

INWARD-LOOKING DEVELOPMENT STRATEGIES AND ECONOMIC DEVELOPMENT IN SRI LANKA SINCE 1948 TO 1977

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Abstract

The closed economic policy (inward-looking economic policy) was introduced in order to accelerate the economic growth and the development as a solution for the economic problems in Sri Lanka. This policy was operating from the latter part of 1950s to 1977. Except few years in 1960s, inward-looking economic policies and import substitution industrialization (ISI) strategies were given priority. There was increased government intervention and state regulation of economic activities in this period. The economic growth and development of any country will entirely depend on the practices of the economic policies actively by the governments in power. In Sri Lanka, during the period 1948-1977, successive governments launched various development strategies for the country's economic growth and development. But, this study exposes that the anticipated results could not be achieved to solve the economic problems of the country through the closed economic policy and several factors such as increase of production costs and production of low quality goods, non-availability of employment opportunities as anticipated, inappropriate of the technological knowledge, limitations of the market, establish doctrinaire industries due to non-application of national resources fruitfully, including excessive costs of imported commodities for productions etc. have been contributed to this unsuccessful situation.

Keywords: Closed economy, development strategies, economic development, policy, government, Sri Lanka

INTRODUCTION

In response to a decline in global markets for primary products and growing balance of payments deficits on their current accounts during the 1950s and 1960s, the developing countries turned to an import substitution strategy of industrial development. Import substitution, which meant encouraging the development of domestic industry under cover of protective barriers, such as tariffs and quota. Inward looking strategies also involved the heavy subsidization of domestic producers as well as limiting the activities of multi-nationals. Thus, ISI based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialized products.

After gaining Independence, our country had to deal with a Colonial Free Economic Policy. As a result, from 1948-56, the country had a prosperous economy mainly due to the export trade. Owing to the Korean War during 1950-51 and price hike of tea during 1954-55, the increase of export earnings caused the expansion of foreign assets or the foreign reserves which became US\$ 258 million in 1955. But due to the excessive imports of consumer goods (around 80% of the entire imports) and distribution of them on subsidized basis, the foreign reserves of Sri Lanka declined speedily. By the year 1960, it came down to US\$ 114 and in 1970 the foreign reserves became US\$ 68. Therefore, during the mid 1960s, it was evident that the free import policy or the colonial open economic policy cannot be maintained further. As a result of this critical situation, it was decided to re-implement the closed economic policy which was in alliance with the import substitution industrialization strategies after 1956. Sri Lanka had to face the challenges of building up the nation and improving the economic development after gaining independence. These two objectives are truly inter-connected. The economic policies followed by all successive governments had adverse effects due to the trade manipulations in the world market, increase of cost of living due to price hikes of commodity items, adverse climatic conditions and especially the ethnic conflicts caused a strong impact on the changes of the economy (Central Bank of Sri Lanka, 1998, P.3). Changes of economic policies in Sri Lanka happened as a result of internal and external factors and the political aspirations or ideological dreams of some parties.

The economic growth and development of any country will entirely depend on the practices of the economic policies actively by the governments in power and on the success or failures on such efforts. Since Sri Lanka political independence in 1948, the Import Substitution Industrialization (ISI) policy, or inward-looking policy has been introduced and after 1977, it changed into Export-Oriented Industrialization (EOI) policy or an outward-looking policy (Dunham and Kelegama, 2005, p.22).

According to the economic policy changes, the period since independence has been divided into five sub-periods.

- (a) Colonial open economic policy (1948-56)
- (b) First wave of inward-looking policy (1956-65)
- (c) Partial outward-looking policy (1965-70)
- (d) Second wave of inward-looking policy (1970-77)
- (e) Outward-looking policy (1977 onwards) (Ratnayake, 2004, p.4)

As a whole, above five sub-periods can be divided into two main periods: before 1977 era and after 1977 era. Thus, it could be identified that there has been two important junctures where action was taken to improve the economic growth and the development after independence in the country. During the period before 1977 closed economic policy was given priority. There was an increased government intervention and state regulation of economic activities in this period.

Research Objectives

1. to examine the consequences of inward-looking development strategies in Sri Lanka before the trade liberalization in 1977
2. to explore the impact of inward-looking development strategies on the economic growth and development in Sri Lanka within the period 1948 - 1977

METHODOLOGY

The study mainly based on secondary data. The data were collected from available literature, research papers, survey reports etc. related to the topic covering the period from 1948 to 1977. Further, this study employed a descriptive analysis with a policy discussion for the data analysis.

