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30th March 2005 'The Island'

Dr Uswatte-aratchi does it again!

by D. L. O. Mendis

The Island readers continue to be entertained by Dr Uswatte-aratchi's profound thoughts on the economy. His polemic titled Random Thoughts on Budget 2004 on December 8, 2004, was juxtaposed with an article on the same page that presented an alternative view of economic development policies for third world countries. His latest effort titled, Destruction: sudden and just like that, Reconstruction: not just like that, in the Island Mid-week Review of March 23, 2005, has given another opportunity for expression of a mischievous sense of humour among *The Island* staff - another article titled The ugly American bank has been placed immediately below Dr U's effort. Nevertheless, it is considered necessary to respond briefly to some of the statements made in Dr U's article, if only to expose them as ground preparation for invasion of the national economy after the tsunami.

In his paragraph titled 'Imagination?' he attempts to survey "railways, roads, telephone connections, schools, hospitals, prisons and other public buildings that belong in the first few decades of the 20th century". I am reminded of my school friend the late Victor de Soysa, of beloved memory, who responded tongue in cheek to a letter of invitation from the Mayor of Colombo, to a ceremony to honour the 19th century philanthropist Charles Henry de Soysa: Victor, the eldest son of the eldest son of the eldest son of the erstwhile richest man in Ceylon, while declining that invitation, wrote that his illustrious ancestor had failed to give the country a lunatic asylum, which he added would have been very useful in Sri Lanka today! One does not know whether to laugh or cry because Dr U has omitted to mention a lunatic asylum in his survey of what he describes as "present day needs, in place of the unimaginative structures that serve that purpose today".

The paragraph titled 'Technical know-how'? begins with the sage assertion: "We must embody the most advanced technology in reconstruction. There is no economy that has grown fast during last 40 years that did not adopt the most advanced technology in the development process".

He then goes on to advocate high speed railways like the TGV in France and the Shinkansen in Japan, for Sri Lanka. In the process he takes a swipe at Indian railways, where he says, "There is hardly a month where there is not a major fatal disaster". Dr U does not trouble to think about, and write within the context of our national socio-economy: like transferred technology, his economic thinking is also transferred from foreign sources.

The coastal railroad that was brutally battered by the tsunami was restored in an almost unbelievable 56 days by a magnificent team effort of all railway workers. At ceremonies felicitating them, when the first train reached Galle on February 20, speaker after speaker from Railway trade unions expressed their confidence about restoring the track to carry fast trains, if only necessary funds are made available for locally supplied ballast, and concrete sleepers that have been manufactured locally for half a century. Steel rails for high-speed trains have to be imported. Likewise signaling equipment. Any comparison with French or Japanese high-speed trains simply does not arise for our coastal railroad. We should aim at trains that average sixty miles per hour, or a mile a minute, on this built-up route. Faster average times may be achieved for long distance trains beyond Kurunegala, as was the case some years ago. Incidentally, a proposal for a long railway tunnel from Rambukkana to Kandy was made many years ago, when tunneling was being done for Mahaweli headworks. This may be considered in the longer term to make Kandy a suburb of Colombo, in a manner of speaking. (The description actually used in discussions at that time was making Colombo a suburb of Kandy!).

In regard to rolling stock manufactured locally, Island readers are already aware of another project combining technologies successfully developed in the Railway department in the public sector for the Rail bus, and the Micro car project in the private sector. This train will have power units in each passenger bogey instead of a high powered locomotive hauling a number of coaches. Is Dr U even aware of this proposal?

By the way, has he taken the trouble to evaluate in terms of his conventional economic wisdom the ideas he so glibly describes about economic development by transfer of advanced technology from developed countries? What does he really know about the feasibility of transfer of these technologies anyway, including their impact on our economy and on our society and our people? And what about local scientists, technologists and entrepreneurs – what is their place in Dr U's scheme of things for post tsunami reconstruction?

His critical reference to intermediate technology in the 1960s is misleading: "That story about intermediate technology in the 1960s was an infertile seduction that is best forgotten". In fact the three decades from 1940 to 1970 has been described as the Golden Age of Engineering in Sri Lanka, and technological achievements in this period have been documented in at least two recent publications, the Centenary volume of the Irrigation department published in 2000, and the ANS Kulasinghe Felicitation volume, Innovation and Self Reliance, published by the Institution of Engineers, in 2001. That evocative title was coined by Sir Arthur C Clarke, who touched on the significance of technology development in national economic development, in the Foreword. The 1960s saw that golden age of technology development reach its apogee. Dr U's mistaken reference to intermediate technology in the 1960s, is perhaps to the Divisional Division Councils (DDC) program in the Regional Development Division of the Ministry of Planning and Economic Affairs during the closed economy in the 1970s. If he and your readers look into the Kulasinghe volume in the History of Engineering in Sri Lanka series in the IESL, they will learn how technology development in the DDC program was still-born due to the absence of the expected support from the National Engineering Research and Development Centre, that had been conceived and established specially for the development of local technology, but failed to deliver, because ANS Kulasinghe who set up the engineering research and development capabilities in the Colombo Port Commission in the 1950s, and in the State Engineering Corporation in the 1960s, was not available to head it. He had been forced to resign and leave the country after the change of government in 1970, on account of a commission of inquiry set up by government, misled by a group of so-called progressive engineers.

