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Basic Needs: The Case of Sri Lanka

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Summary. — This article has two related objectives: to judge Sri Lanka's success in meeting its 'basic needs' and growth objectives, and to use Sri Lanka's experience to cast light on general hypotheses regarding basic needs. The analysis suggests that Sri Lanka's social expenditures had a substantial cost in growth and unemployment. However, largely because of these social programmes, it has the best social indicators, compared to its income, of any country for which data are available. Its growth has, surprisingly, been above average for low-income countries. Implications for basic-needs programmes include the need to 'target' social programmes, the high priority of primary education and the potential high impact, but also high costs, of assuring minimum caloric intakes.

Recent interest in 'basic needs' has called favourable attention to Sri Lanka's extensive social programmes and unusually favourable social indicators. It has also been argued, however, that there has been a serious sacrifice of growth in output and employment for improvements in income distribution and welfare. This paper seeks to address these questions. It also seeks to draw on the Sri Lankan experience to address some broader questions which have been raised regarding basic needs. For example, to what extent are there trade-offs and to what extent complementarities between growth and basic needs? Similarly, what are the trade-offs and complementarities among health, education and other elements of a basic-needs approach? And to what extent is redistribution of income a precondition in poor countries for meeting basic needs?

1. BASIC NEEDS

For purposes of this paper, a basic-needs approach to development can be defined as one which includes meeting basic health and education needs as one among the major development objectives and which emphasizes increasing the human capital, productivity and incomes of the poor as means of meeting basic needs and increasing growth.¹

It could be said that Sri Lanka was not

following what we now call a basic-needs approach, but rather was responding to political pressures for a set of social programmes. In addition, since these programmes were available to the whole population, rather than just to those whose basic needs had not been met, it could also be said that they were not basic-needs programmes *per se*. But the only way a basic-needs programme can succeed is if it has strong domestic political support. Similarly, if political realities mean that health and education programmes in most developing countries cover the well-off groups much better than they do the poor, then it seems politically unrealistic to insist that approaches which meet the needs of both the poor *and* others should be excluded from the definition of basic needs. Rather, the Sri Lankan case is an instance of how, in a private-enterprise-oriented and democratic society, it was politically feasible to meet basic needs.

Sri Lanka's accomplishments in meeting health and education basic needs are indicated

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Table 1. *Selected social indicators*

	1946	1953	1963	1973
Adult literacy (%)	58	65	72	78*
School enrolment (% ages 5-14)	41	58	65	86*
Life expectancy (yr)	43	56	63	66*
Infant mortality (per 1000)	141	71	56	46
Death-rate (per 1000)	19.8	10.7	8.6	7.7
Birth-rate (per 1000)	37.4	38.7	34.3	27.9
Natural population growth rate (%)	1.8	2.8	2.6	2.0
Population growth rate (%) (including migration)	2.3	3.3	2.5	1.6

* 1971.

in Table 1.² Sri Lanka has an exceptionally good record, in relation to its *per capita* income, on life expectancy, infant mortality, fertility and literacy. To compare its social indicators to those of other countries at different income levels, regression analysis was carried out on a 59-country sample of countries for which complete data sets were readily available. The results of that analysis are summarized in Figure 1. In each case, Sri Lanka's social indicators, relative to its income, were the best among the 59 countries.³

(a) *Pre-independence 'initial conditions' and post-independence social programmes*

The roots of Sri Lanka's social progress go back at least before independence (1948) and to some extent to its Buddhist heritage. Food rationing was begun in 1942; primary education was made nominally (although not in practice) compulsory in 1901. In 1946, life expectancy in Ceylon was 43, while in India, for example, it was only 32 (for 1941-1950); in 1946, adult literacy (over age 10) in Ceylon was 58%, while in India total literacy (all ages) was only 17%. Also, Sri Lanka has benefited from a benevolent ecological situation. It has had, until recently, ample land resources and a relatively abundant supply of nutritious foods, particularly coconut, which provides about one-fifth of total calorie consumption. In addition, large export earnings and tax revenues from tea and rubber have until recently made it feasible for the Government to afford large expenditures for subsidies and services.

One recent article goes so far as to suggest that Sri Lanka's accomplishments are essentially due to these pre-independence initial conditions, but gives Sri Lanka full 'credit' for slowing down growth by overspending on social programmes during the past 15 yr.⁴ It is true that

over the past 15 yr Sri Lanka has spent a remarkably high percentage - about half - of its current expenditures for its food subsidy, health and education programmes. However, as Table 1 shows, there has also been a good deal of progress in social indicators since independence. The links between social expenditures and social indicators are discussed in the following sections.

