Mannar, Vavuniya, Mullativu, Trincomalee and Batticaloa.

Zone 4 :   Districts of Kandy, Matale, Nuwara-Eliya, Badulla, Ratnapura, Kegalle and Kurunegala.

Zone 5 :   Colombo Municipality.

Some of the important data sets from the CFSs prior to that of 1986/7 are presented separately for these five zones. As has been noted above, the CFSs of 1986/87 was not conducted in zone 3 due to the on-going war in the North and the East of the country.

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13.   Although the system of Provincial Councils was introduced for devolution of power, it is doubtful whether there was de facto devolution of power and decentralisation of administration, to any significant extent, even after the incorporation of the Provincial Councils system into the Constitution.

wages[12]. To what extent this relative rise in informal sector nominal wages continued into the subsequent period, say the period after the early 1980s, is difficult to know. The impressionistic evidence again suggests that, after the initial spurt, the increase in these wages (nominal) has become more moderate. In the period immediately following the liberalisation of 1977, informal sector real wages would have been higher than in the pre-1977 era. It is, however, doubtful whether real wages in this sector in the early 1990s were higher than in the early 1980s.

III SPATIAL DISTRIBUTION

As any other developing country, Sri Lanka too has had its centres and growth poles as well as its peripheries and underdeveloped regions. Though perhaps not to the same extent as the urban agglomerations of certain other developing countries, Sri Lanka's economic activities too have had the tendency to centre on the Colombo city. Sri Lanka was more successful than most other developing countries in keeping the pace of rural to-urban migration of population at bay through various village targeted programmes and heavy government expenditures on social services like health and education on an island-wide basis. Yet Sri Lanka too has had its urban bias in development policy with consequent concentration of incomes, opportunities and power in urban areas, particularly in and around Colombo.

Of different aspects of the issue of spatial distribution, two dimensions are discussed below: distribution by agro-climatic or administrative regions in the country and distribution according to the common urban - rural dichotomy (or, the traditional Sri Lankan trichotomy of rural, urban and estate sectors). In the case of each of these two dimensions there is the additional question of intra-regional distribution.

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12.   As between 1978/79 and 1981/82, the mean (nominal) income of regular employees increased by 81 per cent whereas that of casual employees - most of them perhaps in various parts of the informal sector - increased by 103 per cent.

Distribution by Agro-Climatic Zones

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13.   Although the system of Provincial Councils was introduced for devolution of power, it is doubtful whether there was de facto devolution of power and decentralisation of administration, to any significant extent, even after the incorporation of the Provincial Councils system into the Constitution.

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Yet rather limited are the data presented in CFS reports at Zone level which can be used to examine regional economic inequalities. One such data set pertains to mean and median monthly income per income receiver at Zone level. An analysis based on the median incomes and mean/median ratios is presented in Table 6.8. Given the inter-regional price differentials, much cannot be read into zonal differences in median income as shown in Table 6.8. Assuming there was no significant difference from one zone to another in price trends over time, these data however, present some interesting features in respect of changes in regional income distribution over the three inter-Survey periods shown in the Table.

Economic growth that took place during this period appears to have been strongly biased toward the Colombo metropolis. In terms of average incomes, districts in Zone 3 falling into the Northern and the Eastern Provinces appear to have enjoyed conditions comparable to those of the Colombo municipality (Zone 5) in the early 1970s. The evidence in Table 6.8 suggests that these districts experienced a substantial decline in average incomes relative to Colombo by the end of that decade and the early 1980s. Though hard data are not available, the war conditions which have prevailed in these districts since around the mid-1980s can be assumed to have led to further relative impoverishment of the community in these districts.

A similar relative decline in incomes is observed for the dry zone districts belonging to Southern, Eastern and North Central Provinces in Zone 2. No doubt, the median income data in the Table, even if they were reliable, are clearly not adequate to establish the regional biases in economic growth which operated during the period under consideration. Yet they appear to corroborate the impressionistic evidence that the pattern of development over the years has been rather skewed from a spatial point of view. In particular, it has been very highly urban-biased. A comparison of numbers in the rows B and D in Table 6.8 for the four survey years provides an additional insight into the zonal bias in the growth of incomes.

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Table 6.8
Mean and Median One Month Income in Different Zones:
In Current Rupees and in Index Form (Colombo Municipality = 100)
and Proportion of Mean to Median Income

Per cent

	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5
1973					
A. Mean Income (One Month Rs.)	262	262	273	178	275
B. Zone 5 = 100	95	95	99	65	100
C. Median Income (One month Rs.)	202	223	236	137	224
D. Zone 5 = 100	90	100	105	61	100
E. Mean / Median	1.3	1.18	1.16	1.29	1.23
1978/79					
A. Mean Income (One Month Rs.)	627	654	742	445	972
B. Zone 5 = 100	65	67	76	46	100
C. Median Income (One month Rs.)	451	401	51	301	501
D. Zone 5 = 100	90	80	90	60	100
E. Mean / Median	1.39	1.63	1.65	1.48	1.94
1981/82					
A. Mean Income (One Month Rs.)	1126	1183	1133	983	1979
B. Zone 5 = 100	57	60	57	50	100
C. Median Income (One month Rs.)	721	641	752	334	966
D. Zone 5 = 100	75	66	78	55	100
E. Mean / Median	1.56	1.85	1.51	1.84	2.05
1986/87					
A. Mean Income (One Month Rs.)	2001	1989	-	1400	3846
B. Zone 5 = 100	52	52	-	36	100
C. Median Income (One month Rs.)	1334	1163	-	903	1665
D. Zone 5 = 100	80	70	-	54	100
E. Mean / Median	1.5	1.71		1.35	2.31

Source : CB (1974), (1983), (1994) and (1993)

Compared to Zone 5, the average income of other zones in 1986/87, was proportionately lower than in the three preceding survey years. Although a few exceptions are found, the average income position of each of the other zones has consistently declined, in proportion to Zone 5, over the years from 1973 to 1986/87. Combined with the impressionistic evidence, the above data analysis can be used to argue that, over the period under consideration, there was a persistent urban bias in the pattern of development.

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The data for zone 3 from the Consumer Finances Surveys of 1981/82 and the earlier Surveys, appear to throw some light on at least part of the reasons for what may be described as the major socio-political crisis affecting Sri Lanka since the mid -1980s - the ethnicity or the nationality crisis. The protest of the Tamil community against various policies of the government gradually developed from a peaceful one to a separatist civil war in Northern and Eastern Provinces of the country since around 1983. This war, whose human, financial and other costs have been enormous, has numerous sources, among which ethnicity related divisive factors are probably dominant. Among its causal factors, economics and economic policy clearly appear to have a place.

The Northern and Eastern Provinces were among the relatively neglected regions in the framework of post 1977 package of policies. Most parts in these Provinces were left out in planning the major development programmes of this period. The general non selective liberalisation of imports, in addition, demolished the basis on which a large share of economic activity in the Northern Province rested - e.g. commercial farming of certain food items for purposes of import substitution. There was no alternative package of policies to compensate for the adverse impact of import liberalisation on economic life of the region. This created widespread discontent - the breeding ground for any protest movement. Despite the absence of firm data about conditions in these two Provinces after the mid 1980s, it is safe to conclude that these areas today are large repositories of poverty and misery in the country. A large proportion of the population there have been converted into refugees and rendered destitute. They are in need of a massive programme of rehabilitation. The crisis in the Northern and the Eastern Provinces can be described as a special and extreme case of the general regional inequality issue discussed above.