Going on to computers, Dr U makes a characteristic self-contradictory statement: "Take the simple case of writing a computer programme for government debt management. Our computer scientists surely can write that but over a period of four or five years. In contrast, it can be bought off the shelf or from a specialised vendor and after six months working out the bugs and you will have a system up and running. The time saved will, in all probability, more than pay the higher cost. Of course it will be absolutely necessary to associate local scientists at every stage so that they would know the systems they function". What a laugh! On the one hand the programme may be available "off the shelf" or purchased from a "specialised vendor", but "it will be absolutely necessary to associate local scientists at every stage so that they would know the systems they function". Obviously while trying to prepare the ground for a foreign debt management program, Dr G shows his abysmal ignorance of the achievements of our computer scientists and engineers that have had their impact not only in Sri Lanka but around the world!

The reader is probably wondering what all this is about when the next paragraph titled Management? reveals Dr U's intentions. His contorted argument is that management skills are not available locally, alas, because in the private sector "enterprises are small and family held and there is little room for good managers to grow", and elsewhere "politicians made sure, with the 1972 constitution, that managers would not grow in the public sector". The solution, Dr U decrees: "So there is no alternative but to import them. They will be expensive; however, to not import them would be completely destructive". One sees a plea for the advent of the proposed multinational corporations, not quite so straightforward as the famous invitation in 1977: "Let the robber barons come!", but nevertheless a very real attempt to justify foreign so-called aid with attached strings.

A concluding comment is necessary. All Dr U's arguments are consistent with the statement attributed to the sociologist Abram Maslow: "If the only tool one has is a hammer, every problem will look like a nail". Dr U tries to squeeze everything into a concept of "growth" in the language of conventional economic wisdom. He needs to be reminded that the collapse of Enron corporation not so long ago was due to similar mis-direction. So also his comment: "The most blatant instance of obscurantism is the implicit faith of the government that restoring 10,000 small tanks will bring prosperity to the countryside", using the awkward word obscurantism, springs from ignorance of the socio-economic significance of the ancient small tanks system. It only reveals his own notion of what prosperity means, not to a rural peasant but to himself—measured in terms of "growth".

"The Island" "Midweek Review"

Destruction: sudden and just like that
Reconstruction: not just like that

by G. Usvatte-aratchi

Among the misfortunes that befell this nation, none was as suddenly destructive as the tsunami on 26 December 2004. However, more slowly and in contrived manner, over the last 57 years and more, man has visited more destruction on the people of this nation than nature did that fateful morning. I will get to that story at some later date; now I want to write about reconstruction from the devastation. We lost to death about one in every five hundred. One in every 200 people lost their livelihood. One in every 40 people became homeless and one in 20 was internally displaced. (To be on the same scale, deaths from the tsunami in India, would have had to be 2,400,000, the homeless 30 million and the internally displaced 60 million. Little wonder, that India could manage its relatively small scale disaster with its own resources.) Ours were huge losses, whether in absolute or relative numbers. That enormous disaster struck with overwhelming force, suddenly and just like that. In contrast, reconstruction will be slow, deliberate and subject to human control. It will require leadership, imagination, technical know-how and managerial competence of an order we have not seen in this land recently. If those were not forthcoming, the tents which have come up will turn out to be festering wounds in our body politic. It is perfectly feasible to destroy those tents within 24 months. It all depends on leadership, imagination, technical know-how and managerial ability. Mr. Eric de Silva, several times during the last two months, has ruefully dealt with the question of leadership. I shall now write about the other three requirements.

Imagination?

In the name of reconstruction, we must construct railways, roads, telephone connections, schools, hospitals, prisons and other public buildings that belong in the first decade of the 21st century. Those that we lost belonged in the first few decades of the 20th century. We need railways from Puttalama to Matara that carry passengers and cargo in three hours from one end to the other. That dictates that we need dual tracks all the way, that railway beds can tolerate high speeds and that signal systems can responds to those needs. There have been anaemic attempts to build a modern highway connecting Colombo to Matara. That attempt now needs an urgent blood transfusion. We need to extend that road all the way north to Kalpitiya. Similarly, we need a decent road from Trincomalee to Pottuvil and further south in place of the excuse for one that was washed out by the tsunami. The copper wires and the archaic connections need to be replaced with fibre optic cables that can carry large packets of data at high speed. Hospitals that will replace those destroyed, especially the teaching hospital in Galle, need replacement with modern structures and equipment. Indeed, we should build a modern teaching hospital in Matara, in close proximity to Ruhunu University. Schools in the south and the north and the east can now be built to respond to present day needs, in place of the unimaginative structures that serve that purpose today.

These do not come easily to bureaucrats; not to those now in office; they did not come to those that held office even in the golden age of the much vaunted Ceylon Civil Service. They certainly cannot come from politicians. The most blatant instance of obscurantism is the implicit faith of the government that restoring 10, 000 small reservoirs will bring prosperity to the country side. Quite in contrast, the entrapment of 600,000 workers in plantations and perhaps more than a million workers in low output agriculture are a sure means of keeping people poor. They must move to higher productivity activity over the medium term. Such anachronistic ideas must not rule reconstruction. The reconstruction of private sector buildings—houses, hotels and shops—is essential to recreate livelihoods destroyed in the catastrophe.

Technical know-how?

We must embody the most advanced technology in reconstruction. There is no economy which has grown fast during the last forty years that did not adopt the most advanced technology in the development process. Ireland, Japan, Korea, Taiwan, Malaysia, Thailand and Mauritius are all instructive here. That story about intermediate technology in the 1960s was an infertile seduction that is best forgotten. Techniques of production have moved forward fast and furiously during the last forty years and to be competitive in the world, there is no choice but to adopt the most advanced.