FINDINGS

Closed Economic Policy and the Economy of Sri Lanka

During the times of the Second World War and the period of Korean calamity, as the prices of export items increased, at the early stages of independence, Sri Lanka owned a considerable amount of foreign assets. But these foreign assets were spent over importing of unnecessary items of goods. Apart from that provision of facilities such as food subsidy, free education and free medical facilities were provided on a per capita basis. Due to these facts, the foreign assets started to decline speedily by the year 1953 and caused a broad budget deficit too. The

rate of unemployment reached a percentage of 16.6% by 1953 (Central Bank of Sri Lanka, 1998). As the economic problems grew up to a very serious situation, the government of Sri Lanka increased the prices of essential commodities which affected the low income groups adversely. As a solution for these economic problems, a closed economy was proposed as suitable for the country, by the United Nations Organization, International Monetary Fund and the World Bank. Accordingly, the closed economy policy was introduced in order to accelerate the economic growth and the development as a solution for the economic problems in the country. Under these circumstances, efforts were made to reach economic development by way of activating the inward-oriented development strategies (Import Substitution Industrialization Strategy) which were in practice from the latter part of 1950s. This closed economic policy was operating from the latter part of 1950s to 1977 (Athukorala, 1996). Under this import Substitution Industrialization Policy (ISI), local private sector got involved in the economic activities while the government too intervened in the same. The government got involved in the economic activities of the country directly from 1970 up to 1975 (Lakshman, 1997). Under this situation, the government of Sri Lanka initiated the Import Substitution Development Strategy along with the Export Diversification Program. During that period, owing to strict administrative regulations, the economy was inward-looking. But by the early part of 1970s, in the face of the problems such as capital, technology and market, the anticipated results could not be achieved to solve the economic problems of the country through the closed economic policy. ISI policies followed for nearly two decades failed not only in the diversification of the economy but also in the creation of sufficient amount of employment for a rapidly growing labor force in the 1960s and the 1970s (Patabendige, 2005, P.61).

The period after 1960 was marked by a continuation of the ISI strategy backed up by sharpening import controls and increasing public involvement. During the first half of the 1960s, in addition to the general increase in tariff levels, all imports other than essential food stuffs, fuel, fertilizers and certain pharmaceutical products were brought under import licensing (Abeyratne, 1997, p.351). As a result of tight controls on imports and foreign exchange, the period 1961-65 recorded a decline of import expenditure, on average, by an annual 3.7%. The manufacturing sector recorded an average annual rate of growth of 5.4% during the period 1960-65 (Abeyratne, 1997, p.352).

The ISI strategy and the Inward-Oriented Economic Policy were strictly implemented during the years 1960-65 and 1971-76. During the period 1965-70 certain liberalized policies were in use. With this policy shift, the economy moved to a "hard" to a phase of import substitution in a highly controlled regime. The objectives of this policy were, protecting the local producers, increasing employment opportunities, saving foreign exchange and finding solutions

for balance of payment difficulties. During the periods 1960-65 and 1970-75, the average rate of GDP growth was as low as 3.6% and 2.6% respectively (Fernando, 2008). Sri Lanka recorded a 0.2% GDP growth in 1971, the lowest during the 50 year period under concern. The lowest rate of GDP growth in 1971 has been attributed to the adverse impact of the youth rebellion (Abeyratne and Rodrigo, 2000). Similarly, the growth rate of the agricultural sector was in a lower level as 2.7% and 0.7% respectively. The growth rate of the industrial sector too was also retained at a low level as 5.2% and 0.7% respectively. During the period 1966-70 relatively to the trade market oriented, the economic growth rate was 5.5%. During the period 1970-76 where a strict administrative environment was in practice, the average annual rate of inflation remained as 6.4%. The economic growth rate was 2.9. In the same manner, the proportion of unemployment remained at the rate of 24%. It means one person out of every four was unemployed (Fernando, 2008, P.23). Although, the main target of the closed economic policy was to find solutions for the difficulties of balance of payment, an excess has been reported only within 7 years.

Strategies Implemented for the Economic Growth and Development before 1977

During the early years of independence, successive governments launched various development strategies for the country's economic growth and development. These development policies focused on achieving the objectives of equity and economic growth. The instruments adopted to achieve economic growth were aimed at import substitution industrialization, both in manufacturing and foodstuffs. The key measures used to achieve this growth strategy were the imposition of various restrictions on imports, and the encouragement of domestic production. Extensive social welfare programs such as price subsidies on food, constitutional price control on consumer goods, and the provision of free education and health services were the instruments used to achieve greater equity. Among a wide range of the social welfare measures, the major programs included free health care (both curative and preventive), free education from primary to university levels (including meals, textbooks, uniforms and scholarships), and state subsidies on staple food items and other essential goods and services. Thus, health care, free education and consumer subsidies became the major components of the state's overall welfare package, among many other things (Abeyratne and Rodrigo, 2000). The welfare programs achieved significant improvements in the area of human development, including lower mortality rates, increased life expectancy and high literacy rates. Total recurrent and capital expenditure on welfare services took up over 25 percent of government expenditure in the 1950s and 1960s, and subsequently escalate further (Sally, 2006). Indeed, during the period before 1977, governments were guided by the nation of "welfare first and growth later