Moreover, the 'initial conditions' of comparatively high literacy and life expectancy at independence, are themselves the result of a previous political commitment, by the Ceylonese people and to some extent by the British colonial government, to the meeting of basic education and health needs. Increasing life expectancy to over 60 yr or attaining near-universal primary education is a time-consuming process. Success in implementing extensive health, education or small farmer programmes may itself depend partly on investments in basic education over the previous generation. And while Sri Lanka's commitment to basic education and health services may have been unusual for the 1940s, many poor countries today have internal social pressures for the spread of these basic services at least as strong as those felt by Sri Lanka in the 1940s.

(b) *Education*

Despite attempts at educational reform dating back to pre-independence, Sri Lanka has essentially followed the education system it inherited from the British, although the medium of instruction has been changed to Sinhala and Tamil. The curriculum has been focussed primarily on the academic needs of the small minority going beyond the 'O' (secondary) level, rather than on the development-oriented learning needs of the majority who drop out before then. The education system

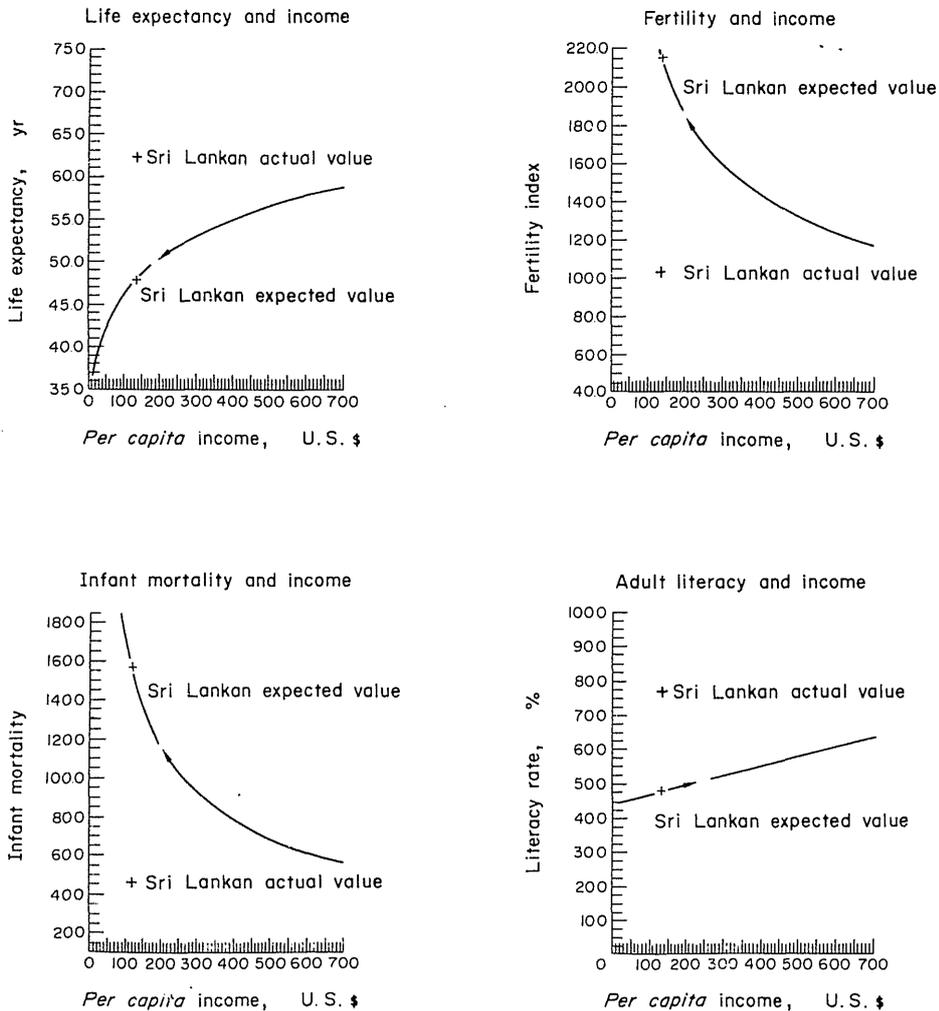


Figure 1. Sri Lanka's social indicators in relation to expected values for its per capita income (\$130) in 1975. (The curves show expected values at any given income level.) Source: Appendix Table A1. Sri Lankan social indicators are for 1971 rather than 1975, thus slightly understating its record (except for infant mortality, which had not declined)

is highly centralized on a nationwide basis, with little involvement of local communities and little attention to non-formal education.⁵ The serious problem of educated unemployment (Section 4) indicates that marginal social returns to the expansion of secondary education were low. In short, education in Sri Lanka has deviated sharply from what might be called a basic-needs education strategy.