High technology is expensive. Take railways. It would be comparatively inexpensive to seek expertise from India in reconstructing railways. There is hardly a month when there is not a major fatal disaster on Indian railways. To ask them to build high speed railways would be a terrible mistake. They have not constructed nor maintained high speed railways. They would like very much to learn how to do it at somebody else's expense. Their low tender bids will be the bait they throw to unsophisticated bureaucrats. There are two countries that have done the kinds of things we are interested in here for many decades: Japan (shin ka sen) and France (TGV). You will have to pay for their expertise and buy a system that will work.

It will be argued that we should let our own engineers and technicians get on with the job. The principal question here is time. As our scientists and technicians do this for the first time they will learn it from first principles. They will take time as the best in the world would. Take the simple case of writing a computer programme for government debt management. Our computer scientists surely can write that but over a period of four or five year. In contrast, it can be bought off the shelf or from a specialised vendor and after six months working out bugs and you will have a system up and running. The time saved will, in all probability, more than pay the higher cost. Of course, it will be absolutely necessary to associate local scientists at every stage so that they would know the systems they function.

Once modern transport and communications systems are in place, the whole economy will appear in different perspectives to investors, both domestic and overseas. These are two components of the puzzle that have kept this economy growing at speeds way below its potential, which every one predicted as early as the 1950s. (See 'Papers by visiting economists'). Granted sensible political leadership, this economy may yet offer a decent living to its people.

Management?

Management is a far rarer commodity in our economy than most people recognise. In the private sector, enterprises are small and family held and there is little room for good managers to grow there. In the public sector, politicians made sure, with the 1972 constitution, that managers would not grow in the public sector. The huge number of ministers in most subsequent governments and their incapacity to work out policies have made managers of these incompetent politicians. Their interference has made sure that lackeys rather than managers would thrive in the public service. The public service still attracts men and women of great intellectual ability and commitment. Pubic servants of the calibre of Kanagasunderam (Inginiyagala), Sivagnanam (Irrigation and land development), Chandrasoma (Port), Mahinda Silva (Anuradhapura), Jayaweera (Broadcasting) and Sirivardene (Janasaviya) will still emerge, provided politicians let them grow. The current set of politicians will not let that happen and, in any case, it takes time for teak to grow in contrast to common mara trees. So there is no alternative but to import them. They will be expensive; however, to not import them would be completely destructive.

Who will pay for all this?

It is now manifestly evident that people everywhere have risen up magnificently to help those affected by the tsunami to get out of their economic losses. The immediate need for food, clothing, shelter and medical services have been well met. In fact, Medicines sans Frontiers had so much funds flowing for assistance to tsunami victims that they diverted funds to other urgent needs elsewhere. Oxfam had received all the funds they needed for their work in tsunami affected areas. In many societies including the United States of America, so far away from the disaster zones, private individuals donated money and material exceeding what their governments had contributed. School children have been keen to contribute to rebuild schools. Even in far away cities as Birmingham, Alabama [population about a million] supermarkets, little shoe shops in malls still collect money to assist tsunami victims. Congress of the Unites States passed legislation allowing the public to count their donations made during January 2005 as if they were made during 2004, for tax purposes. The President has requested Congress to allocate $950 million for assistance to tsunami affected areas in 2005. The public and governments of Australia, Germany and Japan have made huge contributions to enable reconstruction. Then, there is no shortage of money to undertake reconstruction, that goes beyond mere restoration. There is a shortage of real resources in the form of leadership, imagination, technical know how and management. Of this, much can be imported, as indicated earlier. However, leadership cannot be; it needs to be grown domestically. If we fail in this effort, it is because our leaders will not rise to the occasion. They must.

Employment

One of the most serious problems to come out of the tsunami disaster is the loss of livelihood. Fishermen and all those connected with fishing lost their sources of income, as did a whole lot of people in the tourist industry. The destruction of roads and transport equipment cost huge income losses. All sorts of little vendors lost their buildings, stocks and with them their sources of income.

More than 100,000 houses need to be built entirely new or substantially repaired. Most of these people have no assets to fall back on to eke out a living. Rapid reconstruction will provide immediate opportunities for employment, although not in the same activities in which they made a living earlier. Once reconstruction has been completed and investments begin to come in we can expect higher standards of living to come out of the tragic destruction by the tsunami. It will not take place just like that.

5th Jan. 2005 "Island"

Alternative development: Non-linear thinking

A Response to Dr G Uswatte-aratchi's article in The Island, December 8, 2004, titled random thoughts on Budget 2005

by D. L. O. Mendis

Dr G. Uswatte-aratchi's Random thoughts on Budget 2005, is an example of the conventional wisdom of classical economics called linear thinking. As described by Hazel Henderson, it is quoted in Mihaly Csikszentmihaly's 'Creativity – Flow and the Psychology of Discovery and Invention':

'It's basically linear thinking. Its underlying paradigm is that we are all marching along a time line from the past to the present to the future, and that somewhere along there's lots of assumptions about what progress is, which is normally measured in terms of material abundance, technological virtuosity, and economic growth'......

This of course is the economic philosophy of the UNP, following the dictates of the IMF, the World Bank, the ADB, the WTO et al. The manifest attempt of the Sandanaya government to try to break out of this virtual debt – trap, is ridiculed by Dr GU with the statement that the Budget 2005 has 'clear marks of JVP paternity'. The question arises 'So what? Isn't the JVP a constituent member of the ruling coalition?' Incidentally, this criticism of alleged JVP paternity of the budget, as Dr GU describes it, is also consonant with the recent attempt by three foreign big powers to intimidate the government on account of JVP criticism of the so-called peace accord. This blatant interference in the internal affairs of our country provoked a strong editorial comment in the ISLAND.

