We are catching up on Global Economics

By Dr Darin Gunesekera

It may or may not be gratifying. Sri Lanka is a globalising economy. I have from time to time offered perspectives on what the globalising economy really means. It may be useful to follow progress within that classification.

Debt

In globalising terms, the national debt was too low. It appeared high only because domestic interest rates were high, and so annual cost was high, and short term rolled over debt as T-Bills were shown as short term instead of as perpetual annuities.

Now, the national domestic debt has been substantially increased. We have also paid the commitment fee for increased foreign debt.

Interest rates have accordingly plummeted down. It will fall even more. The current rate on 3 month money in Euros is below one per-cent, practically rates are zero.

Forex

To globalise, the repeal of the Forex Control Act is essential. There is no place for forex restrictions in a globalised economy. Very substantial progress has been made. As even professionals seem to be unaware of this, it may be well to state the facts. By Gazette of 22.11.2002, the Central Bank permitted residents to buy sell and hold gold and made it duty free for import and export.

As a result, there is a substantial trade in pure gold. There are new entrants besides banks in the trade. Gold can be purchased in Rupees at slightly above 2 per cent above the AM or PM London fixing price current. The sales are supposed to run at about Rs25Billion a year. Unlike what would have happened in the case of Forex Repeal, this gold is generally believed to be immediately smuggled out of the country. It would make sense for a buyer to do so and hold it or use it abroad.

For even financial or pure gold is still a commodity and has physical inconvenience. It does not yield an interest rate except in advanced centres and has a transaction cost in Sri Lanka higher than in the advanced countries. Further, since the OECD directive and increased enforcement by the US and its allies, it is difficult and highly dangerous for drugs and similar trades to operate in hard currency bank accounts. Gold is still available to them. So gold is no longer the plaything of the idle rich, it is a medium of transaction for businesses that are likely to have needs abroad. So it is not quite forex liberalisation but it shows that this step must be under contemplation, irrespective of effects on reserve accumulation.

Tax

In a globalising economy, the savings-investment process is held to be far more important than current income distribution being egalitarian. The Right wing position is the elimination of the individual income tax, especially in developing countries and the use of a tax close to BTT, as per its last refinements.

Again as many professionals seem to be unaware that the pilot has been run, it may be useful to state the facts. The Tax Amnesty Law, which ended 15th August, accepts and forgives persons confessing non-payment of tax in some past years, through 2001. But its economic effect has nothing to do with 2001. An amnesty has meaning only in connection with an asset shown now, in 2003. Professionals say that such assets, mainly cash in volumes as hundreds of millions of Rupees or such values in real estate, have been shown and written for exemption through confession. This may be current income or a gift. Or it may be a forward siphon from the next two years. It really does not matter. The point is that there has been a current opportunity to be free of tax on personal, not just individual, incomes. Now this has been utilised it appears such as may be expected in a globalising economy, that is by the top income earners, and for investment in productive enterprise.

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A change to elimination of individual tax especially on entrepreneur incomes and also a change to transform VAT to BTT as in its last refinement, in effect, seems to be proven to be for the better.

Management

The globalisation argument on management may need restatement. The trend is that management levels should be few, there should be steep wage differentials between them and managers in each should hire and fire the lower levels easily. In particular the protections given to the lowest levels of employees, which is exceptional and had been won by past trade union action, are in this scenario to be taken down.

As an example, in the public or private sectors we should have say only 4 levels per enterprise unit. Entry is at say, Rs. 5000. Then the next level of Manager should be at 3 times or 15,000. Senior Managers can heave in at 4 times or 60,000 and the MD at 5 times or 3 lakhs.

It appears that this direction actually has been taken in Sri Lanka. Also, the other globalisation aspect on the labour front, of the reduction of special protection of employment and the fall of wages has also taken place.

Between the days of the old GCEC and today, labour in garments has seen their monthly wage drop from USD50 to USD30.

That is labour wages have dropped 40%. At the same time, CEO monthly pay, in these and similar enterprises, has increased substantially. In US dollars, it seems to be a 200% increase. This is globalisation as we started from a point of too low salaries and too small increments, a laughable term, in the senior management grades. We are still far from that US globalised corporation with a star CEO paid at 463 times entry level. But it may come.

The Failures

One of the certainties of our economy, which we have consistently pointed out, is failure and poverty. In the globalising world of economies, one has to be smart and agile, as an economy, to avoid this. Sri Lanka is sufficiently far from real knowledge and information as to ensure regular failures and an increasing poor.

The situation as to redundancy, termination and VRS, reported in these articles as the feature of the new western economies has come to roost here. The private sector, freed from legal restraints on labour, has greedily rushed to remove jobs and employment. The public sector, freed to follow Donor and international advice and investor suggestions, have equally greedily rushed to reduce employment. Both sectors have also taken advantage of new rules to work existing employees to a greater extent and run offices and factories at all sorts of hours and days.

The upshot practically is that there are no jobs.

Those who had jobs now find themselves back at home. They have a bank deposit with declining interest income. They are encouraged and financially pushed to risk taking and entrepreneurship. Activities that their experience has made them particularly bad at.

Business failures have in this small economy made the protection of the niches that exist that is of oligopoly position, even more strenuous. The national economy is really a vast set of strangleholds. One has to be a VRS to really find out just how difficult it is to get into anything.

Homes

So what happened to Wolfensson's (World Bank President, especially when he had just come in as a new broom) safety net? It is there. There are poverty alleviation programmes. But these safety nets are not below those who are falling. They are somewhere else. Trying to catch the fish struggling in the mud of the poorest of the poor.

Which is why I would like to attract the attention of globalisers, who are now well on their way, to the importance of homes for all. Homes for all must be provided from the day they start life, not as a goal for the sunset. In the new reality, sunset will be even harsher work for most of the people.

A home is the best safety net. Whether one is rich or poor, we all recognise that this is the best refuge. Home, to the increasing mass of Sri Lankans, is not an expression of life style. It is the last refuge.

And what are its characteristics? It should place a person where he or she can get to work for the full extent of life. It should be maintainable even when income is cut off, and high rates or taxes out of the question. It would be helpful if it lends to home production of something, whether feeding boarders or cutting slippers. But it must be irrevocably the person 's' own home, not one of the various "bhoomi" deeds.

The Colombo area had a Master Plan, in fact a succession of Plans. But they all ignored Economics. They are based on the premise of dormitory suburbs and a vibrant hub.

But look at the reality today. Most of those suburbs had middle level older employees of commercial firms or equivalent Corporation and Government employees. They traveled on those spokes of the hub of Colombo. Now they are at home. They are trying to start those few lakhs capital businesses. Or they have faced reality and treat a journey to Colombo as an investment. The spokes are dead.

The Master Plans are dead. They did not envisage the new globalisation cities of the third world. We do have hubs. These are centres from which poverty, drugs and vice radiate out. Those negatives are the actual live spokes of the hub. The march of the market economy is controlled by strenuously maintained small little groups who keep out competition and hold up prices.

The only sane way of handling the situation before it deteriorates to complete marginalisation of large swathes of people is to refocus on housing. We need to simply plan to deliver a home for every family, especially as they start out. The major cities of Europe have now seen this writing on the wall.

But in Australia apparently they do not care and they have marginalized the fringe. Singapore has now forgotten how they escaped while the world was still young. But can a poor country afford to create a globalised ghetto or modern inner city?