A comparison is made in Table 6.9 of total zonal income and total zonal population for each zone as proportions of relevant sample totals for the whole country for 1986/87. In the earlier CFSs, the comparable data are not available. The information in Table 6.9 can be used to draw interesting inferences about the extent of regional inequality in that year. The data indicate a strong bias in favour of the Colombo municipality in the distribution of incomes.

Table 6.10 provides some data on intra-zonal distribution of incomes, along with the relevant Gini coefficients pertaining to the five (four in the case of 1986/87) survey zones. The indication is that, intra-regional (or intra-zonal) inequality in income distribution had become perceptibly worse during the period from 1973 to 1978/79 in the case of all regions concerned. Except in the case of the hill country districts of zone 4, no significant further worsening of inequality is shown during the subsequent period of 1978/79- 1981/82. There was a mild decline in the degree of income concentration in zones 2 and 3 during this period.

Table 6.9 :
Zonal Distribution of Income Receivers and Total Income

ISIC Category	Per cent of Total Income Receivers	Per Cent of Total Six Month Income
Zone 1	35.7	40.4
Zone 2	16.8	16.6
Zone 4	43.3	33.6
Zone 5	4.2	9.4

Note : No data for zone 3 wherein the Survey was not conducted, See text.   Source : CB (1993)

As between 1981/82 and 1986/87, there was an increase in the degree of income inequality in three zones, and a decline, in the largely hill country districts of zone 4. The worsening of income inequality during this period was the most pronounced among the population in the Colombo municipality. The mean/ median ratios in Table 6.8 too lead to similar inferences - a higher mean/median ratio indicating a more unequal (skewed) distribution.

Rural-Urban-Estate Distribution

More information is available in CFS reports and elsewhere about regional conditions within the rural-urban-estate classification than within the zonal classification discussed above. The urban bias of development policy has been noted. In the absence of comparable pre-sentations of data in the earlier CFSs, Table 6.11 indicates how total sample population and total income in the CFSs of 1981/82 and 1986/ 87 were distributed among rural, urban and estate sectors. The heavy

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urban concentration of incomes as well as the increase in the degree of that concentration over the 1980s are clearly shown by Table 6.11. Similar trends perhaps prevailed from the 1970s or even earlier.

Table 6.10

Pattern of Income Distribution within the Five Survey Zones and Gini Coefficients for Each Zone, 1973, 1978/79, 1981/82 and 1986/87

Ranked Income Receivers	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5
1973					
Lowest 20%	4.47	5.96	7.03	5.67	5.03
Second 20%	9.84	12.35	12.59	10.13	11.09
Third 20%	15.45	17.31	17.68	15.52	16.15
Fourth 20%	22.72	22.95	22.29	23.49	23.69
Highest 20%	47.52	41.43	40.41	45.19	44.04
Gini Coefficient	0.43	0.35	0.33	0.39	0.39
1978/79					
Lowest 20%	3.95	2.92	4.07	4.17	3.19
Second 20%	9.20	7.75	8.21	8.76	6.49
Third 20%	14.62	12.51	13.01	13.67	10.34
Fourth 20%	21.25	18.63	18.78	21.02	16.84
Highest 20%	50.99	58.18	55.74	52.38	63.14
Gini Coefficient	0.46	0.54	0.51	0.48	0.59
1981/82					
Lowest 20%	3.95	3.65	4.50	3.69	3.31
Second 20%	9.10	8.54	9.26	7.45	6.48
Third 20%	13.96	12.81	13.29	11.59	9.75
Fourth 20%	21.07	19.23	19.02	18.30	16.34
Highest 20%	51.92	55.77	53.93	58.97	64.12
Gini Coefficient	0.47	0.51	0.48	0.54	0.59
1986/87					
Lowest 20%	3.74	3.13	-	4.06	2.43
Second 20%	8.63	7.39	-	8.88	5.55
Third 20%	13.40	11.82	-	13.26	8.79
Fourth 20%	20.82	18.22	-	19.96	14.69
Highest 20%	53.39	59.42	-	19.96	14.59
Gini Coefficient	0.49	0.55	-	0.49	0.63

Source : CB (1984), and (1993)

Table 6.11
Sectoral Distribution of Population and Income, 1981/82 and 1986/87

Sector	% of Sample Population		% of Total Income	
	1981/82	1986/87	1981/82	1986/87
Rural	74.5	74.0	67.2	63.4
Urban	18.3	18.1	28.2	31.5
Estate	7.2	8.0	4.6	5.1

Source: CB (1994), and (1993)

Data pertaining to intra-sectoral distribution of income (by income receivers) in the four CFS years of 1973, 1978/79, 1981/82 and 1986/87 are presented in Table 6.12, along with one month mean and median income in each sector and sectoral Gini ratios. Income distribution had worsened in rural and urban sectors over the period from 1973 to 1978/79, with that of the estate sector improving. While there was no further increase in the extent of income concentration between 1978/79 and 1981/82 in rural and estate sectors, the urban sector income distribution had continued its process of concentration. The gap between urban and rural median income at constant prices increased from Rs. 58 in 1973 to Rs. 75 in 1978/79, to Rs. 82 in 1981/82 and to Rs. 156 in 1986/87. The widening of the income gap between urban and estate sectors was more pronounced in constant rupee terms (Rs. 167 in 1973, Rs. 197 in 1978/79, Rs. 250 in 1981/82 and Rs. 269 in 1986/87)[14.]

The above evidence to the effect that policies of liberalisation and deregulation have strengthened the urban bias in the country's development pattern is buttressed by abundant qualitative evidence. The rural sector has been found to be a large repository of economic disadvantage and social and political discontent. The centripetal forces of urban (more particularly Colombo) centred and Western Province centred growth drained resources away from rural areas and many backward regions, increasing poverty for those left

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14.   The Colombo Consumers Price Index (converted ti a 1973 base) has been used to make the constant price calculations have as well.

behind[15]. Due to the lack or the inadequacy of development of transport, communication and social sector facilities, the rural hinterland and remote regions were left relatively unaffected by the processes of growth, except perhaps in the case of parts of distant regions which benefited from large development projects like the Mahaweli scheme, Even such large development projects produced mixed results in the affected rural areas. The area submerged in the Victoria reservoir of the above Mahaweli scheme provides an interesting case in point. Large numbers of people, the majority of whom belonged to the category of rural poor, were uprooted from their familiar habitat causing them enormous difficulties. Although they were given access to alternative land (e.g. land in System C of the Mahaweli scheme), their living conditions in newly developed land took some time to reach, and stabilise around, what they had to leave behind. Without diversified and rapid growth, capable of absorbing the excess labour force from these Mahaweli settlement areas, problems of the second and subsequent generations seem to be making even the long run not so favourable to these people.

IV. POVERTY TRENDS IN SRI LANKA: THE AVAILABLE EVIDENCE

Widespread has been the recent research interest in the behaviour of the incidence of poverty in Sri Lanka. This section of the chapter reviews the relevant literature with a view to obtaining relevant policy lessons. There are a number of important conceptual and measurement issues which need to be disposed of before the review of existing analysis of Sri Lanka data is undertaken.