JVP baiting may also be seen in the backdrop of a statement by the UNP Organizer some months ago that the Sandanaya government will be overthrown by a popular uprising of the people as had happened in Allende's Chile and N'Krumah's Ghana. That statement came as a surprise to those who know that both these political events were far from being due to popular protests. Allende's overthrow was due to intervention by the CIA and a multi-national corporation, while N'Krumah's demise is similarly suspected to have been due to foreign agents. But, attempts to whip up hatred against the Sandanaya government after the UNP Organizer was incarcerated in jail, by street demonstrations, were reminiscent of preparations for the Pinochet take over in Chile that was also preceded by such orchestrated street demonstrations in Santiago and other major cities. At a well-attended meeting of the World Alliance for Peace in Sri Lanka (WAPS) at the BMICH on December 19, 2004, evidence of misdeeds of the so-called Peace Facilitators was presented. This included tapped telephone conversations between their Ambassador in Colombo and the Vanni terrorists, discussing how to explain away the sinking of a ship as due to a fictitious third party, and the modus operandi to get a high powered transmitter to the Vanni, courtesy of the UNP government. Also mentioned were activities of International Alert caught trying to destabilize an African country.

It is with this general background, that we should consider how Dr GU presents his linear thinking based criticism of Budget 2005. Consider for example the following words:

'The present government, led by the JVP philosophy, sees agriculture, especially peasant agriculture, as the source of economic growth in this country. In my understanding this is a terrible mistake, a mistake arising out of sincere infatuation with the peasantry, but like most such infatuations fraught with dire consequences.....

The folly of a strategy to build an economy which will provide more employment and higher income in the long term by growing agriculture should be even clearer. Land which is cultivated is limited in extent. The application of more labour [more employment] to it, give falling additions to output [falling incomes]. So more employment can be created in agriculture only at lower wages, beating your objective of more employment at higher wages.

This is a clear enough statement of the conventional wisdom of textbook economic theory that has contributed to the underdevelopment of Sri Lanka today. Dr GU should reflect on his own rural background and remember that the family is the core of a stable society. But, imitative so-called development has made the poor poorer and driven our rural women to west Asia and elsewhere, to earn valuable foreign exchange, VFE, working at the lowest levels such as house maids. (A recent TV program also showed how they were forced by our own embassy officials in some countries, to sell themselves to earn their passage money to return home when they found themselves stranded through no fault of their own). The money they send home is the largest single source of VFE, used to pay for imports including luxury items for tourism and for conspicuous consumption by local elites. But, in the motherless homes these women leave behind, children are driven to drugs and child prostitution, and the family is destroyed, and with it the future of our country. The JVP is a group that seems to sees this, and has the will to try to reverse this evil trend. They do not give a hoot for the conventional wisdom of linear thinking borrowed from some other country's economic history.

In this context the readers' attention is drawn to an extract from a Presidential Address at the Sri Lanka Association for the Advancement of Science, (1974) by Dr K N Seneviratne:

"Yet another consequence of rapid population growth is that it is the most potent factor promoting urbanization. In the pre-industrial society change takes place slowly subject at all times to a pervasive social tradition. People tend to be born, live, work and die in the same place, among people they have always known; no one grows fat or starves, alone. Ties to the community are strong and seldom severed.

The traditional society fosters and stresses cooperation and the welfare of the community at the expense of the individual, whereas the new [urbanization] fosters secular society and stresses competition and the welfare of the individual at the expense of the community...

The dominant feature of urban existence, which tends to convert alienation into aggression and hate, is the size and complexity of our social institutions. When man is, or feels himself to be, a very small and anonymous cog in a very large machine he is deprived of the chance of self affirmation, of a pride and dignity in his individuality and achievement. The delicate equilibrium between his security and social dependence on the one hand, and his independence and sense of personal identity on the other is shattered, and this lies behind the anger and hostility that characterize contemporary socio-economic revolt. It is of this condition that Marx wrote in his accustomed style 'it mutilates the labourer into the fragment of a man, degrades him to the level of an appendage of a machine, destroys every remnant of charm in his work turning it into hated toil, bringing misery, agony, slavery, ignorance and mental degradation'. Writing in 1918, Marx saw clearly that workers were being alienated from the fruits of their labour. Half a century later, we should recognize that even more ominous than his economic plight is his alienation from his evolutionary inheritance"

Thirty years after these wise words were written, the situation described as his alienation from his evolutionary inheritance, is evident in Dr GU's blind adherence to borrowed theory and dismissal of JVP philosophy. He should pause to recollect briefly the political background of today's JVP: in the early 1970's some disgruntled youth took up arms against the government in an attempted insurrection that was brutally suppressed. The incumbent government was routed at the free and fair general elections in 1977, and those who had been sent to jail, were released and allowed to enter mainstream politics. But after 1983, they were (wrongly) blamed for the violence, and outlawed. They went underground, and the terrible civil commotion of the late 1980's was the result. Today, they clearly demonstrate disillusion with conventional linear thinking by the likes of Dr GU.

