Policy issues for sustainable development in Sri Lanka

‘Policy Issues for Sustained Development of Sri Lanka’ by A.D.V.de S. Indraratna Published by the A.D.V. de S. Indraratna Felicitation Committee, Tharanjee Printers, 2014, pp. 154

Prof. A.D.V.de S. Indraratna handing over a copy of the book to Minister Basil Rajapaksa - Pix by Krishan Ranasinghe  Review by Saman Kelegama The Volume under review is based on Prof. Indraratna’s Presidential Addresses made in the Annual Sessions of the Sri Lanka Economic
Association during the last 10 years of his Presidency. He has revised, updated and edited them and brought together in one Volume titled ‘Policy Issues for Sustainable Development in Sri Lanka’. The themes covered are wide ranging – human resource development, poverty alleviation, inequity, inclusive growth, private-public partnership, inflation, productivity and competitiveness, Free Trade Agreements, Foreign Direct Investment (FDI), fiscal consolidation, debt management, export growth, global economic downturn, and so on. They basically reflect the emerging economic scenario during the decade of 2004 to 2013 in Sri Lanka. **Sustaining economic growth** The author examines the scenario taking into account the historical trends and the macroeconomic background. The unique feature of these essays is that the author discusses these manifold issues within a policy framework of economic growth and development. His line of argument is that the goal of economic policies should be to sustain economic growth rather than aim for short-term high growth. - See more at: [http://www.ft.lk/2014/10/22/policy-issues-for-sustainable-development-in-sri-lanka/#sthash.QPJvvdsI.dpuf](http://www.ft.lk/2014/10/22/policy-issues-for-sustainable-development-in-sri-lanka/#sthash.QPJvvdsI.dpuf)

He has shown that high growth can be achieved for a short period by undermining economic fundamentals and creating macroeconomic imbalances by generating inflation, overvalued currency, large debt, and so on, but that growth will not be sustainable. In this context, the large public debt, especially the growing foreign debt and debt servicing cost in Sri Lanka, are of concern as they are barriers to sustainable economic growth. He sees debt creating a vicious circle and argues the case for a transition to export and FDI-led growth from the current debt-financed growth, where the former is sustainable for long run development of the country. He has highlighted what should constitute the enabling environment for an export-led growth strategy and attracting FDI and argues that Sri Lanka should aim at obtaining FDI above 2%
of GDP to maintain high growth momentum. He looks at sustainable growth from a wider perspective not confining only from a macroeconomic imbalances perspective. He argues that if poverty and inequality issues are overlooked in the pursuit of economic growth, they will pose a major challenge to sustainability of economic growth as social uprisings will impede growth. Likewise, he argues that if human resource development issues are neglected while pursuing growth, the increasing wages in a growing economy will not be matched by increases in productivity and innovation that are so essential for growth sustainability.

Inflation and growth

In the chapter where the author discusses the nexus between inflation and growth, one can see the author’s theoretical knowledge blending with his practical experience. Prof. Indrar - See more at: http://www.ft.lk/2014/10/22/policy-issues-for-sustainable-development-in-sri-lanka/#sthash.QPJvvdsl.dpuf
FT Quote

“Prof. Indraratna has lived through the Great Depression in the 1930s, World War II in the 1940s, the cooperative movement, the beginning of the Welfare State, the Korean War boom, the beginning of import substitution industrialisation, hard times with economic restrictions, opening up and liberalisation of the economy, youth rebellions and war impacting the economy, post-war reconstruction and building of megainfrastructure, and so on. Thus he is endowed with a rich experience of economic transformation in Sri Lanka, and all his essays reflect this rich background from where he draws in facts to support his argument.”

