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EMPLOYMENT RESOURCE MOBILIZATION
AND
BASIC NEEDS
THROUGH
LOCAL LEVEL PLANNING

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Paper I

'BASIC NEEDS AND INCOME DISTRIBUTION IN SRI LANKA'

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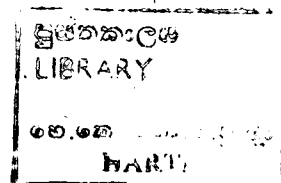
BASIC NEEDS AND INCOME DISTRIBUTION
IN SRI LANKA - AN INTRODUCTORY ESSAY

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Seminar on
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ILO -- GENEVA

INTRODUCTION

Our purpose in this essay is to link two phenomena as they operate in Sri Lanka: welfare systems and welfare distribution and income and its distribution. Two major issues thus present themselves; the first is the relation of income distribution to welfare distribution and the second, in a way, the reverse, i.e, how have these welfare levels affected the income distribution?

Welfare levels and resources: an international comparison

One very simple way to state in a nutshell the immediate benefits of welfare policies pursued over a long period in Sri Lanka is to reproduce the findings of the World Bank.¹ Taking three very basic indicators of aggregate welfare levels, life expectancy, infant mortality and literacy Sri Lanka is shown to have far out-performed countries with far higher per capita income levels. Conversely, for its income level, Sri Lanka had a literacy rate twice as high as expected, life expectancy at birth 18 years higher than expected and an infant mortality rate below one third of that expected. Correspondingly fertility and population growth are now at low levels.

The ILO's basic needs approach to development uses other indicators of aggregate welfare also, such as housing (where perhaps Sri Lanka's performance is less successful), road and public transport availability; and popular participation. As a working, "pendulum-style" democracy Sri Lanka must claim good marks on the last also.

These indicators are, as mentioned, in the aggregate. On the income side there is naturally unequal distribution, although precisely to what extent will be discussed below. However, most indicators support a claim to a lower degree of income inequality in Sri Lanka than in most other countries of the region.

¹ World Bank, Report No: 1937-CE, "Development in Sri Lanka: Issues and Prospects", March 1978 (Annex A).

The relative success of Sri Lanka in achieving high levels of welfare can be seen in more detail from the international comparisons given in Table 1. Sri Lanka has the lowest (equal with India) level of per capita GNP yet it has the second highest per capita calorie consumption level and infant mortality rate (second in both cases to food-surplus Thailand) the highest level of life expectancy, the highest incidence of hospital beds and of primary school (age 6-12) enrolment and the second highest (after the Philippines) of secondary (age 14-17) enrolment.

Table 1 is, of course, a hotch-potch. It mixes indicators of inputs (i.e. school enrolment is an input to better education levels) with indicators of outputs. A reduction in infant mortality can be desired for its own sake and its own contribution to family happiness. Higher life expectancy has also its intrinsic value, certainly to the extent that lower mortality is associated with lower morbidity. The incidence of hospital beds is an inputs, which may or may not be an essential element in the health production function. School enrolment should be an input.

Table 1: Welfare levels -in selected Asian countries, early 1970s.

Country	GNP per capita ¹	Calories per capita ²	School enrolment ³		Life expectancy	Infant mortality	Persons per hospital bed
			6-12	14-17			
India	150	2,008	53.6	20.2	47.2 ⁴	122	1,538
Indonesia	180	2,005	n.a	n.a	47.5	125	1,452
Philippines	370	2,094	61.6	50.0	60.0	68	785
Sri Lanka	150	2,149	73.4	47.0	65.9	49	330
Thailand	350	2,305	65.4	17.1	54.6 ⁴	27	1,452

Source : Asian Development Bank, "Key Indicators of Developing Member Countries", October 1976, Vol.VII, No.2.

1 US dollars, 1975.

2 Average 1970-1974.

3 From UNESCO and national censuses.

4 Males only.

The level of calories per capita can be seen as both an input (to health) and as an end in itself (i.e. the absence of hunger). GNP per capita is perhaps not even an input, it is rather the promise of inputs in the guise of the sum of available resources.

nb

Let us, for the moment, look a little further into the resources used to achieve these relatively high welfare levels. Calories, of course, represent physical food supplies measured on the basis of their energy providing capacity. Health and education resources can best be measured in financial terms. Although we have already made use of a specific health care indicator in Table 1 (the incidence of hospital beds) such indicators have their drawbacks. They can so easily turn our attention away from non-institutional inputs, such as the books that parents buy for their school-going children, or the use of self-medication. Taking the total of expenditure on resources as a share of GNP allows international comparisons (although unfortunately not for all the same countries as Table 1). These international comparisons will, however, only faithfully reflect "real" resource levels provided firstly that the bulk of these costs are salary costs and secondly that salaries of health and education personnel bear much the same relation to the national average in all countries. If such salaries are relatively low then the same share of GNP buys more resources in terms of man-years. If a significant amount of resources are imported, e.g. drugs, from richer countries then a higher share of GNP is needed in poorer than in richer countries to obtain the same amount of resources.

The only calculation possible on these lines suggests that young medical doctors in Sri Lanka are paid the same in relation to the national average as are young doctors in the USA.

For international comparisons of health and education resources we make use of two sets of data, one from national income accounts, concerns public expenditure. It is very likely that in many countries, particularly where semi-government and especially, in the health field, social security systems are operating, this is understated. The greater centralisation of such expenditures in Sri Lanka may exaggerate their relative importance. The other set of data concerns household expenditures which certainly for health, but more rarely for education, exceed public expenditure.

Taking first health, it appears that total resource inputs in Sri Lanka are by no means high. Sri Lanka ranks slightly higher than India but below the Sudan and Honduras. Indeed total health expenditures are fairly clustered around the 2-3 per cent of GNP level. Total expenditure on education in Sri Lanka is the highest of the 7 countries whose data are presented, but the differences between Sri Lanka (5.1 per cent) and Honduras (4.9 per cent) the Sudan (4.8 per cent) and the Philippines (4.8 per cent) are pretty minor.

Nevertheless India and Pakistan, which, internationally rate fairly well on total health expenditure, come very low on total education expenditure. However, it still does not appear that total resources devoted to health and education, while relatively high in Sri Lanka, are that far out of step.