On the other hand, Sri Lanka's educational accomplishments have been remarkable for a country of under \$200 *per capita*. As a result of high expenditures and high enrolment rates at all levels of education, adult literacy increased from 58% in 1946 to 78% in 1971.⁶ Of those in

the 20-24 age bracket in 1971, 71% of men and 64% of women had at least some education beyond the initial 4 yr of primary education, and 26% each of men and women had at least a secondary school ('O' level) certificate.⁷ The open access to education also contributed to social and economic mobility and, thus, to a weakening of the political and economic power of the traditional landed elite. This is not to say that these accomplishments might not have been surpassed with a more 'relevant' system, but that the Sri Lankan case seems to contradict the view that basic needs in education cannot be met through relatively conventional approaches. More importantly, Sri Lanka's

seemingly 'irrelevant' education system appears to have contributed substantially to its accomplishments in health, fertility reduction and agriculture.

(c) Health

The coverage of the Sri Lankan health system and its impact on the reduction of mortality shown in Table 1 was dramatically illustrated when the number of reported deaths attributed to malaria averaged only about 5/yr from 1970-1974, although the resurgence of malaria caused the number of clinically confirmed cases to average about 215,000. (The control of malaria alone in 1946 through DDT spraying had led to a drop in the crude death-rate from 20 to 14.)⁸ Similarly, maternal mortality declined from 16/1000 in 1946 to 1.2/1000 in 1970, partly because of the spread of maternity care; at present, more than two-thirds of births take place in hospitals or maternity centres.

Two aspects of Sri Lanka's health system seem particularly relevant for other countries now trying to address basic health needs. First, Sri Lanka has had both extensive coverage of the population through primary health care facilities staffed by paramedical workers and a strong back-up 'referral' system of clinics and hospitals manned by both physicians and paramedical workers. The need for the former has been too often neglected, but is now becoming a part of the accepted wisdom on health planning; with this change in thinking, there is a danger that the pendulum might swing too far, and that in the planning of extensive health systems insufficient attention will be paid to the need for an adequate back-up supervisory and referral system.⁹ Second, the 'Western' health care system coexists with an important, and Government-regulated, system of traditional 'ayurvedic' medicine. All economic groups make use of the ayurvedic system for certain kinds of illness or injury.¹⁰ The traditional health system appears in general to complement and to help take the strain off government 'Western' health facilities.¹¹

(d) Food subsidies

Sri Lanka has had food rationing for 35 yr and has also subsidized wheat and sugar for much of the 1970s. The rice ration (or in the 1970s the wheat and rice ration) has varied frequently. It has generally stayed between 2 and 4 lb/week, 1-2 lb of which was free, with the remainder sold at a subsidized price. Unlike other South

Asian countries, Sri Lanka's ration and subsidy programmes have had effective coverage of the poor and of rural areas. These programmes have been roundly criticized for the high percentage of the government budget it preempted (averaging about 20% of current expenditures in the past 15 yr if rough adjustment is made for overvaluation of the rupee) and for its disincentive effect on agricultural production. The former criticism appears well justified, since the ration coverage was nearly universal, while severe nutritional problems affected only low-income groups. The latter criticism is more complex.¹² Rice production grew by an extremely high 5.8% annually during the 1960s. Comparatively high paddy prices and high subsidies on inputs provided an adequate incentive to farmers, by international standards during the 1950s and 1960s.¹³ The reasons that there was not the expected disincentive effect on prices in the 1960s from the large-scale food imports were that the subsidy on rice plus the growth of the population and *per capita* income generated a substantial amount of additional demand for foodgrains; and that Sri Lanka's worsening balance of payments kept pressure on the Government to increase domestic foodgrain production in order to save foreign exchange. However, there has probably been a moderate disincentive effect on rice in some years of the 1970s. Also, the flour subsidy of the past several years has undoubtedly had a disincentive effect on minor cereal crops, particularly sorghum, for which there have been no price supports.