(Lakshman, 1997; Thilakaratne, 1989). As a result, on one hand, as revealed by social development indicators, Sri Lanka was in comparable level with high income countries in human development. On the other hand, high welfare expenditures restrained the nation's capital growth and ability to invest, slowing economic growth and causing high unemployment and low wages. As a whole, during 1956- 1977 period, the per capita gross domestic product grew only at an average of 0.2 percent per year.

Implementation of Economic Development Plans

Commitment to redistribution of income and social welfare was the main objective of all the long term development plans brought forward by all the governments which were in power prior to 1977. These plans could be identified as Employment Oriented Policies. During the period after the Independence, three such plans were announced by the government. Those are as follows:

I. Six Year Plan for Investments from 1954/55 to 1959/60

After independence the emphasis in development policy was on agriculture. In one of the first development plans, the six year program of investment 1954-55 to 1959-60, a considerable amount of expenditure was directed towards a wide variety of schemes to improve agriculture (Karunathilake, 1987, p.93). This economic program was only concerned with government sector and not for the entire economy of the country. However, after a fall of 9 months of announcing of this program, it was done away with as a new government came into power.

II. Ten Year Plan from 1959 to 1968

The objective of the Ten Year Plan fall into two main categories: high employment and a high rate of income growth (Kumaraswamy, 1986, p.283). The employment objective was given significant weight. The plan aimed at increasing national income by 5.9% per year with an estimated annual increase in population of 3%, which would result in a 2.9% increase in per capita income. This was to be achieved by raising the level of investment from 12.9% of the gross domestic product in 1959 to 21.1% in 1968. The total investment in the plan covering the public and the private sectors over the entire period 1959-68 was Rs.10 billion and it was estimated the country's savings would provide Rs.9.0 billion. Therefore Rs.1 billion would need from foreign sources.

This plan was a comprehensive plan. It covered almost all the relevant sectors – export and domestic agriculture, fisheries, industry, power and energy, transport and communications, health, education housing and relief services and both private and public sector activities (Fernando,1997, p.101). The Ten Year Plan has to be recognized as the high watermark of national planning in Sri Lanka. Given the state of the economy, the Ten Year Plan fulfilled all the

technical and professional requirements of a sound economic development (Gunathilake, 2004, p.82). The main objectives of the plan were classified under 5 points.

1. Increasing the income growth rate. It was intended to achieve this objective under three goals.

- (a) Minimizing the deficiencies in the distribution of income
- (b) Diversifying the economy in order to have a stable domestic income against the changes arising in the foreign market
- (c) Creating an equability in balance of payments

2. Increasing employment. There are 2 points under this heading

- (a) Providing employment for the labor force and minimizing the prevailing under employment
- (b) Enhancing the living status on a long term

However, this plan which was arranged with high valued objectives could not be implemented. After a few days of the arranging of this plan, the Prime Minister, Mr. Bandaranaike died and there were a lot of political calamities in the country. Political instability and problem of foreign currency also led this plan to be unsuccessful.

III. The Five Year Plan from 1972 to 1976

The government which came to power in 1970 submitted this plan. As the economy of the country was in critical condition, everybody was very much concerned about a plan of this nature to develop the economy of the country. This also was a comprehensive plan. It covered all sectors of the economy. The aims of the plan were,

- (a) it sought to remove disparities in incomes and living standards. i.e. to achieve a rate of growth in GNP at around 6% per annum during the five year period 1972-76 and to increase per capita real income from Rs.910 per annum to Rs.1150 per annum in 1976.
- (b) the plan sought to promote economic growth and to reduce unemployment. i.e. to provide employment for 810,000 persons.

However, in 1972, the first year of the plan, the overall growth was 2.4% of the GDP, as compared to a plan target of 6%. This indicated that in the following four years 1973-76 the growth rate would have to be stepped up to 7% annually. But the performance of most economic variables was below the plan targets. The main target was to develop the national income by 6% and bring down the unemployment rate from 14% to 7%. Attempts were made to achieve this target by developing the rural agriculture (Colombage and Karunaratne, 1986, P.208). But this plan was also become unsuccessful. The average growth rate of the national income from 1972 to 1974 was 3.1% and it was only a half the expected target. Although the

expected unemployment rate was 7% it rose up to 18.1%. There were so many attempts made to solve the economic problems of the country but at the same time there was no relief from the critical problems such as unemployment, foreign currency, inflation and poverty. It is apparent that the plans for the development of the economy too have failed. The reason for such failures was mainly due to the fact that there was not stable political environment to implement any of the development plans.