Table 2: Public and Private expenditure on Education and Health as a share of GDP, 1970, (per cent)

	Education			Health			Education and health		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Sudan	4,1	0,7	4,8	2,2	1,5	3,7	6,3	2,2	8,5
India	0,8	1,05	1,85	0,4	2,1	2,5	1,2	3,15	4,35
South Korea	0,2	4,2	4,4	0,05	2,0	2,05	0,25	6,2	6,45
Pakistan	0,9	0,9	1,8	0,9	1,5	2,4	1,8	2,4	4,2
Honduras	3,3	1,6	4,9	1,9	3,2	5,1	5,2	6,5	11,7
Sri Lanka	3,5	1,6	5,1	1,8	1,2	3,0	5,3	2,8	8,1
Philippines	2,4	2,4	4,8	0,4	1,5	1,9	2,8	3,9	6,7

Source: UN: Yearbook of National Accounts: ILO, Household Income and Expenditure Statistics.

But turning from a discussion of total resources to the origin of resources suggests that the role of the State has been unusually important in Sri Lanka. The commitment of public resources to health has accounted for around 60 per cent of total expenditure and of public resources to education some 70 per cent of the total. For health, the Sudan nearly reached this percentage of public to total expenditure but the others were far below. For education the Sudan exceeded this share of public expenditure; in total expenditure while Honduras nearly reached it. Generally, one might say that governments have been far more willing to take a large burden of educational financing than of health financing.

The fact that government financing is a significant share of total financing need not guarantee, even in Sri Lanka, that health and education services are distributed independently of income. It has certainly been claimed in relation to e.g. government health expenditures in the Philippines that these are concentrated on high quality hospitals in major cities and have had few benefits for the bulk of the population.¹ Similarly where the

¹ See E.Tan, "Taxation, Government Spending and Income Distribution in the Philippines", Geneva, ILO, 1975 World Employment Programme research working paper (restricted). WEP 2-23/WP 26, October 1975.

the total level of resources, public and private, still remains meagre and insufficient under any criterion it is unlikely that the services they provide will be equally available to all. Nevertheless for Sri Lanka the relatively high level of total resources for health and education and the relatively high share of government financing in these resources are no doubt crucial explanatory variables for the country's high aggregate welfare level.

Just as large amounts of public resources have been devoted to health and education programmes they have equally been used generously to finance food consumption. The official "net food subsidy" has generally amounted to some 10 per cent of private food consumption. Without, for the moment, asking why Governments have continued to contribute such a high level of resources to these programmes one can at least ask how they were able to. Firstly, of course, the calories consumed in Sri Lanka are by no means all produced there. Around 40 per cent are imported and, when netted out with domestic procurement for the rice ration, sold at a loss. Hence, the concept of the net food subsidy arises. That domestic food production is relatively low is caused largely in its turn by the export orientation of plantation agriculture and its generally higher level of productivity. In the late 1950s plantation agriculture was estimated to be five times as efficient as domestic agriculture in meeting food needs.¹ The differential probably halved by the late 1960s² and is almost certainly lower today. That so much food was imported in fact eased administrative distributional problems and gave the State its opportunity to establish a system of guaranteed rations.

Corresponding to the major role of foreign trade in the economy the level of domestic resource mobilisation by the public sector was, and has remained, high. Originally the bulk of current receipts were from export and import taxes. In more recent years internal activities have borne a higher share of the tax burden as foreign trade has declined in relative importance. At 1959 prices imports fell from some 30 per cent of GNP in 1953 to 10 per cent in 1976. However, the share of GNP taken as government current receipts has changed little. It was some 24 per cent in the mid-1950s, some 27 per cent in the mid-1960s and 23 per cent in the mid-1970s. Thus, on every side Governments have had the opportunity to undertake welfare programmes.

¹ N. Kaldor, "Papers by visiting economists", Planning Secretariat, Colombo 1959.

² P. Richards, Employment and unemployment in Ceylon, OECD, Paris 1971.

Before passing on to a discussion of income distribution one more angle can be explored. The high share of public health and education expenditures, let alone the net food subsidy, suggests that private levels of expenditure may be relatively low. Thus indeed private levels of expenditure on health and education in Sri Lanka are relatively low, below indeed those of India. This again suggests that private consumption patterns have been oriented elsewhere, presumably away from agricultural products and towards manufactures. It is useful to recall here, that whatever might be said about Sri Lanka's over-all growth performance, output of manufactures has grown fast.

Table 3: Growth of manufacturing output (per cent)

Sri Lanka	1963-1973	7.6
	1970-1977	6.3
India	1961-1966	6.8
	1969-1973	4.2
All developing countries	1963-1970	6.9
	1970-1974	8.2

Source: Sri Lanka: Department of Census and Statistics, National Accounts of Sri Lanka, 1970-1977; India: from A. Singh, "The 'Basic Needs' Approach to Development and the Significance of Third World Industrialisation", Geneva, ILO, 1979, World Employment Programme research working paper (restricted); All developing countries: UNCTAD, "Recent Trends and Developments in Trade in Manufactures and Semi-manufactures of Developing Countries and Territories", Geneva 1978 (mimeo).

The slow-down in manufacturing growth in India has been blamed on a faster price rise for food grains than for manufactures thus turning consumption patterns away from the latter.¹ Perhaps the relatively high growth rates in Sri Lanka can be credited to low food prices.

Income distribution

Precisely how the degree of income inequality in Sri Lanka now (or rather a few years back since our data are always old) relates to that

¹ A. Mitra, Terms of Trade and Class Relations, London 1977.

In other countries will not be discussed, It ought to be lower, given that until 1975 a large part of the country's most valuable assets were owned outside the country and thus their profits never entered the accounts of resident households. However, we shall concentrate here on getting a little closer to an accurate picture of the distribution of incomes before tax, not including subsidised food (and Government services) as income and taking the consumption of home produced goods and services into account.

