

Need for an economic vision for the country

By Analyst

One of the most interesting features in the local scene is the interest businessman and professionals are taking in economic policy. The Ceylon Chamber of Commerce prepared an Economic Vision a few weeks ago and now the Organisation of Professional Associations is engaged in doing the same. The OPA will place before their Annual Sessions to be held next month their vision for the country.

An economic vision is important because it will sketch a scenario for the future. India prepared such a vision and so did Malaysia, Singapore and Japan. The new President A. P. J. Abdul Kalam prepared a Vision for India (along with Y. S. Rajan.). He stated, "An organisation, society or even a nation without a vision is like a ship cruising on the high seas without any aim or direction. It is clarity of national vision which constantly drives the people towards the goal."

But a vision must be based on a philosophy. Do we base our vision on the current economic thinking? After 1956 we adopted the role of the state as formulated by the socialist economic philosophy. The state was to run the so-called "commanding heights of the economy." So the SLFP nationalised bus services, the oil compa-

nies, the port of Colombo, the banks and insurance companies.

The socialist hangover

The Communists in Russia and Eastern Europe believed in paying more or less equal incomes although they were low. So the skilled and unskilled workers were paid more or less the same income. The differentials in wages between the professionals like the doctors, lawyers and teachers were low. But after about 1970 various supplements came to be paid. There was state subsidy on housing where the enterprise builds houses for its employees. There were family allowances, pensions - all of which added up to about 25% of the money incomes. Transfers in kind ranged from education, health and canteen meals to subsidized theatre tickets and access to sports events and holiday homes. The impact of these subsidies and benefits on the living standards of the employees was substantial. There were also explicit consumer subsidies in some communist countries.

Earlier, the inequality of incomes between the blue collar and white-collar workers and between professionals and middle level technicians had been reduced. But wages allowed only a narrow differential to account for differences in skill or the priority of the particular sector of production. But

privileges for the party nomenclature widened the distribution of incomes.

In the 1970s and 1980s a parallel economy developed which grew in importance. While the elite - the party nomenclature enjoyed special benefits by way of access to scarce goods and services; oth-

ers resorted to the parallel economy to obtain what they could not get in the official economy. So there was private production of medical services, repairs to appliances, and even goods and services in the black market. Tips came to be acceptable in the provision of public services, a euphemism for bribes and gratifications. There was illegal trading of foreign exchange and smuggling of goods from outside.

This black economy distorted the formerly egalitarian distribution of incomes in the offi-

cial economy. Many workers had a second or third job after or even during the official work times. It was a source of additional income to those who participated in it. Skilled workers like electricians, plumbers as well as other categories of workers began to do private practice and add to their

market thrived. Equality of incomes became restricted to official money incomes. Equality of opportunity and upward mobility was restricted to the party nomenclature. Executive positions and professional career opportunities became available only to party members. The failure of the

Actually reform of the public sector must begin with a better quality of ministers who have the skills of management and the professional knowledge to engage in policy-making. It's the ministers who have to reform themselves and the prime minister must see that those that fail or are succumbing to corruption are eliminated. He must not take it upon himself to defend such ministers in parliament. When no confidence motions are brought against individual ministers in parliament they should be asked to fend for themselves rather than cracking the party whip to align MPs behind the minister.

centrally planned system and distortions of incentives reduced the growth rate. The experiment with equality of incomes was a failure and so ended Communism.

The early Christians too practised a similar common ownership and adopted the principle of "from each according to his ability to each according to his needs." But as the community increased with more converts the system broke down. Although socialism is unworkable people are always attracted by the principle of

equality and are enamoured with socialist ideals. We saw a caricature of this system during the 1970s when the United Front government introduced socialism. The officials and their families had access to the rationed goods and didn't often have to stand in queues. Those who had money could buy in the black-markets and rationing was confined to the poor and the uninfluential. The growth rate collapsed.

Our state has now reached the stage envisaged by economists like Lord Skiddelsky where it suppresses economic growth without increasing its revenues, where the extra taxes needed to fund the budget inevitably generate inflationary pressures. So it is necessary to shrink the state for the sake of promoting economic growth and forget about socialism if we want development.

Equity at the expense of growth

We pride ourselves on our social indicators like the infant mortality rate, the life expectancy, the literacy rate etc. But we have about 500,000 to 1 million unemployed and are unable to generate jobs to absorb the youth entering the work force each year. Even the war of secession waged by the LTTE is at bottom due to our failure to generate fast economic growth and the attempt by the Sinhala nationalists to grab a large share of the national

output and employment opportunities in a stagnant economy. Our social achievements have been at the expense of economic growth.

There is a trade-off between growth and equity and we cannot continue to pursue a mirage - the mirage of equality. Equality of outcomes is impossible to achieve and equality of opportunity should not be pursued at the expense of economic growth. So the agitation by university students to stop private universities must be ignored to enable the country to produce the professionals required by the economy to propel it forward.

Growth requires many components like openness to trade, integration with the global economy, good governance, competitive markets, strong institutions. You have to build institutions which can stand on their own. Markets must be strengthened and allowed to operate without too much control. A holistic approach is required for economic growth. One component alone is not enough. Peace is important but it alone will not deliver growth. The government is employing about 15% of the labour force and unless this component functions efficiently it will be a drag on growth. Their contribution to performance is too low. But all efforts to reform the public service have failed.