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15. The following data obtained from the Sri Lanka National Report to the World Summit on Social Development are revealing in regard to the regional dimension of poverty in the country. Also noteworthy is the fact that data on the Northern and Eastern Provinces are not available here-the two Provinces which are likely to contain a heavy concentration of poverty under existing war conditions:

Per Cent of Households in Povety : 1990/91

Sector	%	Province	%
All Island	30.4	Western	20.1
Urban Sector	18.2	Central	33.5
Rural Sector	34.7	Southern	32.6
Eatate Sector	20.5	North Western	33.6
		North Central	39.0
		Uva	38.8
		Sabaragamuva	36.4

Some Conceptual and Measurement Issues

In the relevant general literature, two basic types of absolute poverty measurements and various derivations using these and other measures like the Gini concentration ratio are discussed (Sen, 1981;Kakwani, 1980):

Table 6.12

Income Distribution within Rural, Urban and Estate Sectors, 1973, 1978/979, 1981/82, and 1986/87

First Five Rows Percentage of Income Received
Next Rows as Defined

Decile	Rural Sector				Urban Sector				Estate Sector			
	1973	78/79	81/82	86/87	1973	78/79	81/82	86/87	1973	78/79	81/82	86/87
Lowest 20%	5.35	3.49	3.71	3.52	5.39	3.34	3.57	3.41	7.51	7.73	8.24	7.53
Second 20%	11.60	8.60	8.78	8.41	10.74	8.49	7.66	7.60	11.73	13.21	12.63	13.91
Third 20%	16.95	14.11	13.50	13.55	16.13	13.24	11.67	11.87	14.90	16.76	16.51	17.07
Fourth 20%	23.39	20.82	19.90	20.41	22.42	19.26	18.15	18.97	20.65	22.22	21.65	21.86
Highest 20%	42.71	52.98	54.11	54.09	45.31	55.67	58.99	58.13	45.21	40.08	40.97	39.60
Mean Income	233	617	1077	1674	316	828	1625	2914	118	301	449	804
Rupees/Month												
Median Income	197	429	781	1119	255	539	977	1713	88	252	376	685
Rupees/Month												
Mean/Median	1.18	1.44	1.38	1.50	1.24	1.54	1.66	1.70	1.35	1.19	1.19	1.17
Gini Ratio	0.37	0.49	0.49	0.50	0.40	0.51	0.54	0.53	0.37	0.32	0.32	0.31

Source : CB (1984) and (1993)

(a)   The head-count measure given by the proportion of the total population that is identified as poor; and

(b)   The poverty gap measure (or income gap measure) given by the aggregate shortfall of income of all the poor from the specified poverty line.

While the former is intended to show the extent of prevalence (or incidence) of poverty, the latter is intended to show the intensity (or depth) of existing poverty. Much research effort has gone into poverty measurement work in Sri Lanka. Yet almost all the work done so far on this subject has been restricted to deriving the so called head count ratios, except for some isolated attempts to measure other aspects of poverty. In the following review, therefore, only the available head count measures are discussed.

The calculation of a head count ratio of poverty in a given society at a particular point of time and the estimation of how this has changed over a period of time requires working through four steps, which would involve answers to the following questions:

(a)   What entitlement/deprivation measure has to be used-income, consumer expenditure, food expenditure or a non-monetary commodity/service basket?

(b)   Below what specific level (poverty line or threshold) of the adopted entitlement measure should someone be treated as being poor?

(c)   Should the head count ratio be worked out as a population percentage or a household/family percentage?

(d)   How could compatibility be guaranteed in the ratios so computed across sections of the society at a point in time and also at different points in time, particularly when one works on the basis of one poverty line norm for the whole society?

As shown in the Sri Lanka studies surveyed later, any one of three broad types of alternatives can be adopted as the entitlement measure: (i) the value of a bundle of food commodities; (ii) the value

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of a bundle of basic requirements (presumably covering both goods and services) and (iii) a certain amount of (monthly) expenditure on food or no basic requirements with no reference to any commodity basket.

Measurements of poverty, whether derived from a minimum nutritional requirements approach (or the so called biological approach) or a minimum basic requirements approach, have certain elements of arbitrariness. The value estimates of commodity baskets under (i) and (ii) above are subject to this weakness. The poverty line so estimated is a monetary, and not a commodity, measure[16]. This then involves an "indirect" rather than a "direct" approach to poverty measurement. A direct commodity approach[17] would have eliminated any need for price indices to achieve intersectoral and inter-temporal comparability in respect of the adopted poverty measure (questions in group (d) above).

It is the indirect approach that all studies referred to later for Sri Lanka have adopted. In the indirect approach, difficult questions have to be addressed about the validity and reliability of the price indices used to estimate the poverty line for different segments of the society and for people employed in different sectors of the economy, at a point of time, and the behaviour of the poverty line for any given group, over a period of time.

Poverty Levels and Trends in Sri Lanka

The extensive academic and policy interest of the recent past to measure and analyse, and to find policy correctives in respect of, the

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16. When a monetary measure is used, whether or not it was derived on the basis of a commodity basket, what is looked at is the presence or absence of capability, in money terms, to be out of poverty. Those above or below a monetary poverty line, whether defined in terms of income or expenditure, would not necessarily be above or below minimum living conditions/minimum nutritional conditions.

17. Undoubtedly there are daunting problems to be encountered in a direct approach in poverty measurement. The commodity basket indicating either minimum nutritional requirements or basic needs would not be uniform across the entire country. Furthermore the direct approach would not allow estimating the gap between the poverty line and the level of entitlement of those staying below the poverty threshold.

problem of absolute poverty in Sri Lanka has already been noted. Most of the relevant studies on Sri Lanka (except Marga (1981) and Visaria (1979) in Table 6.13) were concerned with time trends in poverty and not merely with poverty conditions at given points of time; as such, these studies came up against more difficult conceptual and statistical problems than would have been the case had they been concerned merely with conditions pertaining to the spread of poverty at particular points of time. Table 6.13 makes a brief selective survey of the results of different studies which have attempted so far to measure poverty in Sri Lanka. It presents a somewhat confusing picture of available poverty measurements. Each measure presented is subject to its own assumptions and calculation procedures.

Table 6.13
Estimates of the Extent of Poverty in Sri Lanka in Various Household Survey Years: 1969/70 to 1986/87

Year, Basic Source and Relevant Study [a]	Urban	Rural	Estate	All Island
A. 1969/70: Based on LFSS (DCS, 1970)				
A1. Bhalla and Gleww (1985)[b]	5.0	12.8	11.1	11.2
A2. Alailima (1978)				
as cited in Alailima (1986)[c]				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: Besed 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

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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 : Besed on CFS (CB, 1983)

C1. Gunaratne (1985a)[/]

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)[/]

	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 1[e]	14.3	12.8	3.6	12.3

D. 1980/81: Based on LFSS (Korale (ed), 1987)

D1. Bhalla and Gleww (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	
2 A		8.7	3.7	3.8
2 B		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) : Por. %				
Measure 1[e]	19.6	23.2	13.8	21.9
Measure 1[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
F2. Khan (1989) as cited in Hopkins				
& Jogaratnam (1990)[d]				
Population %				28.6
Household %				25.1
F3. World Bank (1995a)[f]				
Headcount Index 1	16.43	31.67	14.31	27.33
Headcount Index 2	26.78	45.48	30.85	40.60

G. 1986/87: Based on CFS

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	27.6
Measure 1	10.5	28.7	11.1	24.1
G3.World Bank (1995a)[f]				
Headcount Index 1	16.43	31.67	14.31	27.33
Headcount Index 2	45.48	26.78	30.85	40.60

H. 1990/91: Based on HIES (DCS)

H1..World Bank (1995a)[i]				
Headcount Index 1	18.31	24.41	12.62	22.36
Headcount Index 2	28.43	38.05	27.51	35.34

Note :

a.   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 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, 1978/79, 1981/82 and 1986/87. The LFSS, started in 1969/70, was repeated in 1980/81 and 1985/86 and in 1990/91 in the name of Household Income and Expenditures Survey (HIES).

b. 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 price-adjusted to arrive at per capita food expenditure poverty lines of Rs. 21 for 1969/70 and Rs. 106 for 1980/81.

c. 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 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 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 characterised by "serious dietary inadequacy" (1981:40). 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 those not achieving 80 per cent of the norm. Measure 2 A refers to what Sahn calls the "ultra-poor" who spend more than 80 per cent of expenditure on food, yet obtaining less that 80 per cent of the required nutrition. Measure 2B refers to the group spending less that 80 per cent on food and also obtaining less than 80 per cent of the minimum required nutrition. Such groups are described as "nutritionally at risk".