We shall work from the basic data provided by the Department of Census and Statistics from the Socio-economic Survey undertaken in 1969/70. The data are old but experience of other countries¹ strongly suggests that income distributions do not change fast. The 1969/70 survey data also have advantages because firstly the original data tape is easy to utilise and secondly that survey captured a higher share of total income (or at least of GDP at factor cost), some 67 per cent, than did the 1973 Central Bank Consumer Finance Survey, which captured some 61 per cent. In addition the 1969/70 survey recorded as consumption an amount equal to 91 per cent of private consumption in the national income accounts. Invidious comparisons between surveys are not in order here. The Consumer Finance Surveys very efficiently reconcile income and expenditure totals but the Socio-economic Survey records greater consumption totals. More importantly, using this approach between 1963 and 1973 income coverage dropped from 67.5 per cent to 61 per cent and consumption coverage from 86 per cent to 76 per cent. Any analysis of inter-temporal shifts based on this decline in over-all coverage is doomed to be unreliable.

Be this as it may any survey as usually published contains two major sources of illusion. The first is the almost universal practice of ranking households within the income distribution in terms of their total income irrespective of whether they have one member or eleven. Hardly ever are households ranked in terms of their per capita income.² But since richer households are usually larger households and poorer households smaller households, this means of statistical presentation exaggerates the amount of "real" inequality. The second source of illusion is precisely the degree of understatement of incomes. This can be measured roughly in the

¹ See, "The Political Economy of Egalitarian Growth", I. Adelman et. al., Geneva, 1976.

² We know of one such series, for the USA.

aggregate, it can be estimated, using an input-output table, by income source. But if there is any tendency for the poor to understate their incomes (leaving aside their source of income) less than the rich, that bias can not be measured,

There is a third source of illusion which is created by inclusion of servants as family members in the statistics, thus lowering the per capita incomes of richer households. Allowance can be made for this in a very rough and ready fashion,

Table 4: Revised income distribution 1969/70.

<u>Income group</u>	<u>Original</u> ¹	<u>Per capita</u>	<u>Revised I</u>	<u>Revised II</u>
Poorest quintile	6.9	8.6	7.9	7.9
Middle quintile	15.1	16.3	15.0	14.9
Richest decile	29.8	25.8	29.9	30.4

Source: Department of Census and Statistics, original data for the 1969/70 Socio-economic Survey.

¹ relates to households; the other columns relate to persons.

One word on the various columns in Table 4. The column "original" refers to the published data, ranked by household, irrespective of household size. The column "per capita" readjusts these data to take account of varying household size and thus puts at the bottom of the stack the households with the lowest income per person. It clearly reduces the extent of inequality. The column "Revised I" is calculated by "blowing up" different income sources by different amounts. The final column is calculated by removing an estimated number of domestic servants from the top decile, re-assigning them (arbitrarily) to the third decile from the bottom and "bumping" the same absolute number of persons up from one decile to the next.

The final column "Revised II" comes closer than any other data source we know to presenting an accurate picture of Sri Lanka's pre-tax and subsidy income distribution. It suggests that the richest 10 per cent of persons receive just over 30 per cent of total income, which, although this figure is not in the table, is about 10 times the amount received by the poorest ten per cent of persons. We promised to make no international comparisons here but in fact only the comparable set of data is available. This is for the USA¹

¹ Given in S.Jain, World Bank Staff Working Paper No: 190, "Size Distribution of Income, Compilation of Data".

and shows the richest 10 per cent of persons with 24,6 per cent of total income, the poorest 20 per cent (quintile) with 6,7 per cent and the middle quintile with 17,4 per cent.

However, it is the shift from the "Per capita" column to the "Revised I" which is most interesting. This was computed using estimates of under-estimation suggested by Pyatt,¹ Wages and salaries were increased least and rents and dividends most. The result was not only to increase the degree of inequality substantially but to change radically the sources of income of the rich and the poor. After revision the share of wage and salary income of the poorest 20 per cent of persons rose from 47 per cent of their total income to nearly 55 per cent. And the share of self-employment (profit) income fell from 25 per cent to 17 per cent, i.e. the poor are revealed (if these revisions are justified) as consisting far more of labourers and less of self-employed persons than before. For the richest 10 percent some very different changes result, Wage and salary income drops from 51 per cent to 32 per cent, rents rise from 3 per cent to 22 per cent and self-employment income from 28 to 33 per cent. Thus the rich are shown to be less composed of those with high salaries and more of those with large property holdings.

Taxation

Our discussion of income distribution has been carefully phrased in terms of pre-tax income. This is, of course slightly deceptive since some "pre-tax" incomes are recorded after they have adjusted themselves to expected levels of taxation. However, it is customary to speak in terms of the incidence, or the "burden", of perceived levels of taxation on certain income groups. We have also referred to the role of public financing in the provision of food and of welfare services. It is, therefore, important to ask which income groups supplied the bulk of tax income since, in its turn, tax revenue has supplied the bulk of Government income.

Here we shall draw largely on the work of P. Alailima of the Ministry of Finance and Planning in her analysis of tax payments by income group in 1973.²

¹ Suggested by G. Pyatt and A. R. Roe, Social Accounting for Development Planning with Special Reference to Sri Lanka, Cambridge 1977.

² P. Alailima, "Fiscal Incidence in Sri Lanka", Geneva, ILO, 1978, World Employment Programme research working paper (restricted), WEP 2-23 / WP 69 Aug, 78'.

Some slight changes have been made in order to put her findings on to a quintile or decile base. The income distribution data used in her analysis correspond to the second column of Table 4, i.e., to per capita incomes using unrevised income data. The over-all tax burden (excluding FEECs) amounted to some 13.2 per cent of household income, somewhat more than the total cost of supplying free and subsidised food and other welfare services. It is assumed that income taxes are paid by those legally liable to them and that export taxes are paid by producers. Indirect taxes are assumed to be paid by consumers in proportion to their expenditure on the taxed product in question (or to other final products incorporating that taxed product). The results of this analysis show that the poorest 20 per cent were paying some 10.7 per cent of their income in tax, compared to a national average of 13.2 per cent. The middle quintile pays 10.9 per cent and the richest 10 per cent pays 18.3 per cent. These results do not show a startling degree of progression (i.e., bias in favour of the poor) although they are, in that sense, better than results achieved for some other countries.

Income distribution and welfare

This section will investigate the enjoyment of various Government provided services by household income group. The rationale for using household income is that income or lack of income is in Sri Lanka the major characteristic of poverty or wealth. It can naturally be argued that income is but one characteristic, that security, health, comfort or their absence are all characteristics of levels of welfare. Thus, for example, poverty can be constituted by various groups of characteristics, and for different poverty groups some of these, but not all, will overlap. For Sri Lanka there is a great deal to be said for this view since poverty in different areas has different constituents. Thus, clearly estate workers generally consume more calories than other agricultural labour households, but their infant mortality rates are higher and their exposure to cold and rain far greater. However, income is the best "catch-all" indicator we have.