Less attention has been paid to positive effects of the food ration and subsidy programmes.¹⁴ In general, where incomes are close to bare subsistence levels and are variable (due in the case of Sri Lanka to the vagaries of rainfall and the varying demand on tea estates for labour), it seems quite plausible that a food ration programme that reaches the poor effectively would substantially reduce malnutrition. This would occur partly through the direct effects of the ration in increasing consumption; also, to the extent that the ration substitutes for food that would otherwise have been bought and, thus, represents an income supplement, nutrition will still improve, since the poorer the family the larger the percentage of income spent on food. (In addition, among very poor families, whatever of the income supplement is not spent on food will still be spent in large part in meeting basic needs.) Since a large percentage of deaths among children in poor developing countries are directly or indirectly related to malnutrition, an effective food ration programme

would be expected to reduce mortality, particularly in years of high food prices. Also, food is, politically, a special commodity. The severe political constraints to substantial redistribution of incomes or assets by taxation or other non-revolutionary means have often been noted.¹⁵ However, the constraints appear to operate less stringently when food, rather than incomes, is to be distributed, as indicated by experience with feeding programmes in a number of countries, including the 'food stamp' programme in the US.¹⁶

These points are readily demonstrated in Sri Lanka. Data from the 1969/1970 Socio-Economic Survey show that in 1970, the ration provided about 20% of total caloric intake for families with household incomes under Rs. 400/month (and 15% for those from Rs. 600–1000/month); even those in the under-Rs. 400 *per capita* category had average intakes of about 2050 cal/day. Only about 25% of the population in that year had consumption under the generally accepted (but rather high) 2200 cal/day 'requirement' and only 5% under 1900 cal/day. In Bangladesh, for example, a country with much worse nutrition problems and a much higher death-rate, 25% of the population consumes less than 1700 cal/day.¹⁷ As an indication of the importance of food subsidies in increasing incomes of the poor, the 1973 Survey of Consumer Finances shows these subsidies to be equal to about 14% of the income of those with 'spending-unit' (a slight variant on 'household') incomes under Rs. 400/month. It is difficult, and not required for purposes of this paper, to separate out the improvements in welfare resulting from provision of subsidized food *per se* from improvements resulting from the income supplement implicit in the subsidies.¹⁸ In either case, nutrition will improve and some additional funds will be freed up for non-food expenditures, although to varying extents.

There is also evidence of increases in mortality from cuts in the ration and subsidy programme during years of high food prices. In 1974, the death-rate increased from 7.7 to 8.9/1000. Rice production in that year was much above average and overall calorie availability only slightly below average. But due to the rapid surge in international food prices, imports of rice and wheat flour declined substantially. This shortage of imports, combined with cut-backs introduced in 1973 in the *per capita* ration allocation, caused distribution through the ration programme to decline by 15%. Off-ration sales of wheat flour (a government import monopoly) were terminated entirely, ex-

cept to bakeries, from October 1973 to August 1975.¹⁹ In many cases, supply problems meant that people could not obtain their ration entitlements. Because staple foods are a basic necessity, the reduction of government grain sales caused a sharp increase in grain prices. In an attempt to acquire more food for distribution, the government then restricted inter-district rice trade, but this exacerbated the price increase in deficit districts. The net result was that many poor people could not afford enough food for minimum nutritional standards. This suggests a link between the cut in foodgrain distribution and the increase in the death-rate.

The hypothesized link receives statistical support from the multiple regression analysis reported in Appendix Table A2, which indicates that the price of rice is statistically related to changes in the death-rate. If this hypothesis was valid, one would expect the death-rate to be highest among those most dependent on government distribution programmes. In fact, a disproportionately large part of the increase in deaths occurred among the Indian Tamil estate workers, who purchased rather than grew most of their food and had adopted wheat as the main staple of their diet.