Let me take a few examples of Dr GU's conventional economic wisdom that lacks any understanding or sympathy for the alternative of non-linear thinking. He refers to debts of the Petroleum Corporation that have allegedly been transferred to foreign suppliers, Iran and India, and warns that this could lead to massive losses through exchange depreciation. One wonders at the logic of this assertion. Exchange depreciation will always result in increases in rupee payments of foreign debts, whoever pays. Is he implying that the Corporation could default on payments, but not our sovereign government? Dr GU goes on to say that ill effects of the Budget 2004 'will appear in 12 or 24 months', and these 'will include inflation, exchange rate depreciation, and probably a slow rate of economic growth'. Consequently he says, 'there will be higher prices, shortages of supplies and widespread unemployment, and even recourse to IMF for assistance on hard conditions'.

In contrast to this pessimism, optimists (like me) see the budget as an attempt to mobilize untapped resources, especially human resources. Human ingenuity has to be fostered, and this does not happen with projects based on so-called foreign aid, but with self-reliance and innovation in local projects. There was a time when Sri Lanka engineers had this type of self-confidence, as documented in the Kulasinghe Felicitation volume, Innovation and Self-reliance, in the Institution of Engineers, History of Engineering in Sri Lanka, series. There are signs of a revival of such local ingenuity as described below, in both the public sector and the private sector, but there is still a long way to go.

May I draw Dr GU's and your readers' attention to some foreign funded projects that drain the national coffers, and alternatives that could restore stability to our debt-ridden economy. A public protest against the typically IMF – World Bank - ADB type Southern Highway project, was held opposite the Colombo Fort railway station in November, 2004. Ven. Piyaratne, Eppawala hamuduro, explained that this project would reduce travel time from Colombo to Hambantota by one or two hours which will be a great benefit to chauffeur driven officials who could catch up on their paper work or snatch some hard-earned rest. But, if this money was used to restore some badly neglected small rural roads, including bridges, with local resources, there will be many forward and backward linkages that would benefit the economy. With the introduction of public and private transport that is now virtually non-existent on account of the dilapidated condition of these rural roads and bridges, a multitude of economic and social benefits would result. School children would have more time for rest and recreation, (and homework!), sick people would be able to get to hospital, and even the dead would be taken to their graves with greater dignity. Above all, there would be a tremendous boost to rural agriculture and small industries, when good roads bring producers and consumers closer to each other. Very few such benefits, easily amenable to quantification even according to conventional economic wisdom, are seen in the Highways project, which benefits mainly the foreign contractors and consultants, whose engineers are each paid millions of rupees per month in foreign exchange.

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Alternative development...

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An example of self-reliant development is the public sector rail-bus project implemented by the Railways department over the past ten years or so. This is now to be joined with the private sector Micro car project to produce a local train incorporating several original features such as individually powered passenger coaches. A deadline of 2007 has been announced for the first locally produced train set, but although there already are critics who seem to fear that this is like a trojan horse, I think otherwise. Now, if government has the courage (with or without JVP backing!) to implement the third rail-track to Katunayake within the existing railway reservation, without costly land acquisition, the unnecessary foreign funded Katunayake airport highway may be stopped even at this late stage.

Dr GU also decries reintroducing the tax on sale of land to foreigners, suspended by the UNP. His plaintive wail concerning loss of business by this tax is hard to understand. He seems to think that we have come to the stage of selling even private small holders land, just to survive, and that profit is all important. One does not have to wonder what his attitude is to the proposal to sell the Eppawala phosphate rock deposit, to multinationals, to be mined to exhaustion in 30 years. The consequent inevitable destruction of the Kalaweva – Jayaganga cultural landscape, heart of the ancient water and soil conservation ecosystem of western Rajarata will result in enormous losses even in terms of conventional economic wisdom. The Supreme court stalled the project, and the following quotation in that judgement, from a book titled WTO, Globalization and Eppawala after Seattle is relevant:

"Indeed, a hypothesis has been advanced that the Eppawela Deposit was not 'discovered' in 1971, but was known to our rulers and people for thousands of years who shared the thought that the deposit should be utilized. The difference between them and us is how this should be done. The ingenuity of the rulers and people of Sri Lanka in times gone by, it is suggested, had created a stable and sustainable agricultural development system harnessing the key natural resources available within their natural habitat, including the Eppawela deposit. The natural processes of weathering, microbial activity and precipitation might have released plant nutrients which were carried over-land by flowing into the reservoirs, channels and rivers as well as permeating into the soil matrix and possibly reaching underground aquifers". (See Ivan Amerasinghe, Contributions to Nutrient Flows in the Ancient Aquatic Ecosystems of Rajarata).

Your readers should be informed that finely ground Eppawala apatite is being used for local agriculture in a carefully planned project since 1974, that is for the past 30 years. Following the Supreme court judgement, the Weeramantry International Centre for Peace Education and Research, WICPER, in collaboration with the McGill University Center for Sustainable Development Law, has prepared a research study to verify the above hypothesis. The effect of natural leaching of Eppawala apatite on agricultural production in Rajarata, from ancient times down to the modern Mahaweli project, will be investigated by local and foreign scientists. However, some persons still think Eppawala phosphate should be converted to VFE, and unfortunately, even the President is misled into thinking that selling Eppawala apatite to a multinational corporation would benefit the country!

Similarly, the proposed Moragahakande reservoir project will result in virtual destruction of the ancient water and soil conservation ecosystems of eastern Rajarata. But it has been included in the program of the new Ministry of Irrigation, instead of the alternative Kalu ganga project, based on restoration of an ancient water and soil conservation ecosystem. Moragahakande will result in a new foreign debt of several billions of rupees, whereas Kalu ganga diversion can be done in stages with local endeavour alone. In this connection I may mention the bridge over the Maha oya built in three months by the State Development and Construction Corporation, in the Ministry of Irrigation and Water Management, at a cost of just seven million rupees, as against an estimated cost of fifty seven million rupees. Interestingly this was opened in December 2003, but was not made use of for election propaganda in April 2004 by the UNP – who were probably advised by the likes of Dr GU!