The first welfare programme to study are food subsidies. It has been shown elsewhere¹ that the poor have not always had the access to the rice ration which might have been expected. This would appear to be firstly because even subsidised food was expensive and secondly because ration books may have been exchanged for ready cash or illegally given up in payment of debt. Currently it is possible that the income "means test" used in revalidating ration books may have left some anomalies.

¹ P. Alailima, op. cit.

Alailima's data for 1973 (i.e. including some subsidised, not totally free, items) suggested that the poorest quintile was only getting one half of the rationed food that it should. This, no doubt, has some bearing on the data presented in Table 5 which shows calorie distribution in 1969/70 contrasted with household income distribution (using income distribution data corresponding to the first column in Table 4). The data have, however, been adjusted to take account of the probably different calorie requirements of different income groups according to their age and sex composition.

Table 5: Calorie distribution 1969/70 (per cent)

Urban		Rural		Estate	
<u>Income group</u>	<u>Calories</u>	<u>Income group</u>	<u>Calories</u>	<u>Income group</u>	<u>Calories</u>
1,8	1,4	6,2	5,0	5,7	5,6
4,9	4,4	14,6	14,1	21,3	21,1
9,2	8,8	17,0	16,2	24,4	23,8
39,7	38,5	39,9	40,7	41,5	41,9
19,7	20,0	14,6	15,2	6,0	6,2
9,5	10,0	4,9	5,4		
5,7	6,4	2,8	3,3	1,1	1,4
9,4	10,6				
100,0	100,1	100,0	99,9	100,0	100,0

Source: Socio-economic Survey, 1969/70

The data are presented in this way precisely to emphasise the distributional angle and to exclude discussions of the absolute adequacy of various levels of calorie intake. The distribution of calories is thus the most equal in estate areas (i.e. calorie intake is very nearly independent of income level according to these data), less so in rural areas and least so in urban areas (where the data are worst, because of the importance of meals taken outside the home). The distribution of calories is perhaps not so very skewed, particularly looking at rural and estate areas, and no doubt food subsidies have been extremely instrumental in achieving this. Nevertheless the poor clearly eat less than their proportionate share. A food subsidy is, of course, the closest any Government is likely to get to pure income transfer so that other resources will be freed for expenditure elsewhere. Nevertheless we can recall the higher level of aggregate calorie consumption in Sri Lanka compared to India or Indonesia.

Education

One approach to discussing education in Sri Lanka is to note that between 1963 and 1971 the average years of education of the employed labour force rose from 4.8 to 5.4, (In the Philippines the rise was from 6.1 to 6.5 years). However, while in 1963 of all the years of education received by the population aged 15 and above, 58 per cent accrued to the employed and 7 per cent to the unemployed, in 1971 49 per cent accrued to the employed and 10 per cent to the unemployed, Not only was a far greater share of "embodied education " going unused but the increase by some 7 months in average education per worker turns out to mean an increase of some of 16 months in the average education of professional and managerial workers and only one month for agricultural workers. However, interesting though this approach may be, it is for current purposes back-to-front. It is more important to discover where the educated came from than where the education goes.

To make full use of state provided educational services requires a mix of incentives which the state itself cannot wholly provide. Facilities must be close and reasonably attractive, the differential benefits in school provided by home background variables must be minimised and parents must have a reasonable expectation that education will really improve their children's chances in future life. Automatically therefore certain remote areas will be revealed as underprivileged. In Sri Lanka, for example, a set of indicators, broadly repetition in Grade 1 and retention between grades, strongly suggest that certain educational districts with small schools and a low population density fall into this category. These are Anuradhapura, Kalmunai, Trincomalee and Batticaloa.¹

But these remarks also suggest that parental occupation and (which is closely related) parental education levels, will have effects on their children's education independently of parental income. One major problem should be noted here: "children's education" can be interpreted as enrolment and attendance or educational success. Both of these also depend on children's ability levels, the latter to a much greater extent than the former, and these also depend on parental encouragement. Enrolment certainly

1

Calculated from data given in the Medium Term Plan for Education, 1973-1977.

certainly varies with parental education level. This was quite evident as far back as 1960 in the Report of the Committee on Non-School-Going Children. Enrolment of children in the poorest income group varied from 64 per cent where the mothers' education was nil to 78 per cent where she had passed Grade 9. For the richest group the variation was from 91 to 97 per cent. However, the basic enrolment data by income group (this time by quintiles of per capita income) are given in Table 6.

Similar data are available for West Bengal in India, a state which in educational terms ranks slightly above the national average. But, especially for the poorer groups there is no comparison between the two sets of data. Those for West Bengal, especially for girls, are often less than half of the Sri Lanka levels. The Sri Lanka enrolment data, and their relative (but clearly far from complete) insensitivity to per capita income levels are a genuine accomplishment. But these data do not tell the whole story and, indeed, only data on e.g. test scores could do so. Table 7, however, gives an approximation. It shows, for children in school, their rate of progression through the system which is due partly to different starting ages and partly to different abilities. Thus at age 14 only 4 per cent of children from richer households were still in primary grades, compared to 26 per cent of children from the poorest households.

Education is, of course, very important in Sri Lanka, for two reasons. One, because it lays the foundation for receptiveness to e.g. new cultivation techniques or to family planning and two, because of the role it plays in controlling the access to jobs (where again family income no doubt also enters.) Given especially the second role of education it is hardly possible for access to education to be unrelated to parental income in Sri Lanka. Nevertheless the link between the two has been dissolved to a far greater extent than elsewhere.

But precisely that second role of education suggests that a significant part of educational resources are wasted. Who, however, can be sure which part is wasted? One must nevertheless look carefully at educational reforms and innovations to see whether the link between educational success and home background is strengthened or weakened. We have an open mind in this context on the role of the pre-vocational studies programme in Sri Lanka. Working towards attitudinal changes on the part of school children may merely demoralise some poorer groups. Certainly some programmes only seem to make sense when adequate equipment and highly motivated teachers are present.