Although there was a vast development on planning and plan implementation, during this period, the government did not make any effort to introduce any long term economic plans. Instead, they chose certain other aspects of the economy and focused their interest to develop them. They made way for the foreign currency resources to be distributed in the maximum possible way among various sections and also paid their attention towards the investment projects which had already been commenced, in order to continue them very efficiently and effectively. Accordingly, the main interests of the government were, developing the cultivation of food products by booming the domestic agricultural sector, advancing the tourism industry and enhancing the private sector industries. The food production project was at the first place of preference. The positive results of accelerated project of the country being self sufficient by 70% in paddy cultivation which was launched during 1956–77 achieved the anticipated goal before the lapse a short period of 2 years. By the year 1969, Sri Lanka was able to exceed the rice production capacities of India, Pakistan, Thailand, Indonesia and many other Asian countries by achieving a growth of 144% in rice production (Asian Development Bank Annual Report, 1970, P.4). But during this period, the rate of unemployment in the country increased significantly while the foreign currency deficit became critical. Similarly, the rate of inflation increased crucially resulting in a steep hike in cost of living.

Agricultural Development Policies

Sri Lanka's economy has traditionally been dominated by agriculture. Therefore, Agriculture plays a vital role in economic development. The fertile soils, plentiful rain and good tree cover have given rise to a well-developed agriculture sector. It has been the backbone of the country's economy and the farmer enjoys a high position in Sri Lankan culture (Vaheesan, Undated, p.158). At the time of freed from the grip of the British Empire, there was a considerable development in the plantation sector including tea, rubber and coconuts but the rural agricultural sector or the traditional agricultural sector purely based on paddy cultivation was at a serious downward turn. Therefore, the governments which came to power after the Independence followed various plans of action to develop the rural agricultural sector. The rural agricultural sector includes all the agricultural and cultivation products except the main three plantations

namely, tea, rubber and coconuts. Out of these, the main agricultural product is paddy cultivation. Apart from it there are other related crops such as chilies, red onions, potatoes, turmeric, coriander, ginger, kurakkan, millet, sesame, green gram, peanuts, vegetables, tobacco, sugar cane etc. and also maintaining livestock farms such as piggery, poultry and cattle mainly in large scale (Gunasekare, 1976, P.154). However, the agricultural policies which were adopted during that period were directly targeted towards paddy cultivation. The first change in agricultural policy strategy came about after the political change in 1956. At the time Sri Lanka gained Independence, 85% of the population lived in rural areas and their main means of living was agriculture and other related crops. Accordingly, by way of enhancing the domestic agricultural sector, the then governments which came to power, made various efforts to increase the levels of income and living status of the rural communities, reduce unemployment, eradicate poverty and malnutrition and sustain food security.

Land Policy and Irrigation Policy

A remarkable development could be observed in the rural agricultural sector after independence. A special significance in this field was that, during this period the rural agricultural sector has relatively gained a noticeable in the entire agricultural field. For this situation, the policies or the strategies followed by the then government in respect of lands and irrigational development have been directly favorable.

During the period 1952-74, the production of paddy has increased from 29 million to 77 million bushels equivalent to 66%. This growth denotes an average proportion of 8% per year. The main reason for this improvement is the increase of cultivable extent of land and the advancement of average harvest per acre.

The lands and the irrigational policy of the government claims to be the main reason for the growth in the production of paddy, out of all the state development policies. In terms of this policy additional extent of land was allocated for the paddy cultivation and for the production other minor crops. It was aimed at by introducing this policy enhance the agricultural sector by renovating the neglected old irrigational schemes and also with the introduction of new agricultural schemes. The main objective behind this endeavor of giving rise to the introduction of new agricultural colonies was to create self sufficient rural communities of land owners by expanding the extent of land meant for agriculture (Indrani, 2003, p.3). Especially in the districts of the dry zone, new irrigational schemes were constructed and new lands were provided for the use of paddy cultivation. Mahaweli Scheme was a vital contribution for this endeavor. However, the cost and the ratio of benefit of the irrigational schemes were in a very unsatisfactory state while the capital output ratio has stood around 12:1. Therefore, it is apparent that there had not been any benefit from these projects when compared with the capital investment.