Alongside Dr GU's article was a Third World Network article titled 'Rural development is the key to tackling global poverty', which Dr GU should read (if he has not already done so). The author Atiqur Rahman of the International Fund for Agricultural Development (IFAD) says inter alia:

'Rural development must be the first step in fighting poverty – and an investment in agriculture is key. In most poor countries, agriculture is still the largest employer, job creator and export earner. Research has shown that for every dollar spent on agriculture another two dollars is generated for a developing country's national economy'.

As against this Dr GU has (mis)-quoted Amartya Sen: 'If Amartya Sen taught the common reader anything, it was that famines or incapacity to obtain food were caused by collapse of incomes among the victims, and not from a fall in supply of food grain'.

The common reader is not so ill-informed or stupid as Dr G would presume. He or she does know that Amartya Sen, won a Nobel prize in economics for his research, for example on causes of the Bengal famine. In that disaster, food was available in warehouses, but the poor died of starvation only because the Imperial State did not attempt to distribute the food to them, without prior payment. Hazel Henderson has this to say, as a sort of last word that is relevant in this context:

"People are the wealth of nations, you see. The real wealth of nations are eco-system resources and intelligent, problem solving, creative people. That's the wealth of nations. Not money, it doesn't have anything to do with money. Money is worthless; everybody knows money is worthless. I do seminars on money. And I start off by burning a dollar bill, saying, "This is good to light a fire but you know it's not wealth. It's a tracking system to help us track transactions"'.

It is necessary in conclusion to make a few general comments. In my D A Rajapakse Commemorative Oration on November 26, 2004, I quoted the US Senator Fulbright who was quoted by the economist John Kenneth Galbraith on the US military – industrial complex, as follows:

"I do not think the military-industrial complex is the conspiratorial invention of a band of 'merchants of death'. I almost wish it were because conspiracies can be exposed and dealt with. But the components of the new American militarism are too diverse, independent and complex for it to be the product of a centrally directed conspiracy. It is rather the inevitable result of the creation of a huge permanent military establishment, whose needs have given rise to a vast private defense industry tied to the Armed Forces by a natural bond of common interest".

I suggested that in Sri Lanka, there is a techno-bureaucracy, analogous to the US military-industrial complex that act together in a natural bond of common interest, to outwit the politicians. The result is the type of foreign funded project like the Southern Highways project, the Eppawala phosphate rock project, the Katunayake airport highway, the proposed Moragahakande reservoir project, and many others. Any attempt to set up a self-reliant alternative development project does not find favour with these worthies. As documented elsewhere, (in an IIMI study) the Lunuganvehera reservoir project was an outstanding example of downright skullduggery by the techno-bureaucracy.

Continued next week

Random thoughts on Budget 2005

by G.Usvatte-aratchi

These are random thoughts because they were not formulated after a systemic examination of the Budget, for which I am not likely to have time. However, there are some features that should not pass without remark, as the Leader of the Opposition in Parliament did.

More government

The first feature is the Budget 2005 is a fast departure from the Budgets presented to Parliament during the last 25 years or so and bears clear marks of 'JaVi Pe' paternity. The government is back as a player in the details of government, imposing varying rates of duty to alter production patterns, organising agricultural production and marketing the output of small scale manufacture. The government is also back to raise the proportion of tax and expenditure to GDP. Government is also back raising government employment in the total economy. These are departures from policies that dominated budget making from 1978-2004 and hark back to the 1971-77 government policies. Someone compared the Amunugama budget to the N.M. Perera budgets, not without reason.

However we have learnt a great deal since 1977. The President of the Republic herself has repeatedly pointed out the inefficiency of the civil service and more recently the venal nature of its incumbents. Experience both in China and Vietnam have demonstrated the ineffectiveness and even the baneful effects of 'collective' farming which the government, especially its JaViPe element, espouses to increase output in agriculture and industry. If experience in those two countries is any guide, there will be no better results here than there. Chinese agriculture grew remarkably after collective farming was given up for individual farming and in Vietnam, after the doi moi programmes.

Goodbye to fiscal discipline

Budget 2005 cuts itself clearly from the 2003 and 2004 budgets. That UNP led government determinedly ran after fiscal discipline. There were no supplementary estimates to Budget 2003 and a few to the 2004 budgets. Government employment did not increase and budget deficits were kept in check. The Fiscal Management [Responsibility] Act 2003 was the best expression of its fiscal policy philosophy. The JaVipe led present government threw all that over board, as ballast which could sink it as they did the UNP led government in 2004. Government employment was expanded to take in unemployed and educated youth. All kinds of subsidies were brought in both to encourage selected lines of activities and to supplement incomes of low income groups. These measures won Budget 2005 much popular support because this electorate never seems to ask who will pay for what the electorate receives.