Table 6: Enrolment and retention rates i rural , estate and urban areas, 1969 (percentage)

Quintile group	Rural ¹						Estate						Urban					
	Males			Females			Males			Females			Males			Females		
	I	II	II/I	I	II	II/I	I	II	II/I	I	II	II/I	I	II	II/I	I	II	II/I
0--20	80	43	54	71	32	45	59	21	36	47	9	19	83	56	67	85	42	50
20--40	84	44	53	79	38	47	73	26	36	57	7	12	88	57	65	83	45	54
40--60	87	55	63	81	44	54	76	33	43	63	14	22	92	59	65	88	49	55
60--80	85	55	65	82	50	61	73	25	—	59	11	18	93	71	76	87	50	57
80--100	90	61	68	85	59	70	76	8	—	63	22	35	87	71	82	87	62	72

Source : Department of Census and Statistics, op, cit,

I = age group 6 - 14

II = age group 15 - 17

¹ Including estate.

Table 7: Age and grade of education in Sri Lanka (per cent)

<u>Age/grade completed</u>	<u>Income group, quintile</u>		
	<u>Poorest</u>	<u>Medium</u>	<u>Richest</u>
12 Primary	57	44	29
Middle	44	56	71
14 Primary	26	22	4
Middle	73	78	93
"O" level	1	-	3
16 Primary	16	6	3
Middle	81	87	86
"O" level	2	-	1
18 Primary	8	-	1
Middle	82	74	57
"O" level	10	26	39
"A" level	-	-	3

Source : Department of Census and Statistics, op. cit.

Health standards, health care and income levels

Unfortunately this section will hardly be able to live up to the promise of its title. The Socio-economic Survey is the only source of data disaggregated by income level which at all reflects these issues. Even so the information it primarily sought was on "illness", which may not reflect well the severity of different health states. On health care the survey distinguished types of treatment by ayurvedic and western (thereby omitting some faith healing treatments) and Government and Private. But it does not, for example, distinguish between physician visits, nurse consultations or even pharmacists' recommendations. Information of this sort, which would be necessary to examine in detail how the various income groups benefit from existing health services, would need a specialist survey. In this survey the basic question asked was how many household members had suffered any illness in the past two weeks. From this question the results are as follows:

Table 8: Incidence of illness by quintile of income per capita (per cent)

Quintile	Urban	Rural	Estate	Total
I	4,9	8,6	7,8	8,2
II	3,6	6,9	7,0	6,5
III	5,7	7,9	3,7	7,0
IV	7,1	7,4	5,8	7,2
V	5,9	9,5	5,9	8,2
Av,	5,7	8,0	6,0	7,4

Source : Department of Census and Statistics, Socio-economic Survey, op. cit.

As will be evident from much of this discussion, inter-sectoral differences are very important here. Among the poorest two income groups incidence was least in urban areas, on average, however, urban areas and estate areas record similar figures. Among the rich the rural sector leads. Within each sector there is very little evidence of any connection between income and illness. The rural sector clearly, and the two poorest estate income groups, are most illness prone. This would not seem to correlate well with what we know of their food intake, when, after all, urban areas seemed to consume least, but it probably does tie in with their drinking water and sanitary facilities. But it does not seem to tie in with the data on infant mortality where non-estate rural areas show up well. The greater incidence of illness in rural areas and among the poorer estate groups was associated with a relatively greater share of short period absences from normal duties, as Table 9 shows.

Table 9 : Absence from normal duties caused by illness

	Urban			Rural			Estate		
	- 1 wk	1-4 wks	1 mth +	- 1 wk	1-4 wks	1 mth +	- 1 wk	1-4 wks	1 mth +
I ¹	57	29	14	61	34	5	60	34	6
III	53	40	7	59	36	5	53	40	7
V	56	34	10	61	35	4	54	39	7

Source: Department of Census and Statistics, op. cit.

¹ Data are given for the poorest, middle and richest quintile of per capita incomes.

However, it is unlikely that this was sufficient to compensate for the higher level of disease incidence and thus reduce the over-all higher cost of illness per person in rural areas.

As noted, the information to be given in Table 10 on source of health care is conceptually deficient. It is possible that although only 54 per cent of total contacts for the whole country (a figure not given in the table) were with the Government sector, a greater share of physician contacts were with the public sector. However, it is also extremely likely that many "non-western" sources of health care treatment were not faithfully reported.¹ However, the share of contacts with Government provided medicine varied little with income group although they were somewhat higher in rural areas than elsewhere. Of course, the question of preferred source of treatment can hardly be separated from that of available source of treatment. Thus, the high share of "private western" in estate areas is probably caused by the absence of government facilities and the same applies to "private ayurvedic" in rural areas. Total "ayurvedic" it can be noted accounts for as much as 16 per cent of contacts for the richest urban group (and 26 per cent for the poorest rural group).

Table 10 ; Source of health care

	Urban			Rural			Estate		
	<u>I</u>	<u>III</u>	<u>V</u>	<u>I</u>	<u>III</u>	<u>V</u>	<u>I</u>	<u>III</u>	<u>V</u>
<u>Government:</u>									
Ayurvedic	5	7	6	5	6	6	2	2	2
Western	45	42	40	50	53	51	48	40	46
Total	50	49	46	55	58	57	50	42	48
<u>Private:</u>									
Ayurvedic	12	13	10	21	18	14	4	3	4
Western	35	31	40	17	20	25	43	49	42
Total	48	45	50	38	38	39	46	53	46
Unspec:	2	6	4	6	4	4	3	5	6
Total	100	100	100	100	100	100	100	100	100

Source : As Table 9;

¹ See Agrarian Research and Training Institute, " A study of four villages" R.D.Wanagaratne, Colombo 1978. This report found that 18 per cent of sampled villages used only faith healing treatment.

Home facilities and income levels

In this section we look at enjoyment of certain other basic needs by income group. These include housing, toilet facilities and water. However, these are generally not the result of major government programmes so that the data we present are a reminder of some of the consequences of a low per capita output of goods and services and unequally distributed purchasing power. Use of certain items reflects a partnership between households and government in providing piped water or sewage systems. The provision of such items then reflects government programme priorities and the contrast between the relatively equal use of, say, primary education facilities between income groups, and the use of toilet or bathing water-facilities in indicative.