Due to various problems confronted with the establishment of agricultural colonies, the project had to be changed on so many occasions. In accordance with this situation and at the end of 1968-69, the extent of paddy lands distributed through the agricultural colonization projects was 202,642 acres while the extent of highlands appeared to be 111,300 acres. 70,686 farmer families were living in these colonies (Gunasekare 1976, p.154). However, the cultivations in these colonies were traditional crops. There had not been sufficient usage of fertilizer and the seeds used also were not up to the required standard of quality. When the settlements were offered to the families in these colonies, the possibility of making an income out of these lands had not been explored. Although there had been an objective of cultivating highlands under this project, no action had been taken to develop such highlands. Owing to these drawbacks, the anticipated goal was not achieved and the project became a failure.

Price Policy and Other Subsidies

The intended consolation by the price policy of 1948 was to set up guaranteed price terms for the productions of the rural agricultural sector. In this respect, the guaranteed price for paddy was very important than any other production. It was expected to fulfill four objectives under this policy.

1. Provision of a beneficial and a regular market competing the prices of the open market as an incentive.
2. Purchase of rice from the local market to be distributed under the subsidized scheme.
3. To attain a self-sufficient position in rice production.
4. To create an equality of income to a certain extent among the agricultural and non-agricultural sectors.

The procedure prevailed under the guaranteed price scheme was to fix a minimum price for paddy and purchase unlimited stocks from the farmer. In 1948, the price paid for a bushel of paddy by the government was Rs.8.00 and it increased up to Rs.12.00 in 1952. As a measure of encouraging the farmers to increase the production, the government increased the price up to Rs.12.00 in February 1973, in October the same year up to Rs.25.00 and in March and July 1974 up to Rs.30.00 and Rs.33.00 respectively. Although the purchases were made over the certified price, the government could not compete with the private traders. Another incentive granted for the farmers in addition to the certified price scheme was the paddy fertilizer subsidy introduced in 1951. This scheme helped the farmers to purchase fertilizer at a subsidized rate of 50%.

Agricultural Expansion Activities

This was another important aspect in rural agricultural policy which was supported by various other government departments in respect of its success. The back-up extended by the other departments was very vital in increasing the production of paddy under this scheme. As a result of the research and expansion services of the Department of Agriculture, high quality seed paddy could be obtained and distributed and the use of such seed paddy became very popular among the farmers. There also was an advancement of new techniques in the paddy farming such as using the new approaches of planting the paddy seedlings instead of sowing. Introducing new kinds of fertilizer and insecticides too boosted up the production to a considerable degree. The agricultural loan scheme introduced by the government in 1947 with a view to lending a hand towards the rural industrial sector too was an enormous supportive facility for the paddy cultivation. As there were certain weaknesses in this scheme, the government made arrangements to launch another loan system in 1967 called The "New Agricultural Loan Scheme". The farmers were very much benefited by this new scheme as they were able to draw the money well in time with an increased limit of loans. As in the earlier loan scheme, this new approach too faced problems of cheats and obstacles were found in the smooth run.

Land Reforms

The most important issue brought up by the government under the Land Reforms procedure was the Paddy Lands Act introduced in 1958. The main objective of this Act was to provide certain assistance to the tenant farmers, in order to relieve them from the obstacles they were faced with and also to enhance the production of paddy and the productivity. As there were certain weaknesses in this Act, the Agricultural Lands Act was introduced in 1973 as a remedial measure. Accordingly, under this new amendment, certain important issues were brought forward such as ensuring the rights of the tenant farmer, deciding on payable taxes, establishing farmers' committees, inaugurating of agricultural tribunals for settling disputes and the formal regulations were enacted for the purpose. The main objective expected from all the three Acts namely, Land Reforms Act of 1972, Agricultural Productivity Act and Agricultural Lands Act of 1973 was avoiding the harm caused to the economy by the non-usage of cultivable lands for cultivation and cultivated lands being done away with the use. By the Lands Reforms Act of 1972, certain limitations were imposed to the ownership of private lands. Accordingly, the regulations were passed as the maximum extent of the ownership of highlands to be 50 acres while that of the paddy lands to be 25 acres. Any excess of private owned lands were acquired by the government.

Industrial Development Policies

Under the Inward-Oriented Economic Policy which prevailed prior to 1977, special attention was focused on Import Substitution Industrial Promotion Scheme in order to facilitate the expansion of Industries of the public sector. It was apparent that the government exercised a deep intervention in this regard. The nature of the development of industries of Sri Lanka could be determined through the performances during the two periods as 1948–60 and 1961–74. When considering the industrial development after gaining independence, it could be classified as this under its main characteristics. Especially there had been no industrial development whatsoever prior to 1960. But due to the strict import control regulations imposed in 1960, the import of the industrial goods, equipment and other components was prohibited and since then, a vast improvement in industrial sector could be seen as never before. But the defect in these productions was that almost all the productions were made out of imported raw materials and components. 56.5% of the raw materials used for the industries during the year 1965 were imported items.