atna’s deep understanding of Economic Theory is
demonstrated in his magnum opus – ‘Mila Niyaya’ (Price Theory), which went into three editions over the years. His practical experience on price behaviour was gained during his tenure as Chairman of the then National Price Commission (in the 1970s), the Fair Trading Commission (in the early 2000s) and of the Monetary Board Consultative Committee of the Central Bank (in late 2000s). Using the synergies, he clearly shows how inflation distorts relative prices, distorts resource allocation, leads to over-borrowing, harms fixed income earners, makes achieving investment targets difficult, makes the poor poorer and thereby works against sustainable growth. **Missed opportunities** While addressing the central theme of sustainable development, the author highlights some of the characteristics of the Sri Lankan economic management during the post-independence period, such as missed opportunities, wrong prioritisation, and going into extreme ends of political ideology. In regard to missed opportunities, the author highlights how Sri Lanka missed taking advantage of the Korean commodity boom in the early 1950s for product diversification and physical infrastructure development of the economy; instead, consumption and social welfare were given priority at that time with limited results. The example of government expenditure allocation for education is taken to highlight wrong prioritisation. Here the author argues that even after achieving high literacy levels and school enrolment rates, expenditure focus was still on primary and secondary education with only 1/5th of the education expenditure going into tertiary education. He argues the case for at least 1% GDP expenditure allocation for tertiary education and without such commitment, leave alone sustainable growth but even the much-publicised knowledge hub status, will be difficult to achieve. **Political ideology** In regard to political ideology, the author has been very bold and critical, where he argues that in the case of SLFP-led regimes the public sector was trying to do too much, in fact, trying to do things which should have been best left to the private sector and he makes special reference to the 1970-1977 period where too many controls and restrictions impeded economic activities and growth. On the other hand, he argues that UNP-led regimes were going too far with de-regulation, with downsizing the public sector, eroding the production base and weakening the State. He states that it was a big mistake to think that the public sector is inherently inefficient, highlighting how with autonomous management and political commitment, Singapore Airlines and Japanese Railways have been made into efficient public enterprises. Referring to the 2002-2003 period, he argues that rural and regional development were neglected and argues that it is not realistic to regain Sri Lanka without regaining the rural economy of the country. His views on globalisation and liberalisation become clear in the later chapters when discussing the global economic crisis and the recovery. The author states that one should not have unqualified faith and embrace whatever comes in the way but rather extract the best out of them while safeguarding against the adverse impacts. **Economic middle ground** One thing comes out very clearly, i.e. throughout his life as an Economist he towed the economic middle ground and stood steadfastly for a mixed economy without moving to extremes of the right or left political-influenced ideologies. In that very belief lies his emphasis on balancing the macro economy, diversification of the economy, growth with equity, and growth with human development, which in turn are closely linked to sustainable development. **Dr. Saman Kelegama** **Rich experience** Prof. Indraratna is an octogenarian and he has lived through the Great Depression in the 1930s, World War II in the 1940s, the cooperative movement, the beginning of the Welfare State, the Korean War boom, the beginning of import substitution industrialisation, hard times with economic restrictions, opening up and liberalisation of the economy, youth rebellions and war impacting the economy, post-war reconstruction and building of mega infrastructure, and so on. Thus he is endowed with a rich experience of economic transformation in Sri Lanka, and all his essays reflect this rich background from where he draws in facts to support his argument. This is a valuable compendium of the important economic issues that confront Sri Lanka. It is not a heavily researched and referenced work but one that provokes the reader’s interest for further research. Enriched with Tables in the Appendix, all the essays are written in simple and lucid style without any technical jargon, thus even
a non-economist will be able to follow the essays. The Volume will no doubt be of value to policymakers, academics, students and the general public who are interested in contemporary economic issues. (This review is based on a speech delivered by the reviewer at the launch of the Volume at the Sri Lanka Foundation Institute on 17 October. Dr. Saman Kelegama is the Executive Director of the Institute of Policy Studies.) - See more at: http://www.ft.lk/2014/10/22/policy-issues-for-sustainable-development-in-sri-lanka/#sthash.QPJvvdsl.dpuf