Table 11 given the number of persons per room for each sector by quintile income group. Rural areas have the least congested housing and one can assume that the rural data reflect by and large the influence of income alone, i.e. there are few other space or administrative constraints. In comparison, the urban poor are severely under-housed, while on estates the scope for household control over housing space is minimal. For the bulk of the population these data relate, of course, to conditions of ownership or tenancy. In urban areas some 45 per cent of the poorest household income groups (up to Rs.200) live in rented accommodation. In rural areas the percentage, 4.5, is exactly one tenth of that. On estates, of course, accommodation is rent free. Thus, for the poor, in both urban and estate areas congested housing arises at least partly because of the absence of home-ownership.

Table 11: Persons per room by quintile of per capita income

	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>	<u>Average</u>
Urban	3.5	3.1	2.7	2.1	1.2	1.8
Rural	2.7	2.3	2.1	1.6	1.2	1.8
Estate	3.8	3.4	2.7	2.1	1.4	2.5

Source : As Table 9.

The toilet facility data are interesting as a guide to public health programmes (Table 12). Of course, the hygienic cost of "non" must vary between areas but it is certainly surprising that in urban areas and on estates this condition continues. The data demonstrate the urban bias in the construction of sewage systems for flush toilets. On estates one assumes that limited systems were installed by the owners.

Table 12: Toilet facilities by quintile of per capita income

	Urban			Rural			Estate		
	<u>I</u>	<u>III</u>	<u>V</u>	<u>I</u>	<u>III</u>	<u>V</u>	<u>I</u>	<u>III</u>	<u>V</u>
Flush	11	16	31	-	1	3	2	3	11
Bucket	29	29	25	1	2	4	4	5	5
Water seal or pit	35	38	38	49	58	72	64	65	71
None	25	19	6	50	39	21	30	27	13

Source : As Table 9.

The data on drinking water show that as much as 10 per cent of the urban poorest quintile have piped drinking water at home (Table 13). On estates the percentage is double. Yet on estates 12 per cent of the poorest group take drinking water from what is likely to be the most polluted source (although this need not be the case in the hills). In rural areas wells obviously predominate as a source of drinking water, although as many as 13 per cent of the poorest group do not even have access to well water. On estates "piped water" may be directly piped from a river or well, without any chemical treatment. In urban areas "piped water" implies treated water. These data do not therefore, tell much about the hygienic adequacy of the drinking water source. Turning to the source of water for personal bathing the main point is the much greater use of tanks or streams. Thus, while a source of water may be conveniently available in sufficient quantity for drinking, it may not be similarly available in sufficient quantity for bathing. This would seem to be particularly true on estates and for the poorest rural group.

Table 13: Source of water by quintile of per capita income

	Drinking									Bathing								
	Urban			Rural			Estate			Urban			Rural			Estate		
	I	III	V	I	III	V	I	III	V	I	III	V	I	III	V	I	III	V
Pipes inside	10	13	38	1	1	3	21	30	42	7	10	36	—	—	2	7	10	25
Pipes outside	43	41	25	4	3	2	50	45	36	28	25	16	1	1	1	2	4	5
Well	47	46	37	82	90	92	17	18	18	48	56	44	50	66	73	11	13	12
Tank or stream	—	—	—	13	6	3	12	7	3	17	9	4	49	33	24	80	73	57

Source : As Table 9.

The information given here on home facilities shows the distribution of levels of basic needs satisfaction in the absence of major government programmes. It thus serves as a clear contrast to much of the information presented on the use of the major programmes of health care and education. Furthermore the income determined distribution of water or sanitary facilities is likely to raise the incidence of illness (even for a whole sector) and increase the burden on the health care programme. These facilities would seem to warrant more concentrated Government effort.

Income distribution effects of welfare policies

We must now therefore turn to the other side of the equation : given the continuation of these welfare policies over many years, did they have effects in addition to the increments in family welfare they provided? We will examine this question below under three headings: productivity effects at the household level; the effects of possible investment foregone; and effects in the light of major socio-economic structural features. However, it is useful to enumerate the major variables which logically will determine income distribution. These are : the division between total labour and capital earnings, the distribution of types of jobs, the relative earnings of different jobs, the concentration of capital ownership and rates of return to capital. On many of these issues we can only guess at

the facts.¹

Looking at the distribution of types of jobs we have only the 1963 and 1971 censuses to give useful information. However, they should give a broad impression of any trend. Between those two dates the share of agricultural employment fell from 52.9 to 50.1 per cent. In principle this should pave the way towards more secure and better paid employment. In fact, outside agriculture this shift did not occur. On the basis of occupational breakdowns three broad categories can be formulated according to probable levels of security and, broadly, job desirability. In the first, most secure, category go the higher and clerical occupations, transport and communications (because a large share will be government employees) and protective service workers (for the same reason). In the least secure category go labourers n.e.c and the "occupation unspecified". The results are as follows:

Table 14: Non-agricultural employment (per cent)

	<u>Rural</u>		<u>Urban</u>	
	<u>1963</u>	<u>1971</u>	<u>1963</u>	<u>1971</u>
Most secure	26	25	33	31
Medium	54	48	51	47
Least secure	20	27	15	22

Source : Census of Population, 1963 and 1971

If the data in Table 14 are to be believed the composition of non-agricultural employment in fact shifted towards generally less-skilled and less-desirable occupations. Data on wage differentials are available covering a somewhat longer period, ending in 1973. They, as given in Table 15, show varying developments. Those which go back to 1953 show

¹ For example, the Department of Census and Statistics published data on compensation of employees in national income. In each of the two series available to us, for 1963-1968 and 1972-1976 the percentage was very stable, at 48 per cent and 58 per cent respectively. The Statistical Abstract given 46 per cent for 1970. On this basis there was an apparent jump between 1970 and 1972 of 12 per cent. Without further investigation this increase may merit scepticism.

widening differentials particularly in the first period, From 1963-1973 differentials are more stable and, indeed for certain higher occupations there was a relative reduction, at least in starting rates, Nevertheless it is hard to discern any trend towards either greater equity or inequality,

Table 15: Wage differentials (agricultural labour = 1)