However, the industrial policy which was in force between 1948 (after the independence) and 1977 did not appear to have been successful. Masses believed that this industrial development policy was not successful enough to reduce poverty and income deficiencies. It was due to the weakness of the industrial policy followed by the then government. As the governments which were in power prior to 1956 held capitalistic attitudes, they were under the impression that development of industries was a part of duties of the private sector. Although the government had to provide security for the local industries through the tariffs policy, they were not concerned about it. Proper locating of state owned industries was not suitably attended to. Industries were located in the electorates represented by the respective representatives but they never took the economical aspects and effects into consideration. Inefficiency and losses of various Industrial corporations were due to the fact that the administration not being properly trained and weaknesses on the part of the administration and the organization. Technical and technological defects and weaknesses could not be remedied as they did not possess any competent knowledge about raw materials or the machinery.

After 1960 most of the industries of the private sector functioned under the Import Control Regulations with a view to overcome the lack of the industrial goods and components. It created an unhealthy situation in the economy due to the rise of the consumer goods industries, dedicating the most useful industries of capital and intermediate goods. There was no considerable progress in providing employment opportunities through these industries as the techniques were of capitalistic minded atmosphere. When the situation is considered as a whole, it is a vital requirement to identify the economy development of Sri Lanka but it is very

clear that no attempt has been made to lead the path way towards the industrial development with the strategic efforts for the up lifting of the economy of Sri Lanka constructively and positively resulted in futile outcomes. In addition to this grave situation, there is another critical state of affairs when referred to the development strategies tend towards the local economy prior to 1977 which resulted ineffectual consequences under the Import Substitution Industrial Policy. As a result of all these obstacles, action was initiated to activate the industrial policy connected with the export oriented industrial sector in developing the same under the open economy policy after 1977. Accordingly, it was observed that there had been a rapid progress in the industrial sector after 1977 when compared to the period prior to 1977.

Economic and Social Welfare Policies

Sri Lanka has been often cited as a low income country with a remarkable high level of progress. It ranked highest among all low income countries and stood developed among the economically advanced countries in terms of the physical quality of life index (PQLI) (Abeysekera, 1986, p.291). Indeed, the human development such as, life expectancy, adult literacy rate and infant mortality rate achievements have been amply standard. These achievements were based on massive investment in the social sectors, on free health care, universal free education and subsidized food (Jayasundera, 1986, P.43). These welfare expenditures during the decades of the 1960s and 1970s averaged around 9% to 10% of GDP and as much as half this expenditure, 4% to 5% of GDP was accounted for by an untargeted food subsidy (Jayawardena, 2004, p.96). For more than 55 years, successive government has been committed to continuing a policy of providing extensive welfare services to all segment of the population. These benefits have included subsidies on essential food-stuffs, particularly rice, free education, free medical care and subsidized prices for public transportation and housing (Karunathilake, 1987, p.190; Ratnayake, 2004, p.4). These programs accounted for 8.3% of GNP in the 1950s, 10.7% in the 1960s, 9.8% in the 1970s and 6.5% in the 1980s (Alailama, 1997, p.127).

Education

Investment in human capital is a cornerstone for economic growth and development. In Sri Lanka, the general educational level of the public, tend to develop greatly as a result of the free education move initiated by the C.W.W.Kannangara Proposal. The 1940s Kannangara reforms envisaged a crucial role for education in promoting fundamental democratic rights, social equity, social-economic mobility, economic efficiency, national harmony and character development (Jayaweera, 1998, p.311). It was a fundamental obligation by any government to provide free

educational facilities to children throughout the primary, secondary and tertiary stages. The benefits of the free education scheme are difficult to quantify, but there is no doubt that the scheme has made a substantial contribution to the uplifted of the community and to the development effort. With the educational reformation which wakened up after gaining Independence, children hailing from rural poor families were able to enjoy the free educational facilities up to higher education in an equitable social status. Education was a vital obstacle for enjoying medical facilities for the general public, development of economic status of women and the economic progress of the country. The steady increase in the number of students attending schools itself is a reflection of the easy access to education due to its universally free nature. The number of students attending schools doubled within the 20 year period 1950-1970. As primary education was made compulsory, the percentage of children between 5 to 14 years in school also increased. The number of students pursuing secondary and higher education also showed a dramatic increase in the 1960s and 1970s. Accordingly, during the period between 1946-71, the proportion of the literacy level of the population has increased from 57.8% to 78.1% while the ratio of the same in women has spanned from 53.6% to 70.7% and men claimed to have developed their levels of literacy from 70.1% to 85.2% (Gunasekera, 1976, P.326). Because of the compulsory primary education policy and the free education policy which were in effect for fairly a considerable length of time, the literacy level of the population enhanced remarkably with a noticeable advancement. During the period after independence up to the recent past when ascertaining the development of the education system, there are several aspects that we can observe as very clear. Some of such general indexes are the proportion of developed literacy level, increased number of school going children, lessening of the distances to schools, pupil/teacher proportion, and the other indexes are specialized education system, teacher training system and student welfare system etc.