The regression analysis indicates that the sharp increase in the death-rate cannot be dismissed as a random annual fluctuation.²⁰ Similarly, such a spurt could not be caused by the change in the age structure of the population or the deterioration of the health care system, which occur much too gradually, or by the relatively insignificant number of malaria or cholera deaths. While shortage of food distribution under government programmes was no doubt not the sole cause of the increase in deaths, the results of the statistical analysis and the judgments of a number of Sri Lankan doctors, tea estate personnel and others with whom I spoke leave little doubt but that it was a major cause.²¹

In sum, both the low death-rate in general and its increase in 1974, indicate that the relatively equally distributed supply of foodgrains in most years, to which the ration and subsidy programmes made a substantial contribution, has helped Sri Lanka to avoid the high degree of malnutrition-related death common in low-income countries. At the end of 1977 the new government took the politically bold and highly desirable step of reducing the coverage of the ration programme to those in the bottom half of the income distribution, partly to focus subsidies on those who need them and partly because the November 1977 devaluation and float

of the rupee almost doubled the direct budgetary cost of subsidizing imported foodgrains. In September 1979 a food stamp programme was substituted for the ration programme, and the government announced that the general subsidy on wheat flour would also be phased out. Targeting on those with low incomes will not only save money but is the best way to avoid repetition of the experience of 1974. In shortage years, food available will be able to be concentrated on the poor and malnourished rather than spread more thinly.

Sri Lanka's experience, both positive and negative, with food ration and subsidy programmes suggests that while these programmes are very expensive and must be approached with caution, they can have substantial benefits. Their feasibility in any given country would be determined in part by the extent to which political factors allow a relative focus on the poor (to hold down costs), and avoidance of disincentive effects on agricultural production. Agricultural production, budget, balance-of-payments and food aid prospects would obviously also be major determinants. Suggesting consideration of ration programmes is unlikely to be a popular recommendation; tough-minded economists are supposed to oppose such 'hand-outs'. However, most of the few non-Communist poor countries which have very low death-rates — Sri Lanka, Burma, Mauritius (which had a low *per capita* income up to about 1970), Egypt and Kerala (although it is a state rather than a country) — all have heavy subsidies on foodgrains. (This is, of course, not to argue that a ration or subsidy programme would be a sufficient condition for replicating the social accomplishments of these countries.) Unfortunately, political, human resource, technological and other constraints mean that in most countries neither redistribution nor likely growth in output or agricultural production will solve the problem of inadequate food consumption by poor families within any reasonable time frame.²² If targeted ration or subsidy programmes have fewer political constraints than other redistribution programmes and if they appear feasible by the criteria discussed above, they deserve careful consideration.

(e) *Linkages among steps to meet basic needs*

A major tenet of basic-needs approaches to development is that there are important reinforcing linkages among the steps required to meet basic needs. Emphasis is often put on linkages at the input level, as in integrated rural-development projects, or in co-ordination

between education and health programmes. This kind of linkage, while undoubtedly present to some extent in Sri Lanka, seems rather deficient there and certainly does not stand out as a major cause of its social accomplishments. Another important aspect of basic-needs linkages is at the output level. Multiple regression analysis of the 59-country sample referred to previously indicates a series of such linkages. While the application to particular countries of results of cross-section regression analysis must be approached with caution, the results (reported in Appendix Table A1) were statistically highly significant and fit with widely accepted behavioural hypotheses.

The regression results suggest that literacy has an important impact on life expectancy and infant mortality (after correcting for the effect of income). This is not surprising, since a high percentage of deaths in developing countries is related to home hygiene and other health and nutrition practices, and since literacy increases knowledgeability and ability to screen and evaluate new information about changing these practices.²³ The regression equation linking literacy to life expectancy suggests that Sri Lanka's very high literacy rate (78% rather than the expected value of 36%) would bring the expected value of life expectancy at Sri Lanka's income level from 44 to 58. Thus, education, and factors associated with it, appear to explain a large share — the equation suggests about two-thirds — of the 22-yr difference between its expected and actual (66) values.²⁴

No regression analysis has been carried out on the linkage of primary education (literacy) to growth in agricultural production. However, there is a growing body of empirical studies indicating that education has a positive effect on agricultural output when technology is changing.²⁵ The reasons why literacy increases the utilization of improved agricultural practices are essentially the same as those why it increases the utilization of improved health practices. Given the risk aversion of small farmers and the relatively high financial risks of input-intensive new agricultural technologies, education would appear helpful in absorbing, accurately recalling and evaluating proposed new technologies. It may also have an effect on attitudes toward trying things that are new. Thus, high literacy could well be one of the reasons that rice yields in Sri Lanka were the highest in South Asia in 1960 and that rice production increased by 5.8% annually during the 1960s.

