

ECONOMIC POLICY IN SRI LANKA: ISSUES AND DEBATES

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Economic policy has been a key topic of debate among economists, social scientists, policymakers, administrators, investors, donors and others interested in growth and development. Over the past two decades, it has become highly controversial and provocative due to the involvement of donor agencies in economic policy issues of developing economies. A detailed analysis of the small open economy of Sri Lanka presents an interesting case study as its policy experience covers both controlled and open economy policy regimes over a period of five decades. Here are 23 well-trained economists and social scientists who have put together an in-depth and timely analysis on the change of policy regimes and its impact on the socio-economic development of Sri Lanka. It is a compendium of articles in honour of Gamani Corea in recognition of his contribution to Sri Lankan economic policymaking and international policymaking.

The volume is edited by Saman Kelegama, Executive Director of the Institute of Policy Studies and Co-editor of the *South Asia Economic Journal*, best known for his contribution on policy analysis in Sri Lanka. An innovative aspect of this volume is that it consists of six distinct sections: (a) development strategy and ideology, (b) macroeconomic policy, (c) agriculture, industry and technology development, (d) employment and labour, (e) institutional and governance issues, and (f) social welfare. The editor's introduction to the volume, with a summary of the milestones of Gamani Corea's career, and to each of the parts and chapters put the individual studies into context to provide a comprehensive account of theory, issues and policy.

As far as we are aware, there exist at least five major compendiums of studies dealing with the evolution of post-independence economic policy of Sri Lanka. This volume, however, is a welcome contribution as it presents a more careful and detailed analysis of economic policy in Sri Lanka using a structured format. Its time coverage and scope are much more encompassing than any other study presently available. The volume contains a quite thorough and detailed analysis of policy issues which are of vital importance to the ongoing policy debate in Sri Lanka.

Chapters 1 to 5 of Part I deal with the growth of manufactured exports and terms of trade, the influence of development ideology in the macroeconomic policy reform process, the lessons of national planning, understanding policy reforms (1960-2000) and the importance of the public sector. Part II deals with aspects related to fiscal policy, public debt and exchange rates while Part III encompasses chapters 9 to 11 focusing on agricultural development, industrial policy and technology development. Part IV is concerned with employment and labour, paying special attention to labour productivity, youth unemployment and migration. Part V examines issues related to economic liberalization and institutional reform, competition policy, privatization and regulation, and banking sector reforms. Part VI consists of four studies on colonial lineages of the welfare state, overview of the health sector, public investment in education and poverty alleviation.

The volume consists of 22 self-contained chapters and the papers are well structured with subheadings in the use of themes and fully documented with references to the literature in chosen areas. The economic policy issues discussed in many of the papers are based on sound economic theory and rigorous empirical work. Some of the papers are also rich in intercountry and inter-temporal comparisons. The constraints of space only allow a reviewer to discuss a small sample of papers in the volume without being able to do justice to all the writers.

Two papers on the growth of manufacturing exports and exchange rates provide an interesting policy debate paying due attention to early contributions by Gamani Corea. More specifically, the chapter on manufacturing sector exports makes an attempt to test the validity of Corea's allegiance to the new export pessimism and the recent terms of trade debate. Similarly, the chapter on exchange rates examines the behaviour of exchange rates with special reference to Corea's contribution in setting up the multiple exchange rate system in the late 1960s. The paper on the influence of development ideology in macroeconomic policy reform provides an interesting account on the changing international opinion on "development debate" and policy response to economic shocks in Sri Lanka. The chapter on understanding reforms (1960-2000) presents a comparative assessment of reforms and their outcomes. It also examines future perspectives for policy reform and points out that "there is indeed a real opportunity for a deal between Sri Lanka and the donor community at present whereby Sri Lanka commits itself to the policies needed for low inflation and prudent debt management while the donors guarantee aid support adequate to look after market failures comprehensively and sustain rapid growth."

The paper on the importance of the public sector in economic and social development examines yet another controversial issue – the role of the public

sector in Sri Lanka – paying particular attention to the Report of the South Commission which included Korea. In the conclusions the author states that “the crux of the matter is that both the public and private sector are the engines of growth; one alone is inadequate. In a growing economy there is room for both to co-exist.” The chapter on fiscal policy provides an important contribution to the current policy debate on the fiscal and taxation system in Sri Lanka paying special attention to the declining trend of government revenue, relationship of taxation to savings, capital formation and investment, the elasticity buoyancy of the fiscal system, tax evasion, the black economy and tax amnesties and fiscal devolution. Similarly, the policy analysis covered by two papers on competition policy and privatization and regulation is relevant and important in the present context of economic policy debate in Sri Lanka.

The paper on youth unemployment is an interesting exploration of the causal factors affecting unemployment and the author argues that “what Sri Lanka’s experience over the last five decades or so shows is that the most fundamental factor behind the phenomenon of heavy unemployment in the economy is inadequacy of accumulation and consequent sluggishness in economic growth.” At the end of the analysis, the paper provides several policy insights including selective state interventions and appropriate institutional arrangements. The chapter on poverty alleviation looks at the poor in their micro-meso-macro framework and examines the complex linkage between the poor and the environment that controls their economic and social well-being. It is an interesting piece of work on pro-poor growth focusing on both theoretical and implementation issues. At the end the author rightly points out that “the agenda of the National Poverty Reduction Strategy, which is the implementation plan for the pro-poor growth concept, has to be decentralized down to the divisional level with time-bound targets. This has not happened as yet. Debates can go on and on in these two arenas.”

Three papers dealing with agriculture, health and education raise some important issues and provide additional stimulus to the ongoing policy debate at the sectoral level. For example, the paper on agriculture discusses the controversies surrounding the post-independence period. In its conclusions the author states that “it is interesting to note that current controversies in agricultural policies have been generated by policies recommended by, and often insisted upon by international institutions.” The paper on the health sector examines emerging demand and supply conditions and its implications for growth and expansion of the health sector. Similarly, the paper on education presents a comparative assessment of the education sector and policy directions vital for future development.

It will be obvious to any reader that this volume makes contributions on a wide range of relevant and important aspects of the Sri Lankan economic policy debate. The contributions offer multiple perspectives on the evolution of economic policy in Sri Lanka. All in all, they are a refreshing collection of well-researched papers that provide us with much needed alternative views on the current Sri Lankan policy debate.

The primary limitation of this book is the lack of cohesion typically found in a collection of articles written by a diverse set of researchers. The link between formal underlying theory and empirical support is also weak in some chapters. For example, there is nothing stated on productivity in chapter 11 on “Technology Development: Key Issues in Productivity.” It has also failed to capture some of the key arguments relating to research and development, productivity and competitiveness of Sri Lanka. Similarly, the paper on the lessons of national planning is rather descriptive and the coverage is of less relevance to the ongoing economic policy debate in Sri Lanka. Readers should not, therefore, expect this volume to provide conclusive evidence on some of the issues currently debated among policy circles. Instead, what they will find in some chapters is that the authors have identified and highlighted a set of interesting issues and debates. Another major limitation of this volume centres on the selection of topics. Indeed, the volume has failed to cover some of the key sectors seriously threatening the socio-economic development of Sri Lanka, i.e. energy and transport.

Despite these observations, most of the individual chapters are lucid and informative, based on a careful revision of literature and an assessment of competing views. The balance between reviews and original work is about right for a mainly policy-oriented document. The real value of this volume is that it provides a good coverage of policy regimes over the past five decades with a clear focus on socio-economic impacts and future directions. This volume covers much ground, and the clear and careful presentation will make it useful to policymakers, academics, researchers and students and a rich source for further research.

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