However, the expenditure on education which was relatively low in the early 1950s rose sharply since the late 1950s. This was mainly due to the increase in the number of students seeking entry to schools reflecting the growth in population that took place consequent to the dramatic drop in mortality in 1946. The growth in education expenditure became more significant in the 1960s with the take over of the private fee-levying schools by the government. Free education is the second highest item of subsidized expenditure of government (Karunathilake, 1987, p.203). Under the free education system, the government pays the total cost of salaries of teaching related staff. In addition, meeting the cost of equipment and maintenance of educational infrastructure are also accounted for. Furthermore, scholarships and bursaries, free mid-day meals and free text books have also been distributed by the government from time to time.

Health

Similarly, the national health policy in Sri Lanka from the early 1950s has been governed by the commitment to provide comprehensive health care to the entire population. No charges have been levied on public health services from 1950 onwards. Outdoor treatment has been provided at no cost to the patients, at all government hospitals and dispensaries. Of the total expenditure on major welfare services, the amount spent by the government on free health services has been the lowest. However, successive governments have maintained reasonably high levels of expenditure on health averaging about 6 percentage of total government expenditure until the 1970s.

Accordingly, the facility of free medical assistance, the health conditions of the population have shown a considerable advancement. Indeed important facts that free medical care has contributed to an appreciable decline in the death rate from the late forties. Today the country is privileged to have probably one of the lowest death rates among the developing countries of the world. Similarly, the infant mortality rate has fallen from 263 per thousand in 1935 to 140 per thousand in 1950, and 46 per thousand in 1973 and to 33 per thousand in 1984. Also, improved medical care has contributed to an increase in longevity among males and females in the island.

Food Subsidy

Also, the food subsidy provided continuously during this period on per capita basis, a considerable benefit was gained by a large proportion of the population in respect of their physical health. Especially, the poor classes secured a considerable amount of their daily requirement of calories owing to the food subsidy. Food subsidy policy became a very sensitive political issue. This policy included a bundle of goods such as rice, dhal, dried fish and milk foods. By the time of gaining Independence, the nutritional conditions of the people were not found to be in a fair status. The main reasons for the same were, low income levels, unsuitable food habits and the limited supplies of food provisions. Reasons for malnutrition in 1948 were mainly due to the sick conditions caused by vitamin deficiency and nutritional deficiency. The governments which came to power after the Independence realized adverse effects caused by malnutrition, organized remedial measures for the same by introducing food subsidy facilities. As a result, by the latter part of 1960s, a considerable improvement in the nutritional conditions of the country was observed. 27% of the government revenue was spent for this purpose out of the Budget of 1947/48. Also, 20 years later, the expenditure for the same from the government revenue arrived at a rate of 32%. Accordingly, because of these welfare facilities, the population, especially the poor class was benefited immensely. It has also generated an increase in the human capital stock which is required for providing educational and health facilities which enhanced the long term development of the country.

However, without taking the differences of income of the welfare activities into consideration, the expenditure of government increased regularly due to facilities being provided to the entire population. The government was confronting with serious financial difficulties by activating this subsidy without proper planning and management. Owing to this an enormous amount of funds which should have been utilized for other developments projects had to be unnecessarily spent on this program.

When the above factors are viewed as a whole, the export diversification program backed up by the import substitution policy has been successful to some extent; the entire expected harvest of the attempt could not be reaped. From the latter part of 1950s up to the end of 1970s there was a sharp growth the local productions and advancement of provision of employment opportunities. Even then such enhancements were not sufficient to deal with the increasing of population growth rate. The entire population in 1946 was 6.6 million whereas in 1971 it was recorded as 12.8 million (Department of Census and Statistics). The average economic growth from 1956-60 was 2.6% whereas it rose up to 3.6% during the period 1961-65. A clear change of these figures were shown during the years 1966-70 as 5.3% but there was a sharp drop in the growth of the economy as 2.9% from 1971-77. The employment opportunities were not substantially in comparison with the labor force grown due to the increase of the population. Therefore, the unemployment problem became critical.