The regression results show that longer life expectancy contributes to lower fertility rates

(again after allowing for the effect of income).²⁶ The impact of longer life expectancy (or lower infant mortality) on fertility relates primarily to the expectation that children will survive into adulthood.²⁷ These results indicate that Sri Lanka's high life expectancy appears to explain about two-thirds of the difference between its expected and (much lower) observed fertility levels. While literacy had no additional explanatory power when added to the regression analysis, it has a strong indirect effect through its impact on life expectancy.

Recent analyses of the relationship of development to fertility suggest some hypotheses which appear applicable to Sri Lanka and which would amply explain the remaining difference between Sri Lanka's expected and observed fertility rates.²⁸ One is the effect of the level of female education. (This effect is additional to that of literacy *per se*, which is attained with only primary-school education or less.) The 1971 census shows that, for example among women aged 40-44, those who had reached 'O' level qualifications had an average of 3.6 children, while those with only primary education had an average of 5.1, and those with no schooling an average of 6.0.²⁹ In addition, female education has contributed to the relatively high female labour force participation rate (a crude rate of 22% in 1975, up from 16% in 1963), to the increase in average female age at marriage (23.5 in 1971, compared to 22.1 in 1963) and to the related decline in the percentage of married women.³⁰ Another apparent reason for low fertility has been the ration (and food subsidy) and health programmes, which have lowered the old age and disability insurance motivation for having large families. A further reason is Sri Lanka's family planning programme, which works largely through the health system. Overall, the rapid decline in fertility shown in Table 1 may be attributed largely, although not completely, to the direct and indirect effects of Sri Lanka's social programmes.

In sum, the strong linkages among basic needs suggested by the inter-country regression analysis and by the case of Sri Lanka indicate substantial indirect benefits from health and education programmes. These linkages raise some interesting questions of emphasis and sequencing for development strategies in other countries. For example, it is often said that desperately poor countries like Bangladesh should concentrate their limited development efforts on agricultural production and family planning. These undoubtedly are key priorities. But there are extremely few countries which have ex-

perienced rapid growth in agricultural output without substantially higher literacy than Bangladesh's level of under 30%. And there are equally few which (in the mid-20th century) have experienced a rapid decline in population growth without a substantially lower infant mortality rate than Bangladesh's 140+/1000.

(f) *Substitution among steps to meet basic needs*

Since basic needs has become a focus for analysis so recently, little analysis has been done on substitutability among what have come to be considered as the minimum package of steps to meet health and education basic needs. Among the elements that have been identified as essential to meeting basic needs are potable water (as a means of achieving the broader basic need of good health) and 'participation', which some consider to be a means to achieving basic needs at low income levels and others to be a basic need *per se*.³¹

In general, the quality and quantity of drinking water available to Sri Lankans is considered inadequate by the WHO for good health.³² However, Sri Lankans tend to be well aware of the dangers of polluted water and frequently treat or boil it, particularly for use by young children. Also, there is general awareness of when medical attention is needed to treat gastrointestinal and other water-borne diseases.³³ These health practices seem most plausibly related to the high degree of literacy (basic education).³⁴ For example, infant mortality, which is closely linked to water-borne diseases, is highest in those areas (i.e. the 'estates') where education is lowest. Thus literacy and the primary health care system appear to substitute in part for potable water supply in meeting basic health needs.

In part, Sri Lanka has also 'substituted' for local participation.³⁵ In some programmes, it has used a highly centralized ('top-down') approach in situations which some argue require highly participatory ('bottom-up') local institutions. In other ways, though, participation clearly has been important in Sri Lanka's social accomplishments.

As noted previously, Sri Lanka's education and health programmes are highly centralized. This centralization has had obvious disadvantages in terms of foregone financial and other support from local communities. On the other hand, the centralization helped avoid or mitigate situations where the best organized - often most prosperous - localities would end up with

the best services and with a widening gap between them and more disadvantaged localities. Obviously, the question here is one of the right balance between 'top-down' centralization and 'bottom-up' participation. The many advantages of the latter have been increasingly recognized in recent years, but it is easy to go overboard in this, as in other areas. It has even been argued by some who view participation as a necessary aspect of a basic-needs approach that because Sri Lanka has not had a good record on participation in local institutions, it has not had a good record in meeting basic needs. This view, however, seems rather doctrinaire, especially in light of Sri Lanka's extraordinary record on social indicators.³⁶

On the other hand, Sri Lanka's experience in agriculture generally supports the importance of participation. In the 1960s, the local 'Rural Development Committees', 'Cultivation Committees', and co-operatives were, taken as a group, considered generally successful in helping to improve agricultural productivity. As is discussed in the following section, the 1960s were a period of rapid agricultural growth in non-plantation crops. In the 1970s, experience with local rural institutions was much less favourable. There were widespread charges that these institutions had become highly politicized and inefficient. This period of institutional decline (from 1970 to 1977) coincided with a period of very poor agricultural growth. This is, of course, not to deny the primary importance of other factors — including input supplies, pricing policies and weather — in explaining the difference in agricultural growth between the 1960s and 1970s.