Edirisinghe (1990) adopted the following calorie requirement norms : recommended daily allowance of (i) 2750 for an Adult Equivalent Unit and (ii) 2200 per capita.

d. A poverty line of Rs. 50.80 per capita (for 1978/79), arrived at on the basis of a minimum cost bundle method. The poverty line adopted for 1981/82 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 1978/79). 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 for purposes of analysing the sensitivity of the ratios to choice of poverty line or to put it in a different way, to see what happens to poverty percentage when poverty is redefined according to 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 in 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 Jogaratnam (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 line figures (in terms of average household income) are behind the percentages given: or 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. Index 1 is based on a poverty line (consumption expenditure) of Rs. 471.20 per person per month and Index 2, a poverty line of Rs. 565.44 per person per month, both at 1990-91 prices. There are also two other poverty measures calculated in this study-a poverty gap index and a squared poverty gap index. These measures have not been reported in this Table.

Sources : As Indicated

The Sri Lanka poverty statistics, as summarised in Table 6.13, do indeed produce contradictory conclusions in regard to the incidence of poverty in the country as well its trends over time. This is merely a reflection of the variety of ways in which the four essential steps in the calculation of a poverty (head count) ratio, noted in the foregoing sub-section, have in fact been handled in different studies cited in the Table. The extensive footnotes in the Table themselves are indicative of the differences in the approaches and methodologies adopted in the studies concerned.

Also interesting to note is the absence in Table 6.13 of any study (except Marga (1981) which used reported incomes data in making poverty estimates. For reasons like (i) the seasonality of incomes in predominantly agrarian societies, (ii) the unreliability of stated current income as a guide to "permanent" income and (iii) the very high likelihood of under-statement of incomes in household surveys, there has been a rather general tendency to adopt consumer expenditure or food expenditure as better welfare indicators than income. The first two

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points apply to survey data on household expenditures as well. Over-statement biases are found in expenditure declarations in household surveys (particularly among the poor households) as much as under-statement biases in respect of income declarations (Lakshman, 1977, Ravallion and Jayasuriya, 1987). Genuine memory lapses, on the part of respondents to survey inquiries, can affect declarations of expenditures as much as those of incomes, as the former are usually made over a larger number of occasions in a given period than incomes are received. Thus some of the complex and time consuming calculations in Table 6.13, made on the basis of the allegedly superior expenditure data may perhaps not produce necessarily better and more accurate poverty information than a set of simple income based calculations. Given the wide variation of the ratios reported in this Table, differences of a few percentage points are not likely to be of very great significance.

Most of the divergences found in poverty (head count) ratios in Table 6.13 are due to different levels at which the poverty line or threshold has been fixed. As noted, different studies have adopted different entitlement indicators. Some have defined the poverty line in terms of entitlement per household and others in terms of entitlement per capita. As a result, the poverty line figures adopted for any given year in different studies cannot be brought to a comparable basis without making assumptions about things like the number of persons per household, food expenditure proportion in total average family expenditure and so on. At one end Visaria (1979), Sahn (1985: Measure 1), DCS (1983), DCS (1987) and World Bank (1995 a: Index 2) have fixed their poverty level entitlement so high that, for the years concerned, they come out with unusually high head count poverty ratios. These can be treated as extreme cases. Yet the range of variation in even the remaining set of ratios is also considerable. Even when one works on the same methodological premises, as Gunaratne (1985a) clearly shows, any slight variation of the poverty threshold can produce significant variations in the poverty ratio.

All studies referred to in Table 6.13, except (Gunaratne, 1998a; Anand & Harris, 1985; Bhalla & Glewwe, 1985) have determined their respective poverty cut off points on the basis of some concept of

a tolerable minimum in nutrition or in basic needs. These studies were thus trying to measure poverty in some absolute sense. The three exceptions, Gunaratne (1985a), Anand & Harris (1985) and Bhalla & Glewwe (1985) formed parts of the same overall research project and therefore used the same basic poverty cut off point of a monthly food expenditure of Rs. 69 rounded off to Rs. 70 (for 1978/79) as derived by Gunaratne. Unlike the former set, these three studies measure a hybrid of absolute and relative poverty as Gunaratne's poverty line corresponds to :

> ... the level of expenditure on food by the average person in the bottom 40 per cent of the households ranked according to per capita food expenditure... This practice was adopted on the assumption that the average expenditure on food by the bottom 40 per cent in the benchmark year (viz... 1978/79) represents the minimum food adequacy, i.e. not too low, not too high.

Although the author attempts to justify his procedure of poverty line determination by showing that his "poverty line" closely agrees with other independently worked out poverty thresholds, there are no principles on which the average food expenditure of the bottom 40 per cent can be called adequate by any absolute indicator of standard of living. For the benchmark year, then, Gunaratne's poverty threshold, adopted also in two other studies, is at best a "relative" poverty measure.

The latter exercises are subject to two weaknesses " (a) what is in effect a relative measure has been presented as an absolute measure in respect of the benchmark year and (b) then, in constant price terms, it was used as the absolute poverty threshold for the other survey years examined. The reader is left wondering why the average for the bottom 40 per cent in 1978/79, rather than in any other year, was chosen as the norm. On the one hand, the approach adopted had a built in tendency to come out with a poverty ratio of around 20 per cent for the years close to the benchmark year (Alailima, 1986, p. 15). On the other hand, the quite valid relative aspect introduced through this method into the measurement of poverty in the benchmark year, was

lost sight of when that year's relative magnitude was applied as an absolute magnitude for the other years for the purpose of inter-temporal comparison.

All the above comments are intended to remind the reader that one has to be content with a certain degree of vagueness and impreciseness in these poverty measurement exercises. This is not at all surprising as poverty itself has an unavoidable vagueness, relativity and subjectiveness attached to it. Viewed with such modesty, Table 6.13 might be able to tell us something about the level of, and the trend in, poverty in Sri Lanka. It appears to provide some support to the following conclusions :

(a) In spite of modest growth, and the extensive use of various redistributive measures over the recent past, 15 to 25 per cent of the people have been living in poverty and penury in the sense of being deprived of essential minimum life sustenance requirements.

(b) No clear and sharp tendency, one way or the other, can be seen over the two decades from 1969/70 in regard to the incidence of poverty in the country. There was a mild tendency for poverty incidence to go down from the early 1970s upto about the early 1980s and a reversal, again not a very sharp reversal, of this tendency since that time. By the mid-1980s and the early 1990s about a quarter of the country's population appears to have been in poverty.

(c) Almost all studies agree that the poverty ratio, throughout the period under consideration, has been the highest in the rural sector and the lowest in the estate sector.

Though not very precise, these are nevertheless useful conclusions. They give us some statistical range within which the extent of poverty may be placed. In analyses of the impact of different policy approaches on poverty such statistics can turn out to be useful. They can also be helpful to a government trying to take corrective action to alleviate poverty.