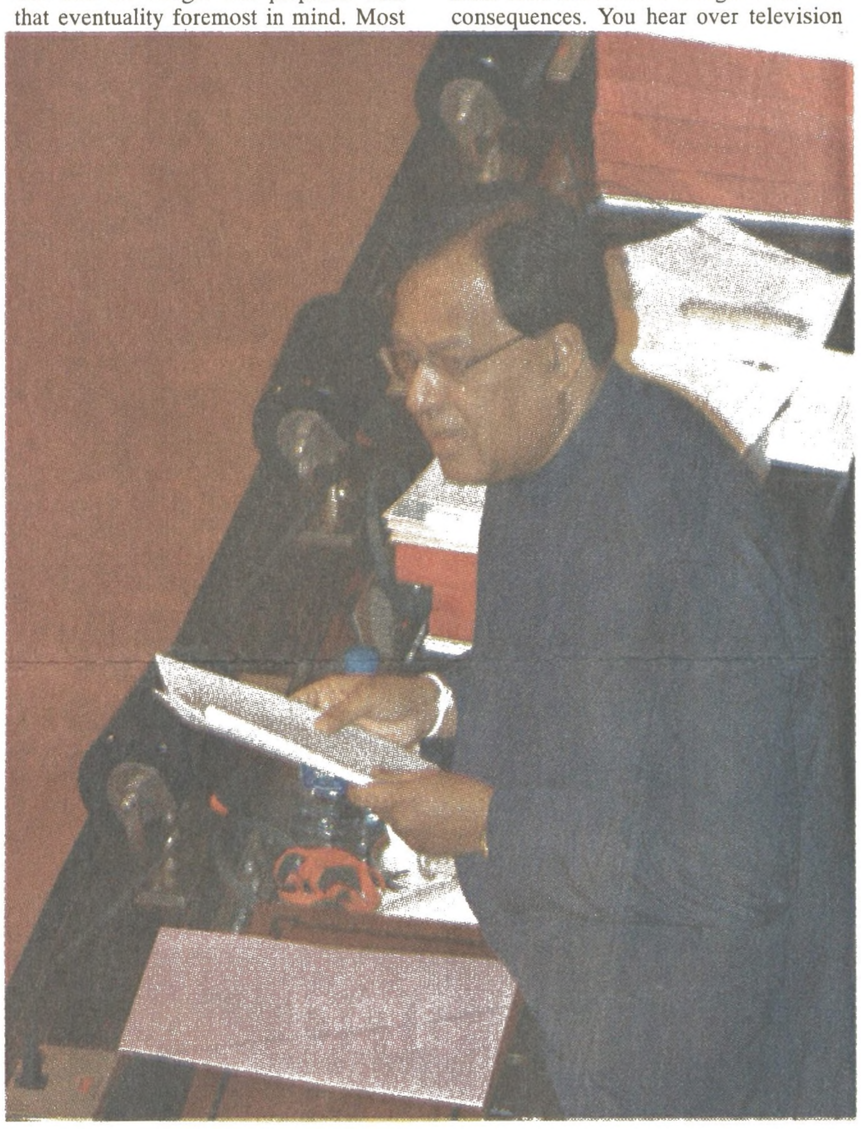
The slack in fiscal discipline is now evident everywhere. Government departments, including the army, owe the Petroleum Corporation billions of rupees. The Petroleum Corporation in turn has huge losses presumably financed as loans from government owned banks, which in turn are laden with poor quality assets. Hospitals have huge unpaid bills for goods and services provided by other government agencies and private suppliers. These are all debt of government, which do not so appear in its accounts of public debt. Such hiding is dangerous because government does not get a clear picture of its liabilities and policies can be made disregarding them.

News media now tell us that the Petroleum Corporation is going to 'solve' its problem of indebtedness by substituting obligations to foreign debt owners [in Iran and India] in place of domestic creditors. This is a most dangerous departure and that was how the Philippines, Thailand and Indonesia began their slow journey to horrible economic crises in 1997. Foreigners have no difficulty in lending because these loans are a part of sovereign debt of the Republic of Sri Lanka and the risk of final default is minimal. However, the government of Sri Lanka now runs highly likely risks of massive losses through exchange depreciation. The need to consolidate government borrowing cannot be over emphasised, whether the source is domestic or foreign. Government needs to be doubly careful when it borrows overseas because of exchange risks and should not permit government corporations to borrow outside the programme of the government.

Time frame of budgets

The UNP led government imagined a time frame of probably five years and aimed at fiscal consolidation before it commenced any large scale government expenditure. The popular perception is that they waited for overseas help to do that after their second year in office. However, those expectations were ruined when the President wrested control of government at end 2003 and that government lost its mandate to govern, at the General Election 2004.

In contrast, the JaViPe led government is ever ready to go for a new election and the budget was prepared with that eventuality foremost in mind. Most people did welcome Budget 2005, as have many retired university professors. [Why are serving professor of economics silent?] However, the ill effects of the budget will not appear for about 12 or 24 months, especially if the 2006 budget follows the same philosophy as that of 2005. These ill effects include inflation, exchange rate depreciation and probably a slow rate of economic growth. From the present government's point of view it would be most propitious to seek re-election sooner than later, no matter whether Saturn remains in Kataka or moves to Sinha in early 2007. By that time it would be too late. There will be higher prices, shortages of supplies and widespread unemployment and even recourse to IMF for assistance on hard conditions.



The price of land that foreigners may buy

Let us examine what might happen to the price of land sold to foreigners consequent upon the 100 per cent tax on the purchase price. Imagine that a price of a piece of land on the sea front in Unavatuna was Rs.0.5 million before the tax. Now a foreign buyer will have to pay Rs.1 million per perch if the domestic owner is to yet receive Rs.0.5 million. Will the foreigner pay Rs. 1 million per perch and pay the government Rs.0.5 million in taxes? He will certainly do so if he has no choice but to buy that piece of land. What choices has he? He can go to Hua Hin in Thailand, to the Pacific coast in Chile or the Atlantic in Namibia. If the prices are attractive enough in the alternative location, he might refuse the land in Unavatuna. The general tendency will be for foreigners to reduce the demand for land in Sri Lanka. Among other things, that means a lower price for the domestic owner of land. Imagine the foreign buyer is willing pay no more than the pre-tax outlay for the land. Then the domestic owner will receive R.0.25 million and the government Rs.0.25 million. That is probably what is going to happen, the government taking some share of the value otherwise paid to the individual owner, with little net gain for the economy. In contrast, domestic buyers may now find that land prices fall below the pre-tax price because, the owner will be willing to sell the land for any thing above Rs.0.25 million, which is what he would receive if he sells to the foreigner. Domestic buyers should queue up to buy land on the sea front.