'Participation' usually refers to participation in local institutions, regardless of the extent of participation in choosing local or national political leaders. For example, both the People's Republic of China and the Republic of China (Taiwan) are often cited as examples of highly participatory systems in rural areas. However, as the Sri Lankan example shows, the extent of local participation in choice of political leadership is also highly relevant to the meeting of basic needs. Indeed, if we redefine the term participation in this broader way, then Sri Lanka is a highly participatory society, and much of its social accomplishments can be traced to local participation.³⁷ Sri Lanka's democratic political system is highly competitive at the local as well as national level. Interest among the generally literate populace in local and national elections is high. MPs and Village Council chairmen seek to barter assistance to their constituencies for political support for themselves and

their parties. This assistance includes, in part, lobbying for schools, clinics and agriculture programmes.

(g) *Unmet basic needs of estate labourers*

Sri Lanka's progress in human resources should not obscure the fact that it remains a very poor country where malnutrition is such that there is death from nutrition-related causes in food-short years, where the infant mortality rate has stagnated at about three times that in Northern Europe, and where dropout rates from primary school remain high. The most severe human resource problems tend to be found on the tea 'estates'. The vast majority of estate workers are 'Indian Tamils', whose families were brought by the British to Sri Lanka within the past century specifically to work on the estates. Whether the estate labourers fall into the bottom third of the income distribution in any given year depends largely on the number of days of work available for them on the estates. When there is a strong demand for labour, as has recently been the case, their household income tends to fall roughly in the middle of the income distribution. However, their health, education and nutrition³⁸ status is much worse than that of the population as a whole. For example, their death-rate was 55% above that of the country as a whole for 1973 and 130% higher during the food-short year of 1974. In 1969/1970, 52% of estate women had no schooling at all, compared to 23% in the rural sector (excluding estates) and 15% in the urban sector. Only 1.5% of the estate population had 'O' level qualifications, compared to 7.5% for the population as a whole. Also, low-income estate dwellers get much lower benefits from government subsidy and service programmes than does the rest of the population (even before taking account of the indirect incidence of the heavy taxes on tea).³⁹

The reasons are easy to see: the cultural and physical isolation of the estates; insufficient political power to command a fair share of services and subsidies; the conflict for mothers between working and looking after their young children; low economic returns to education, partly because children do not have to be literate to have first priority for work on the estate on which they live; and the fact that funds for improving health, education and shelter directly reduced the profits of the tea estates (except for those health measures which increased revenues by more than costs). Nevertheless, Sri Lanka's general commitment to and success in

meeting basic needs calls added attention to the disparity between the conditions of estate labourers and those of the rest of the population. Fortunately, there is some hope for improvement. A large percentage of the Indian Tamils are due to return to India under a long-standing agreement between the two countries. With the need to recruit Sinhalese workers to the estates, it is becoming increasingly necessary for social services and housing to be raised closer to average Sri Lankan rural levels. Also, the nationalization of estates over 50 acres (carried out from 1973–1975) is forcing the government to take a more active role in social services on the estates.

2. TRADE-OFFS AND COMPLEMENTARITIES WITH GROWTH

Sri Lanka has spent about 10% of GDP on social programmes, including the food ration programme, during the past 15 yr. This high expenditure level for social programmes has been compared to other countries' high expenditures for defence (about one-half of 1% of GDP in Sri Lanka); both have a high opportunity cost but the social expenditures seem less wasteful. In 1964 and 1965, total social programmes (including the food subsidy programme) averaged a very high 54% of current expenditures and 11.3% of GDP. Since that time, education and health expenditures have been declining fairly steadily as a percentage of total current expenditures or GDP. The decline was from 32% of current expenditures in 1965 to 23% in 1976. The case of the food subsidy is more complex. It too has been declining relative to total current expenditures and GDP, and in physical quantities *per capita* as well. But this decline has been largely offset by the continuing implicit depreciation of the rupee, which means that rupee costs of food imports in recent years are substantially understated.