By way of concluding this rather tiring journey through Sri Lanka's poverty measurement exercises, a final comment which is of relevance in socio-political and economic terms may be made. Per-

haps with the exception of a few like those in [Korale (ed) (1987)] which have adopted rather high poverty thresholds, all the cited studies attempt to measure the rario of people (or households) below a bare minimum subsistence entitlement. For a person or an institution, looking at poverty from above or from a distance, on basically humanitarian points of view, these measures might be adequate to indicate the ways in which state assistance to ease the suffering of the poor could be "targeted". Those in poverty in the above sense may accept the "targeted" assistance and refrain from causing serous social disharmony.

But in the socio-political conditions of Sri Lanka, there is a less tolerant group - the educated youth - drawn from these "poor" groups as well as from higher social strata, who cannot be satisfied with poor relief. They are likely to perceive the system as one which systematically excludes them from opportunities. Those among the above group, who can effectively convert a prevailing sense of social discontent into active social protest, are likely to come from social strata above the "irreducible core of absolute deprivation". Thus any policy action targeted to assist the poor, as measured, is quite unlikely to "satisfy" these more volatile repositories of social discontent.

Policy action to handle the relative aspects of poverty and equity is needed, as much as action to handle absolute poverty, for peace and harmony in the society on which the whole development process rests.

V.   SOCIAL GROUPS IN POVERTY

The research referred to in the foregoing section has also focused on the type of social groups in poverty in the country. It is doubtful whether the true dynamic character of poverty is captured by proportions of those belonging to various regional, occupational, sectoral and such other categories who are in poverty at different points of time[18]. Yet understanding the nature of poverty in terms of such characteristics, even by way of "causally inexplicit relationships" or mere "characteristics - poverty links", is considered helpful in formulation

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18. Reproduction of poverty is a dynamic process. Information about how many families were able to get out of poverty, and how many continued to remain there over the years, and why those who emerged out of poverty and those who continued to be in poverty did so, is of enormous significance to understand the dynamics of reproduction of poverty in a society.

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of policies towards alleviation of poverty [Liption (1983) : 3]. Much effort has gone into making such a classification of poverty groups and thereby developing a taxonomy of poverty in Sri Lanka.

The statistical analyses cited point out, with almost no exception, that there has been an overwhelming dominance of the rural sector as a repository of poverty in the country. Over time, the rural sector dominance in the sector wise distribution of the country's poor has not undergone any significant change. Given the predominance of the rural economy in the distribution of the country's population, the fact that the rural sector holds the largest number in poverty as well as the largest proportion of the poor in the country is not surprising. The important fact, however, is that the ratio of the poor in the rural sector has consistently been found to exceed the rural share of total population. Table 6.14 shows the two respective sets of percentages for the years of the household surveys referred to earlier[19].

Table 6.14

Rural Sector Concentration of the Poor: Results of Some Studies Based on Five Sample Surveys

	Population Share of Rural Sector	Proportion of poor in Rural Sector
CFS, 1973	71.5	94.4[b]
		81.7[e]
CFS, 1978/79	68.4	77.1[c]
		71.9[e]
LFSS, 1980/81		73.9[a]
CFS, 1981/82	74.2	82.2[c]
		78.7[e]
LFSS, 1985/86	72.7	84.2[d]
CFS, 1986/87	74.0	88.1[f]
		88.5[g]

Notes : a. Bhalla and Glewwe, 1985   b. Marga, 1981
        c. Gunaratne, 1985a   d. Korale (ed), 1987
        e. Anand and Harris, 1985   f. POOR (ONE) in Edirisinghe (1990)
        g. POOR (TWO) in Edirisinghe (1990)

19. In order to make the Table simple and straightforward poverty data have been taken from only one study or two per household survey. As noted earlier, the poverty threshold adopted by the quoted studies are different and therefore, the numbers in the third column of the Table do not refer to the same thing.

The rural sector, in the three-fold classification system adopted in the normal tradition of Sri Lankan statistical practice, is smaller and narrower in its spread than what one would mean by the rural sector within the more conventional two-fold rural-urban classification. In Sri Lanka, the "estate sector" is excluded from the rural sector for purposes of socio-economic analysis, although, in terms of locational and certain other characteristics, the former is also predominantly rural as the term rural is normally understood.

According to the poverty studies cited, the estate sector comes out, also consistently, as better placed in terms of poverty incidence than both other sectors. This is a conclusion which a person with some awareness of the actual living conditions of the resident estate workers would find extremely hard to accept. It is indeed the "minimum nutrition" or the "minimum needs" type of poverty definition which leads to this conclusion. The bulk of the working age population living in plantations do have some regular employment opportunities. Often a number of members in an average estate sector family are in employment receiving regular incomes[20]. The plantation sector trade unions have, moreover, been able in the recent past, to obtain minimum hours of work in plantations[21] and to ensure the rise in minimum wages in line with inflation. In addition, the plantation system has, over the years, development food distribution mechanisms to prevent hunger among its workers, as a hungry labour force would have been inimical to profitability and the very survival of the estates as economic ventures.

The rural sector, on the other hand, does not provide for regularity of work opportunities for most of the people employed therein. Lacking land and other property, the bulk of the rural folk do not have

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20. A family pushed to a situation where parents as well as the school age children have to engage in paid work and, therefore, are deprived of any chances of upward social mobility is indeed a poor family in the true sense of the term. But the minimum nutrition definition of poverty can push such poor families into the non-poor category. Strange indeed is the logic or justification of these statistical exercises.

21. It is useful to note here that a large share of the country is plantations since 1975 has been in the state sector. There has been, in the recent past, a drop in the profitability of plantations and a consequent decline in the volume of work available therein. Yet, due to trade union intervention, there has been a tendency to equitably distribute available work opportunities among the resident work force.

income sources other than work. The available opportunities for paid work in the rural sector are subject to seasonality, variability and irregularity, in contrast to the greater regularity of work opportunities in the estate sector. This characteristic transforms, over a short period of time like a month, to one of low incomes, low nutrition and, on even the most stringent criteria, poverty. The poor have been found concentrated in the following economic activity areas (Alailima, 1986; Marga, 1981; Bhalla & Glewwe, 1985; Edirisinghe 1990)[22] :

(i)   landless agricultural workers,

(ii)   small land-owning peasants cultivating food crops using family labour,

(iii)   fishing and animal husbandry,

(iv)   workers in small scale, often cottage type, rural industry,

(v)   small traders and self employed persons in personal and other activities and

(vi)   individually operating craftsmen like masons and carpenters[23].

A person falling into any of these categories need not necessarily be poor in the sense of not being able to maintain even the absolute minimum level of nutrition, if he/she was in a position to obtain full time work, paid or own account. This is particularly so in the 1980s when informal sector wage rates, even in the rural economy, increased substantially at rates higher than in some formal sector activities. (Also refer to the discussion in section II above.) Even casual daily paid workers in rural areas have benefited from this general rise in informal sector wages. Some of these wage rates may not have entitled a worker to as high a poverty line monthly income as Rs. 1600 [assumed in

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22.   The available literature attempts to see links between poverty and many other economic, social and demographic variables as well - household size and age, sex, educational attainment, ethnicity, religion, employment and so on of heads of households. A summary of the existing literature on this subject can be found in (Hopkins & Jogaratnam, 1990; see also Edirisinghe, 1990).

23.   The daily wages of these craftsmen have indeed gone up to so high levels in the recent past that they would be earning more than many public servants if there were regularity of work opportunities for them - the point discussed in the following paragraph.

Korale (ed.) 1987], even with full time work opportunities well spread over the month. But informal sector wages of the 1980s would have easily provided a minimum nutrition level income of Rs. 300-400 per month if the workers concerned had regular employment for at least two weeks a month. The dominance of the above worker categories among the groups identified as poor, in the sense of falling below bare subsistence conditions, must thus be largely a matter related to extensive under employment among those categories[24].