Agriculture as the basis of sustained rapid growth

The present government, led by JaViPe philosophy, sees agriculture, especially peasant agriculture, as the source of economic growth in this country. In my understanding this is a terrible mistake, a mistake arising out of sincere infatuation with the peasantry but like most such infatuations fraught with dire consequences. You hear over television and radio many paeons of joy to the country side and its villagers. Many of the sweetest lyrics in Sinhala during the last 50 years are about these things [e.g pitisara hela guru liya sa-re-de (Sunil Santha), tavamat girav enava pera puruddata (Amaradeva), araliya landata handa payana kota (Nada Malini)]. This is because lyric writers are only one generation away from the country side and their nostalgia is powerful and poignant, There is another group who yearn for the 'world they have lost': enthusiasts about every thing indigenous and bhikku are prominent among them. Nobody can re-build the old village of Humpty Dumpty again. That life is gone for good. Subsidies to re-build that structure, except as curiosum for the tourist, are waste of money and are best avoided.

The heavy emphasis on 'food security', even in institutes of policy studies, arising out of domestic production of food is, is baffling. After all, food security comes from command over resources to obtain food, whether out of one's own production or other people's. If Amartya Sen taught the common reader anything, it was that famines or incapacity to obtain food were caused by a collapse of incomes among the victims and not from a fall in supply of food gain. It now seems so simple to comprehend, yet even people who are literate in economics keep on repeating that we must encourage domestic agriculture, however inefficient, to obtain food security. This is true in the event that all food import becomes impossible. In that event food production will fall drastically, anyway, because chemical fertiliser will not be imported either. In any case, it will be foolish to build an entire strategy of development to accommodate the day on which there would be an end to all imports.

The folly of a strategy to build an economy which will provide more employment and higher income in the long term by growing agriculture should be even clearer. Land which is cultivated is limited in extent. The application of more and more labour [more employment] to it, gives falling additions to output [lower incomes]. So, more employment can be created in agriculture only at lower wages, beating your objective of more employment at higher wages. Output per worker on land can rise only with more capital per worker, which reduces employment in agriculture. You can have higher incomes but lower employment. You cannot have both rising incomes and more employment in agriculture. That is why countries with huge armies of labour in agriculture are poor [Sri Lanka, India, China, Peru, Egypt, Ethiopia]. That is why countries with a very small labour force in agriculture are rich [US 3, Japan 8, UK 2, France 7 and Germany 5 per cent of all employment]. Let us also recall that these same countries when they were poor had huge proportions of their employment in agriculture [in 1870, USA 50, UK 42, Japan 70, France 49 and Germany 50 per cent]. Even if one does not read economic history, where do young men and women leave at peril to their lives to work for higher wages? Not to fields on the Nile, not to Bangladesh with that wonderful delta, not to Myanmar to work near the mighty Irawady not even to work the forests watered by the Amazon. They seek work where productivity and wages are higher. Similarly, young people leave the tea plantations and rice fields because there is no hope there of making a living better than their parents did, wrestling with the earth. They certainly know more economics than those in government. The long term strategy is to get out of agriculture as fast as you can, if you want rising incomes and employment. Those who made economic policy from 1948 to 1980 erred massively when they played out their romance with the countryside. JaViPe is wrong now to continue with that folly.

Health insurance and private hospitals

Budget 2005 initiated a health insurance scheme for civil servants. They will now not go to government hospitals for most medical care and that would reduce the crowds flocking to these organisations for service. Those who are not civil servants will thank the minister for that. However, they may reasonably fear that the interests of the bureaucracy in the maintenance of these institutions will suffer in consequence. The bureaucracy will now become a lobby for private medical care. The private sector will do well to establish several new hospitals to cater to nearly 2 million [civil servants and their families] new prospective clients. Those who can afford the services of private medical care will now include all civil servants. Those who benefited from other health insurance schemes are already with private hospitals. Those who could afford such care on their have been catered to by the few private hospitals in town. The private hospitals will now attract most of the better health care personnel with higher pay and better working conditions. Government hospitals will be left with less skilled and able personnel to look after those in the lowest income groups. This is precisely what the World Bank and the IMF have been persistently asking for, now delivered by a government vehemently deriding all that that has to do with these institutions.

There has never been a measure adopted by government to support private sector medical services more strong than this. Yet the whole thing has gone unnoticed by JaViPe and its trade unions who vehemently oppose any tampering with government medical care and other left wing elements of the same persuasion. Have we seen that all these elements, whatever their public statements, have no real interest in state medical services? What if government makes education grants to civil servants to educate their children at schools and universities of their choice? They will all troop to international schools and imperial universities. What will the student body of Sri Jayawardhana pura University then say about 'the free education' scheme? What do they now say about 'free health' services?

Conclusion

It is evident that except in the very short term [3 to 6 months], the 2005 budget, however clever, will bring forth more bad than good to his economy. The brilliant Sarath Amunugama should have known better.