	<u>1953</u>	<u>1963</u>	<u>1973</u>
Urban unskilled labour ¹	1,3	1,4	1,8
Government labour ²	1,7	2,1	2,2
Government clerical ²	3,2	3,3	3,1
Primary teacher ²	2,7	3,6	3,7
Secondary teacher ²	5,3	5,2	4,6
Engineering skilled labour ¹	2,0	3,2	2,8
Engineering unskilled labour	1,4	2,3	3,0
Clerical ¹	n.a.	3,4	3,8
Professional ¹	n.a.	4,2	4,1
Salesman ¹	n.a.	2,3	2,9
Doctor ²	n.a.	5,8	5,3
Agricultural labour wage, Rs. ³	52,0	58,0	80,0

Source : Central Bank, Surveys of Census Finances and Government Wage Scales,

1 Average.

2 Starting rates,

3 1973, average of main occupation earnings of tea estate workers and "other agricultural workers" ; 1963, average main occupation earnings of "unskilled and semi-skilled labour" in rural and estate areas; 1953 calculated from 1963 level assuming a 10 per cent increase as for estate daily earnings.

On the side of capital ownership one can say little. The only comprehensive known survey of household assets was that undertaken for the Survey of Rural Indebtedness in 1957. This, which excluded the most valuable rural assets, i.e. the estates, found that 56 per cent of assets, including houses, paddy land, agricultural implements etc. belonged to the richest 10 per cent of families. There is certainly reason to believe, as we shall review below, that Government policies in support of rice production have caused the value of the assets of the richer farmers and land owners to increase

most quickly. It is therefore likely that (assuming land reform had little effect in the village) the distribution of rural assets has become more concentrated.

Outside the village we have the ownership of public and private companies to consider. In the estate sector clearly most of these have been taken over. However, in this case the returns from estate management must be contrasted with the returns from investing the sums received as compensation. Company ownership, it is clear from household survey information on dividend income, is mainly in the hands of the richest 10 per cent of households. Share prices, of course, have fallen considerably over the last twenty years. No doubt, this has had an important "locking-in" effect. On the other hand interest rates are now far higher than in the past.

Welfare and productivity.

Following this brief review of the major immediate determinants of income distribution we will now look at the welfare-income linkages from other angles. The first concerns the addition of better health and more education to the list of household assets. These additions took place gradually so that if a threshold level exists below which they are of little economic value, different groups reach it at different times. The relation of food intake to physical labour effort has often been recorded and some interaction should be discernible for Sri Lanka.

However, an alternative view is to stress that health and education may well make their major contribution in improvements in managing assets and working better at an assured job. Thus, for the landless, job-seeking category better health and education cannot be put to such productive use. They may, however, have a direct link to the adoption of family planning which again, after some lag, may benefit their income position. Such approaches are nevertheless negative. The impact of the food subsidy has been no doubt partly to contribute to better health. It has also guaranteed a certain level of security and as such has promoted risk-taking. In certain contexts risk-taking again brings us back to asset ownership and e.g. the introduction of new techniques. However, in this context risk-taking also covers willingness to attempt dry-zone cultivation outside irrigation schemes. This form of cultivation has had considerable benefits and has made use of otherwise valueless assets. It may thus represent one form in which state-provided "seed capital" has led the way to output increases.

Welfare and investment foregone

Here we come to what is generally considered the crux of the whole matter; namely if certain state welfare expenditures had been cut and that money had been invested what, after say twenty years, would the country now look like? The argument, of course, assumes that the Government would still have mobilised the same funds. Had it not, and had the money been left in tax-payers' pockets the current position would be different again. Education, for example, would probably be receiving far fewer resources.

However, let us assume no food subsidy. In that case total cereal availability would no doubt be less and prices higher. More substitutes would be cultivated. Presumably welfare levels would be far less equally distributed, particularly health. What would happen to education depends on whether we consider that it would have received the same level of resources. Food prices would be higher in relation to manufactures and therefore output growth in manufacturing would probably be slower. Certain socioeconomic groups would clearly be worse off, others would have raised their incomes sufficiently to preserve their food intake levels. Possibly the groups with relatively "sticky" wage levels (e.g. the Government administration) would suffer relatively. Now this picture might be called "comparative statics", i.e. it rather corresponds to what might happen if changes were made tomorrow. To recreate the picture if changes had been made twenty years ago is virtually impossible. Could there not have been investments made which, with a short delay, would have achieved growth and the achievement of current levels of welfare distribution (give or take a bit of educational expenditure)? Was it likely that such investments would be made, if not, what other investments were likely and what would their effects have been?

Such growth plus equity yielding investments no doubt are possible to find. They would need to be concentrated on the assets used and owned by marginal farmers and the landless. Clearly under normal circumstances there are few such assets and few such investment opportunities. In fact following land reform and co-operative management of certain estates rather more investment opportunities present themselves. But this was not so in the 1950s. But, even if distributional losses were accepted were there not

investments which would have had such an impact on absolute levels that the poor would still benefit? Could not growth rates have been pushed up say to 3 per cent p.a. per capita instead of the actual, i.e., around 1 per cent? Would not the poor have benefited more from such a strategy even if income inequality worsened? However, we are now entering slightly the realm of fantasy. Would 3 per cent be necessary or could we settle for 2 per cent? If so could these resources in the hands of the State have guaranteed that rate of growth.

No answer is really possible here. The World Bank has in fact implicitly suggested that had an extra 4.5 per cent of GNP been invested (corresponding to one-half of Government welfare expenditures) then per capita incomes would have risen at 2 per cent p.a.¹ However, if, over a 15 year period the poorest 20 per cent of families saw their share of total income fall from 8 per cent to 6 per cent they would gain nothing from an over-all 2 per cent growth rate.

It seems in any event likely firstly, that the investments which would have secured a high growth rate would have concerned the up-grading of assets in the estate sector and secondly, that increased Government investment would probably have concentrated on major irrigation and resettlement schemes. There is a lot which can be said about such latter forms of investment, about their productivity and about the distribution of their benefits. We have, indeed, already suggested that they may well be more productive (socially at least) in association with a food subsidy scheme than in its absence.