In addition to under employment[25], extensive unemployment was found among the country's poor. A family with an unemployed head, unless supported by one or more income earning junior members, would no doubt be in poverty. A large share of the country's unemployed labour force is likely to come from poor families. The presence of a few unemployed members is likely to push a low income family to poverty[26]. The level of unemployment has been high and, in the recent past, was fluctuating around 15 per cent of the labour force. A number of writers who have studied poverty in Sri Lanka have hypothesised a close link between unemployment and poverty[27].

VI. FACTORS BEHIND PERSISTENCE OF POVERTY

Product and factor markets, foreign trade flows and international payments have been gradually liberalised in the country since 1977. The objective of these policy reforms was to boost capital for-

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24. Under reporting of incomes of these categories of workers could also be a factor here, although it has not been brought out explicitly into the discussion.

25. Under-employment referred to here can be any one of the two following types : workers not having sufficient work to occupy them full time and those paid below subsistence wages even for full time work.

26. The consistent evidence provided by household and labour force surveys and census reports is that the unemployed in Sri Lanka were heavily concentrated among the young age groups who are unlikely to have been household heads, poor or non-poor.

27. It is quite possible, however, that a fair proportion of those recorded as unemployed in various household surveys and census reports was, in fact, in under-employment rather than in unemployment. The information elicited in these surveys about work practices is likely to have over-stated the extent of unemployment in the country by lumping together part of under-employment in the category of unemployment. It is difficult to imagine that there were many among the poor, particularly among poor household heads, who did not work even for an hour in the week preceding the survey (although they may have been actively seeking work), as without doing any work whatsoever a household head and his/her family would not have been able to survive even in the welfare state conditions prevailing in Sri Lanka.

mation, to accelerate economic growth and to provide for a process of rapid creation of job opportunities, through closer integration of the domestic economy with the on-going process of globalisation of production activities. Though these objectives could be achieved at varying degrees of success, by the end of the 1980s, it was evident that a large proportion of the population was continuing to remain poor. The explanations for this phenomenon are multifaceted.

Inadequacy of Capital Formation

The most widely offered explanation for the persistence of poverty in the system, in the midst of the obvious greater dynamism of the economy in the post-1977 era, is inadequate capital formation. Poverty implies inadequacy of 'exchange entitlements' [Sen (1981b): 2-4] in respect of the affected social groups. This would be, primarily, a case of lack of access to jobs and income earning opportunities capable of generating above-poverty-line incomes. In the final analysis, the expansion of jobs and income earning opportunities for the people would have depended on how rapidly the economy expanded and grew. Economic growth, along with accompanying structural change, created as well as destroyed jobs and other income earning opportunities. Had the growth process continued unabated, the net result would have been a gradual move toward full or near, full employment conditions[28].

Is spite of the rather radical programme of policy reforms, implemented since 1977, with the intention of creating market friendly conditions to lay the foundation for export-oriented, globally integrated growth, various constraints have prevented the emergence of a process of rapid growth is Sri Lanka, which could be sustained over a long period with consistency of performance. This was partly due to constraints emanating from the global environment-volatility in the global economy and increasing protectionism in major markets, high degree of competition among countries with more or less similar "comparative advantages" for export markets for labour-intensive products as

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28. A series of recent country cases where rapid sustained growth has become the normal characteristic would confirm this proposition. There would still have been a small residual proportion of permanently "unemployable" persons, even if the economy reached such near full employment. The nutritional and other basic needs of this residual could have been looked after by safety net arrangements.

well as to attract available foreign capital, the limited linkages created by the foreign investors attracted and so on. On the domestic front, low domestic savings, the slow growth of national industrial class for foreign investors to draw partners from, certain policy inconsistencies, inadequate business confidence, poor infrastructural facilities, the fragmented nature of the country's industrial sector and so on strengthened the constraints emanating from the global scene further. All this constrained capital accumulation thus restricting the process of creation of jobs and other income earning opportunities. The political repercussions of this - general political instability and increasing political violence further weakened accumulation and growth.

Social Exclusion

Due to inadequacy of accumulation, the income earning opportunities created were not enough to go round to all in the society. Many more than could be accommodated were waiting to capture those opportunities. The theory of social exclusion [see e.g. Rodgers *et al.* (1995)] is likely to help understand part of the mechanisms which determined the distribution of the limited opportunities so created. The results of the research effort to identify the social groups in poverty in Sri Lanka seems to indicate that certain groups in the society were systematically excluded from remunerative jobs and other opportunities. One is compelled to go beyond strict economic analysis into sociological, anthropological and political analysis to find answers to this question. The analysis of the forces of social exclusion in detail is beyond the scope of this chapter. But a few points are noted in what follows merely to suggest that, to fully understand the factors behind continued poverty, these forces of social exclusion too must be taken into account, in addition to inadequate accumulation and economic growth.

Certain social groups appear to have been favoured and certain others systematically excluded from limited income earning opportunities created. It was often the very nature of the development model and the very character of employment opportunities generated, which produced this result. The groups which were excluded (a) lacked con-

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trol over resources, including financial assets, land, skills, knowledge, information, capital and social connections and (b) were constrained by various structural and institutional characteristics of their social existence.

The model of economic growth adopted during this period can be described as a global integration model (GIM). As an inherent characteristic of the model, certain types of labour-intensive manufacturing activity expanded more rapidly than others - e.g. employment opportunities for female workers. This is shown by the employment pattern of most free trade zone factories in general, and garments factories, in particular, whether inside or outside these zones. Migration of workers for employment overseas received an impetus from the GIM. A heavy female bias was evident here too [Rodrigo and Jayatissa (1989), Rodrigo (1991), Lakshman (1993), de Silva *et al.* (1995)]. Because of the inadequacy of formal sector jobs created, self-employment opportunities were promoted through numerous "participatory" development initiatives and other "bottom up" approaches to socio-economic development. This was another area of extreme female bias. Women workers excluded from factory jobs - middle - aged and married women - were predominant among those who took up such self - employment opportunities [Lakshman *et al.,* (1994)]. With an increasing female rate of labour force participation, the limited growth achieved within the GIM could not exhaust even the female supply of labour.

Most of gender neutral jobs created (e.g. agricultural wage work created by agri-businesses, construction sector jobs or numerous industrial activities of self employment type) were not in great demand by a large proportion of the unemployed working age persons looking for jobs - the relatively educated males in lower age groups[29]. The rate of expansion of jobs in demand among the relatively educated and young members of the workforce, particularly the males, was limited as the country failed to move up to higher stages of GIM growth path due to inadequate capital accumulation.

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29.   Given the prevalent family traditions in the country, a large proportion of unemployed workers of this type could afford to wait for some time hoping for a job of their choice.

Further, one observes a regional element in the process of social exclusion. Most jobs were available in Colombo, other major urban locations and a few growth centres like the locations where the free trade zones were set up and other major development projects were implemented. A large proportion of the unemployed and the under-employed from remote rural areas was thus overlooked in the distribution of the limited available opportunities.

Even when the government offered various opportunities, specifically for the weak and the vulnerable in society, the groups failed to gain easy access to those opportunities because of various institutional and structural characteristics surrounding them. One such group is the large number of people engaged in cultivating small farms - owner cultivation as well as wage workers. Those in paddy farming have been of particular significance here. A large proportion of these farmers have been excluded from the benefits of liberalised markets as a result of various institutional and structural features characterising this segment of the agrarion society - predominance of land holdings which are, on average, small and uneconomic to operate, archaic tenurial practices like share-cropping, absentee landlordism, traditional cultivation and harvesting methods, the prevalence of subsistence farming, traditional power structures in village life, dominance of informal credit institutions in spite of the diffusion of formal credit organisation into the country side, the hold of informal sector middlemen in marketing agricultural produce, absence of effective co-operative and other farmer organisations and so on. The small farm agriculture with all its poor appearances, failed to attract the youth with some education into it as producers with a long term interest therein.