The unemployment rate in 1953 was 16.6% which increase up to 24% in 1973. Due to the fact that the growth of population became doubled during 1950s and 60s, recurrent expenditure increased with expenses gained for welfare facilities such as free education, free health facilities and free food subsidy on per capita basis. Comparatively, the government revenue did not increase and the capital expenses were at a lower stand and also the budget deficit problems gradually appeared to be crucial. As a percentage of the gross national production during 1956-60, the budget deficit was 4.5 and it increased up to 8.2 during 1971-77 (Central Bank of Sri Lanka).

According to the above discussion, we could see that the expected economic growth and development initiated through closed economic policy could not reach. Therefore it became a futile effort. It was very much prominent from the election results in 1977 where the government lost its power. The table 1 too shows that the anticipated growth of economy and development in the country was not successful.

Table 1. Growth rate of Per capita income and population 1959-77

Year	Annual growth rate %	Growth of per capita income		Population (‘000)	Annual population growth rate %
		Rs.	%		
		1959	-		
1960	6.8	636	3.9	9896	2.8
1961	2.2	632	0.5	10168	2.7
1962	4.6	643	1.7	10443	2.7
1963	2.8	648	0.8	10646	2.0
1964	6.4	675	4.2	10903	3.0
1965	2.5	676	0.1	10614	2.4
1966	3.8	683	1.0	11440	2.5
1967	5.0	702	2.7	11703	2.3
1968	8.4	742	5.9	11992	2.5
1969	4.5	759	2.3	12252	2.2
1970	4.1	774	2.4	12514	2.1
1971	0.4	766	0.4	12762	1.5
1972	3.1	770	0.5	13020	2.0
1973	3.5	784	1.7	13249	1.8
1974	3.4	801	1.9	13393	1.5
1975	3.6	817	2.0	13603	1.6
1976	3.0	835	2.0	13717	1.6
1977	4.4	855	2.6	13942	1.6

Source: Central bank of Sri Lanka

During the period, real gross national product grew at an average rate of about 4.1% while the increase in population averaged about 2.3% per year. The increase in per capita income has, therefore, averaged less than 2% per annum.

Table 2. Growth pattern of population, GDP and per capita income for selected policy regimes

Period	Policy regimes	Growth rate of population %	Growth rate of GDP %	Growth rate of per capita GDP/GNP %
1950 -1955	Colonial policy	2.7	4.3	1.6
1956 -1965	First wave of ISI policy	2.6	3.2	0.6
1966 -1969	Partial outward-looking policy	2.4	5.5	3.1
1970 -1976	Second wave of ISI policy	1.6	2.9	1.3

Source: Ratnayake, 2004

Above table gives a summary of the growth pattern of population and national income for different policy regimes. A few salient features emerge from the data in this table about the fluctuations in the rate of growth over the last five decades. Generally, the growth pattern of national income was closely related to the economic policy shifts: the growth rate of GDP was higher under all Export-Oriented Economic policy (EOI policy) regimes than under Import Substitution Industrialization policy (ISI policy) regimes. For example, the economic growth rate in EOI periods remained at around 5% as proposed to growth rates of less than 3% in ISI periods. As a whole, the economy's performance of the country during the period 1950-77 appears have fallen.

When the United Nations Organization, World Bank and the International Monetary Fund realized that the expected achievements could not be fulfilled through the closed economic policy, they recommended that the open economic policy known as outward-oriented development policy would be suitable. Consequently, the new government which came to power in 1977, while solving the economic problems, took positive action to accelerate the development by practicing the open economic policy.

CONCLUSION

Development strategies that shaped the Sri Lankan economy over the last six decades may be distinguished under two eras: the first era covering the period 1948-1977 and the second era during the post 1977 period. During the period 1948-77 as a whole, in Sri Lanka, Inward-looking Development Strategies (Import Substitution Industrialization Strategy) were given priority. In

this period government intervention was often seen as the solution to economic problems and local private sector also somewhat got involved in the economic activities. During this period owing to strict administrative regulations, the economy was inward-looking.

Inward-looking policies in Sri Lanka have generated some short term benefits, such as the protection of infant and declining industries, job creation, increased income and preserving traditional ways of life. However, this study exposes that the anticipated results could not be achieved to solve the economic problems of the country through the closed economic policy. Several factors have contributed towards unsuccessful status of this economic policy. That is, Breakdown of the economic plans, increase of production costs and production of low quality goods, non-availability of employment opportunities as anticipated, inappropriate of the technological knowledge, limitations of the market, establish doctrinaire industries due to non-application of national resources fruitfully, including excessive costs of imported commodities for productions etc. were the main obstacles to achieve the remarkable economic growth and development as expected. In addition to these factors some other factors may also have affected for the failure of economic policies implemented under the closed economic policy. These factors can be identified through further research regarding this.

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