Welfare and structural features

In this section we will discuss how welfare measures have interacted with some major socio-economic structural features. As a starting point we shall take a somewhat stylised distinction between "town" and "village". The distinction is not necessarily meant to follow urban-rural boundaries but rather to correspond to a modern-traditional dichotomy and furthermore to real differences in interest. "Modern", on the one side, stresses contractual relationships, job security or at least bargaining with the

¹ World Bank, op.cit.

use of some external reference point while "traditional" stresses client relationships and a multiplicity of personal linkages between worker and capital owner through jobs, credit, rent and land use. These "modern" and "traditional" forms will predominate in respectively "town" and "village". The conflict of interest between the two is partly the ubiquitous relation between food producers and consumers. But this conflict is also present within the village. In the Sri Lankan context the conflict takes an additional form, between the town, which exports and controls access to foreign resources, and the village whose interests (or rather the interests of whose leaders) prefer local production. This suggests the significant finding that the estates are part of the town, which owns them and decides what they shall produce and who will manage them, and not the village. Thus, problems of so-called estate-village relations are far more problems of town-village relations.

To personalise this analysis a little it appears that town has made an agreement with village. Town will not impose its ideas on labour legislation or rent control on village, which continues socially to be a rather conservative entity. But, on the other hand, town will not give in to village over food production. Considerable amounts of food will continue to be imported because labour requires it. Thus, village, or rather farmers, can never exert total power.

If this picture is not too much of a caricature it can be asked in what way it sheds light on the role of welfare programmes. Food subsidies, for example, have two different effects, on producers and on consumers. It became worthwhile to do everything possible to raise local rice output so long as consumer prices were kept low. Thus, in relation to more realistic exchange rates, the GPS price fell below the import price in the early 1960s while subsidies, for credit, for seeds, for machinery, for fertilizer, for irrigation continued. The subsidies benefited farmers with controlled irrigation who could make good use of fertilizer, and larger farmers, who could afford machinery. Credit programmes rose and fell as defaults increased and loans were written off. Thus, unlike other effects of welfare measures some income inequality must have resulted.

On the consumption side we have to admit the possibility, which has so far hardly been mentioned, that one result was to hold wage levels down. The effect of this has probably been the stronger in more traditional sectors, in the village and perhaps among domestic servants. However, it may have been another factor behind the fast rise in manufacturing output,

operating via a relatively low cost level (and hence, presumably, a relatively high profit level).

Education, in this picture, has varying roles. In the town it has a major role as a rationing device for jobs, its use in certification. In the village education above a certain level is clearly valuable as an exit permit, to the town, either literally or metaphorically. To those with assets to manage education is a potentially valuable input. But what we have not discussed so far is the role of unemployment.

It has been suggested that welfare policies have encouraged unemployment either because they have lowered the costs of waiting jobless (through food subsidies) or because more education has meant wrong education, too academic, unpractical and responsible for mis-matching. This liaison is unfair if only because unemployment exists also in other, and different, economies. Furthermore the nature of unemployment varies between rich and poor families. In the one the unemployed are predominantly young, aged 15-19, and educated to primary and middle levels. In the other they are predominantly older, aged 20-24, and with higher education levels. Nevertheless for any (male) age and education group the ratio of unemployed to population in that specific group is higher for the poorest 20 per cent than the richest. If "affording" waiting time were the major feature in unemployment we could expect the opposite. It seems rather that the rich can find jobs more quickly than the poor. We are therefore, reluctant to trace high rates of unemployment back to welfare policies. They are more likely to be part and parcel of the absence of major changes in the over-all system.

Two more issues can be very briefly discussed in the light of this town-village dichotomy. One is land reform. The major feature of land reform from this point of view is that town kept control of the estates although, of course, foreign and large-scale private and local ownership have been abolished. Village has received little benefit from the take-over. Some, but often the least desirable, lands have been redistributed, some village youth have been given jobs but few management decisions have fallen into "village" hands. Nevertheless it was clearly a step in the right direction and if the village has not gained so much by it that is partly the fault of division, factionalism and lack of preparation within the village.

The other issue is local level planning. This promises greater power to the village and, for good or ill, could have two major effects. One is to change the relation of village to the Government bureaucracy and to put control

of more decisions into village hands. The other is to generate self-financing and to diminish the relation of financial dependency in which the village normally stands in relation to town. Whether the village can grasp these possibilities and at what level of popular representation are questions for the future.

Conclusion

We have seen that Sri Lanka has been successful in taking the distribution of certain welfare inputs out of the hands of the market and setting up a more egalitarian allocation system. Nevertheless there are contradictions. The level of health is affected not only by a fair distribution of health care facilities but also by an income determined distribution of drinking water, housing and sanitary facilities. Education is far more widely spread than in many countries. But income becomes the more important as a determinant of enrolment once school achievement becomes more important in the job search. And, of course, there are home background factors whose effects on educational outcomes can only be minimised and never suppressed. Food subsidies have almost certainly had the major effect of increasing average calorie availability and simultaneously increasing the equality of food distribution. Under any system food would probably need to be imported into Sri Lanka, without any net food subsidy less would be imported and its price would be higher. Conversely under an alternative system fewer basic foodgrains and more luxury foodstuffs might be imported. But, by and large, Government control over food imports had had egalitarian consequences.

Cheap food, however, can hardly benefit surplus farmers. To achieve a national consensus has required alternative means of assisting the leading and most articulate village elements. These means were provided by the host of programmes aimed at raising rice output by subsidising inputs. Meanwhile village society was threatened as little as possible by land reform, rent control or minimum wage legislation. By and large these policies have achieved their aims, there has been a fairly high degree of national unanimity and consensus and cheap food has been an important element in it. Cheap food has further subsidised certain types of labour, including e.g. rural workers and domestic servants, and thus probably muted the generally inexorable quarrel over differentials. Even the Government distribution system has probably operated more in favour of poorer and remote areas than would a private system. Cheap food can finally be a winning card in international competition.

But, any consensus naturally has its costs. A large part, especially of the rural population, gains nothing but its cheap food. It pays high land rents and receives very little help and support for the few crops it grows. Above all it finds insufficient work. It could, no doubt, be otherwise. Funds invested in the right place could provide jobs for the poor. The estate takeover may specifically have opened up these possibilities which were not there earlier. But a diversion of funds from food subsidies to major investment programmes twenty years back would have risked producing an equally inegalitarian rural structure where the rural poor had no part at all in the consensus and surplus food producers received both subsidised inputs and higher output prices.