Under the GIM, industrial production and industrial exports expanded quantitatively, this growth coming mostly from a relatively small number of establishments. The rest of the industrial sector, in its bulk, failed to acquire adequate dynamism through the influence of market liberalisation. Expansion of production and productivity in the more dynamic part of manufacturing industry did not generate strong backward or forward linkages to produce stimuli to be captured by the

rest of the sector, Sub-contracting or any other types of links, either among themselves or between them and large industries, remained rather the exception than the rule. The cottage and small industries have failed to develop co-operative forme of behaviour. Poor conditions of productivity and profitability in the sector, kept income levels low for the bulk of cottage/small industrialists, pushing quite a proportion of them to poverty levels of existence.

In addition to structural fragmentation of the economy producing large inter-sectoral as well as intra-sectoral differences in productivity levels, institutional conditions and behavioural norms, there are elements of social disintegration alienating large segments of the society from the processes of modernisation - elements related to ethnic, linguistic, religious and caste differences. Even among those having common ethnic origins speaking a common language, the hierarchical stratification of society remains strong. Markets, operating in such disintegrated and stratified social conditions, failed to be neutral in respect of different segments of the society, particularly because of slow expansion of available opportunities.

Another point to be noted is the fact that, in conditions of inadequate growth of opportunities, the people have tended to use the political mechanism, in addition to the market mechanism, to obtain their share of the limited resources and opportunities. This has turned out to be to the disadvantage of the Northern and Eastern Provinces with concentration of minority communities - a point worth noting in any attempt to explain the ongoing ethnic war in the country[30].

VII. SOCIAL INDICATORS

The behaviour of certain direct welfare indicators in Sri Lanka can be reviewed here to round up the discussion. This is a subject which has been quite widely discussed. In some inter-country comparative research of the late 1970s and the early 1980s. Sri Lanka was seen as an "outlier" or an "aberration", in the sense that the country

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30. As already noted, an interesting case of the use of political bargaining to secure an increasing share of resources and opportunities for a minority community is presented by the leadership of the Tamil estate workers in the Central Province.

has attained a higher stage of social development in respect of many welfare indicators than one would predict it to have, on the basis of its relatively low per capita income [e.g. Isenman (1980)].

The available information concerning social indicators is aggregative in character and is, therefore, of limited direct use in a discussion of conditions prevailing in selected social groups or of distribution trends. Indirectly, however, time series information on these indicators can be indicative of the trends in the conditions of the poor in a country, as an improvement in a social indicator (like the life expectancy or the literacy rate) over time must necessarily reflect the improvement of the relevant conditions among the poor. Most of these indicators have theoretical maxima or minima, and even in the least developed countries the rich must be very much closer to these maxima or minima than the poor.

From the time the Physical Quality of Life Index (PQLI) was introduced (Morris, 1979) the relatively high living standards in Sri Lanka attracted attention. The UNDP's Human Development Index (HDI) is the latest such aggregative welfare measure which accords to Sri Lanka a high grade for its social development performance. Sri Lanka's HDI in 1992, according to UNDP (1995) was 0.704. Using the ranking of 1 for the lowest the country's HDI rank, among the countries in the world, was consistently higher than its rank in terms of nominal or purchasing power adjusted GDP per capita. Sri Lanka has been placed among countries with "medium human development" [UNDP (1990) & (1995)].

The UNDP's Human Development Report provides comparative information on various social indicators for a large number of countries, along with averages in respect of these indicators for 4 country categories (i.e. excluding the 'world' category) : (a) All Developing Countries; (b) Sub-Saharan Africa and (d) Industrial Countries. Relevant information pertaining to Sri Lanka is presented in Table 6.15 along with the comparable information for these four broad country categories.

Table 6.15
Selected Social Indicators: Sri Lanka compared with Some Broad Country Categories[a]

	Sri Lanka	A	B	C	D
Life Expectancy at Birth	71.9	61.5	50.9	50.8	76.1
Population % with Access to:					
Health Services	93	79	48	56	-
Safe Water	60	69	48	43	-
Sanitation	50	36	33	36	-
Daily calorie supply per capita	110	107	89	91	132
Adult Literacy Rate	89.3	68.3	46.7	54.9	98.3
Births attended by trained health personnel (%)	94	55	27	38	99
Low Birth Weight Babies %	25	19	24	16	6
Infant Mortality Rate per 1000 live births	18	70	110	97	15
One year olds Immunised %	79	68	37	52	75
Under 6 Mortality Rate per 1000 live births	19	101	175	178	18
Maternal Mortality Rate per 1000 live births	80	351	608	606	10
Thousands of people / Doctor	7.1	-	18.6	18.5	0.5
Thousands of people / Nurse	1.8	-	13.6	6.5	0.1
Gross School Enrolment Rates (Combined 1st, 2nd & 3rd):	66	54	34	41	80

Notes : a The exact time period these data refer to vary but in all cases, the figures refer to some time in the late 1980s or the early 1990s. Column titles A-D refer to A) All developing countries. B) Least developed countries, C) Sub-Saharan Africa, and D) Industrial countries. The mark - indicates that the relevant data are not available in the sources cited.

Source : UNDP (1990) & (1995)

Although there were differences of opinion on the subject [e.g. Bhalla & Glewwe (1986)], Sri Lanka's high stage of social development in conditions of low level of economic growth can be attributed to the broad package of state-funded "welfare policies" implemented in the country from as long ago as the last stages of colonial rule. These poli-

cies included government action in the areas of education and health and in the provision of various other "social welfare" programmes including the policy of extensive food subsidisation.

The state's commitment to maintain this extensive welfare package had undergone perceptible changes since the introduction of the policy reforms of 1977 aimed at liberalisation of markets and promotion of "growth". Particularly important is the fact that the proportionate emphasis accorded to "welfare" purposes in the allocation of government funds has been made to undergo a decline, initially, in order to transfer more funds for "growth" and in addition, in more recent times, to accommodate the growing defence expenditures.

In the first five years or so after these reforms, a deterioration in some welfare indicators could be observed. For example, nutrition levels, morbidity conditions, literacy rates and school participation rates of children appear to have undergone a mild, yet a widespread, deterioration[31] as between 1978/79 and 1981/82, according to the limited information that is available from the CFSs for the respective years. Similarly the indicators like the proportion of population reported ill, average number of days absent from work due to illness per person have all registered increases for the country and its different sectors between the same years [Central Bank (1983) & (1984)]. It has been argued that "... there is no strong reason to suppose that welfare goals Sri Lanka had reached in 1977 were severely compromised when economic controls were lifted" [Stern (1984:37); see also Lal and Rajapathirana (1985); Bhalla (1984a) & (1984b)]. But on the basis of the evidence gathered by government statistical agencies, the official position began to present a sober point of view in the first half of the 1980s;

A number of factors suggests that the food consumption situation has deteriorated. First, the per capita food intake for all sectors combined as well as when the urban, rural, estate sectors are taken separately is lower in 1980/81 than in 1969/70. Second, according to Government figures, the Gini Concentration Ratio has risen, an evi-

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31. As could be understood, the deterioration in these social indicators would have taken place among poor strata of society.

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dence of a worsening in the income distribution.... Third, the starchy staple ratio has increased and per cent proteins from animal sources had decreased since a decade earlier. All these trends indicate that families are facing an increasingly difficult struggle to achieve dietary adequacy [Ministry of Plan Implementation (1984: 19-20)].

The social indicators which showed a deterioration as between 1978/79 and 1982/83, have, according to the next in the series of CFSs, however, registered an improvement as between 1982/83 and 1986/87 [Central Bank (1993)].

For a number of reasons, the deterioration in social indicators even in the earlier period upto 1982/83 was not very sharp and pronounced. Facilities available in the state-funded network of schools, hospitals and clinics have deteriorated over time. This tendency plus the weakening nutritional conditions are bound to have had their toll on "social indicators" but the impact is unlikely to be felt quickly. Once a society at large gets accustomed to individual and social practices which provide safeguards against things like infant mortality, maternal mortality, illiteracy and so on, it may try to maintain those practices even if it requires some diversion of resources from other uses. Sending children, particularly the primary school age children, to school has more or less become a social norm even among the poor. The relative decline in public funds channelled into social sectors did not lead to drastic cuts in basic services. In fact the number of institution like schools, hospitals etc. is recorded to have gone up. Yet as poverty starts pressing against growing numbers of households, social indicators too will start showing signs of deterioration, unless the policies which initially worsened distribution and poverty conditions, eventually, begin to show strong dynamism in terms of output growth, combined with extensive and productive participation of the people in that growth. The problem faced by Sri Lanka is that the economy has been sluggish in entering that phase of dynamism and growth.

VIII. SOME POLICY INSIGHTS

There may be little doubt about the effectiveness of the market mechanism in generating growth of production forces. There is no

such certainty about whether it is equally effective in bringing down gaps, inequalities and poverty in a society. Often the latter happened in market economies under organised social pressure expressed in the form of state intervention, as was the case in the earliest episode of capitalist development in Great Britain. It is, however, believed that the so-called East Asian miracles and some other South East Asian countries, have been able to achieve fast growth combined with equity in distribution and avoidance of poverty concentrations in society. Some would argue that these countries succeeded in doing so by appropriately guiding the market mechanism. Some others would argue, without necessarily saying that there was no guiding of markets in these countries, that the global integration model of development adopted by these countries was responsible for this result.

In Sri Lanka during the post 1977 period, two kinds of policies, intertwined with each other, have been implemented: policies of deregulation and liberalisation and a package of welfare-oriented "safety net" policies.

The former policies were to promote stable growth and structural change in the economy and the latter, to temporarily take care of the social groups to be excluded from the benefits of deregulation and liberalisation or to be hurt by such policies. In the pre-1977 era, the country succeeded in achieving a combination of some growth with social justice and improvement of social indicators, through extensive intervention of the state to provide free educational and health services and subsidisation of essential consumer goods. In both periods, measures for social justice and poverty alleviation required extensive government expenditures.

In the post - 1989 era, the approach taken by the government amounted to having a separate "poverty alleviation" programme as a "second leg" or an appendage to a basically market-oriented policy framework. Such a separate programme, either in the form of a safety net or a poverty alleviation appendage, is clearly necessary to look after the permanently unemployable few in the society. But such a separate strategy cannot meet the socio-economic needs of the very large numbers of people, capable and willing to work for a living, but are left to

poverty and penury by the existing social system. Whatever is the policy framework, conscious and deliberate planning is needed to incorporate these groups into the mainstream of the economic system.

What is required is an integrated approach to socio-economic development but not two approaches, one to achieve "growth" and the other to achieve "redistribution and poverty alleviation". It is when two such approaches are envisaged that the familiar conflicts and trade-offs arise in their most acute form. The trade-off arises when the state takes up redistribution and poverty alleviation through the government budget or through government fiat. If the chosen market-oriented growth path can incorporate the poor and the vulnerable into the market mechanism as active participants, then growth and redistribution may begin to reinforce one another rather than becoming contradictory.

The above point underlines the need for a new conceptualisation of the economic role of the state in Sri Lankan type of socio-economic systems where, due to various structural features of the system, markets tend to exclude, in the short and medium runs, large masses of people from the benefits of market guided growth. A few points of policy significance which come out of the preceding study, either explicitly or implicitly, may be briefly noted here. There is clearly the need to create a reasonable distance between the market mechanism and the political mechanism and to replace the short-term political vision aimed at the next election with a long-term national economic vision which will eventually benefit also the politicians seeking re-election. The state will continue to be a major provider, perhaps with increasing participation of the private sector, of physical and social infrastructure facilities. It will continue to build up institutional structures to facilitate growth through private initiative. In addition, and most importantly, it may have to create the necessary conditions for an integrated pattern of development - not through government fiat but through market measures which the private sector understands and responds to. The required integration to be achieved under state guidance but on private sector's own free will, would be between "large"

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and "small", "rural" and "urban", "male" and "female", "majority community" and the "minorities" and so on. Without this, poverty alleviation programmes as appendages to the market oriented growth will help the government to spend a lot of public funds but without the objective of poverty alleviation on a sustained basis. Even with an integrated development pattern, obviously, safety nets or separate poverty alleviation programmes have a role; to take care of the permanently unemployable referred to above and to temporarily look after even the other poor groups until they are effectively absorbed and incorporated into the markets.

The Sri Lankan policy scene since independence is replete with social welfare and poverty alleviation programmes. Yet all attempts so far to achieve the poverty alleviation objective have been of the type of extramarket intervention. The extensive welfare state structure built up over the years has become increasingly difficult to maintain satisfactorily, in the absence of a dynamic and growing production base. Whether it was this extensive "welfare state" itself which prevented the development of the necessary strength in the production base is a debatable issue but there was widespread belief among influential quarters that it was in fact the case in Sri Lanka. Reports of various World Bank and IMF missions to Sri Lanka since the early 1950s consistently took up this position. Hence the guidance of economic policy in the post 1977 era by the international financial organisations to give first priority to growth and de-prioritise social welfare policies and poverty alleviation strategies. Though part of the "welfare state" package was retained, part of it was almost totally dismantled. The adverse impact this has had on the poor strata of society was not adequately offset by the production effects of market liberalisation and private enterprise promotion. These policy reforms, in spite of large doses of foreign aid which accompanied them, could not soon enough bring the economy onto a path of rapid and sustained growth. This was the result of the confluence of a variety of factors, social, cultural, and political sa well as economic[32].

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32.   See Jayasuriya (1996) for some insights into some of the points raised in this paragraph from a social policy point of view.

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There is not just one, but a number of paths to capitalist development. Sri Lanka ought to find out the best combination of policies and strategies to derive the best model of capitalist development for the country, taking into specific consideration the peculiarities of its socio-cultural, political and economic structures. Of the peculiarities in the Sri Lankan scene, only one aspect may be noted by way of conclusion. There was a certain uniqueness in the development path adopted by the country and socio-political developments that took place therein since about the State Council days of the 1930s and the 1940s. The peculiarly Sri Lankan policy framework, which has so evolved over time, attempted to combine growth and social justice. This continues to influence the nation's expectations even in its current phase of development. The society, even today, demands that the policy measures introduced to enhance growth must be combined with considerations of equity and social justice. Hence the need not to be baffled by the widely held argument that social justice is antagonistic to growth. In the Sri Lankan context, equity is a political pre-requisite for the creation of the necessary environment for accumulation and growth. What is required is to search for those elements of policies of social justice and equity which will promote rather than discourage growth. Working out of a policy framework, intelligently and selectively, combining various measures to promote economic growth and social justice simultaneously, remains the challenge before Sri Lanka's policy makers.