The growth record of the 1960s was mixed. Major policy weaknesses included insufficient incentive for replanting of tea to keep up growth in production; an industry policy that emphasized relatively inefficient import substitution rather than exports, and inadequate adjustments in exchange rates to reflect the real depreciation of the rupee. On the other hand, growth in industry, at 8%, was good, even if primarily in import substitution, and growth in rice production, at almost 6%, was outstanding. Inflation, growth in wages and growth in government employment were held to modest levels. Overall, GDP growth was 4.4%, or 2.1%

per capita. Sri Lanka's *per capita* income growth in the 1960s was ninth of 30 countries under \$250 *per capita* (in 1975) for which data were available.⁴⁰ This growth was eroded, however, by declining terms of trade (with stagnant tea prices and increasing import prices) so that real national income corrected for terms of trade grew by 3.5% rather than by 4.4%.

The growth record from 1970–1977 was unambiguously poor. GDP grew at only 3%, with agriculture and industry, the key productive sectors, growing at only 1.9 and 2.3%, respectively. Much of the growth in services, recorded at 4%, was simply an unaffordable increase in public-sector employment. A lot of the problem was due to bad luck. The monsoon rains were poor for three consecutive years from 1971 to 1973; this was then followed by the surge in international prices of grains and petroleum. There was also the balance-of-payments problem inherited from the 1960s. But the bad luck was exacerbated by poor growth management. Confrontation with the private sector discouraged private-sector investment, but the Government did not have the financial resources, manpower or policies required to keep growth up through public-sector investment. Much of what was invested by the public sector was in highly inefficient industrial projects. Nationalization of large tea estates, an understandable step, was undertaken in a way that caused the estates to be run down before nationalization and to be inadequately managed thereafter. The padding of the public payroll, combined with the sharp rise in the price of food imports required for the ration and subsidy programmes, made both the fiscal and balance-of-payments situations increasingly untenable. Unfortunately, the political situation, with the 1971 insurrection and its aftermath, and the policy differences within the Government coalition, were not conducive to firm and consistent economic management. As a result of the fiscal deterioration, real *per capita* expenditures on health and education declined, as did food distribution *per capita* and nutritional standards.

The relatively better record on both growth and social programmes in the 1960s than in the 1970s suggests important complementarities, as well as trade-offs, between the two. In the 1960s, fairly good growth allowed improvements in social programmes although their budget share was declining. In the 1970s, it would be more correct to say that poor growth was the prime cause of the deterioration in social programmes than that social programmes were the prime cause of the deterioration in

growth. Thus, while the experience of many countries has shown that growth *per se* is not a sufficient condition for rapid progress in meeting basic needs, the Sri Lankan experience sharply illustrates the commonsense point that without adequate growth countries will not have enough financial resources to maintain, let alone expand, basic-needs programmes.

There are also complementarities running in the other direction — from basic needs to growth. The previous section referred to the effect of education (literacy) on rice production. With less progress in health and education, Sri Lanka would have worse current prospects for growth in *per capita* income: population growth would be higher and the labour force less educated and less healthy.

The Sri Lankan experience also indicates a number of other commonsense points relevant to the costs of social programmes. First, there is a need to target basic-needs programmes on those who need them in order to make the programmes more affordable and to protect the basic needs of the poor during bad years. If the ration programme had been restricted to the poorer half of the population in the mid-1960s rather than in 1978, there would have been an annual average savings of about 2% of GDP. Similarly, if education expenditures had put less emphasis on the secondary and higher levels and if government had not hired such an excessive number of teachers in the 1970s that the student-teacher ratio declined from 28 in 1970 to 22 in 1977, then there would have been ample funding to have prevented the deterioration of the health system that occurred in the 1970s. With these changes in the ration programme, education and health, there would have been major savings with no sacrifice — perhaps an improvement — in indicators of basic needs.

Second, the longer a programme has been in operation, the more it builds up a political constituency and the more difficult it is to cut back its benefits or its coverage. The record of Sri Lanka's ration programme shows literally dozens of changes in the ration entitlement as governments sought to save funds by reducing the ration; then, particularly about the time of elections, the ration would again be increased. The Sri Lankan programme had been in existence for about 35 yr before it was targeted on lower-income groups. The point here for other countries is that since it is politically easier to expand coverage or benefits than to contract them, emphasis on low costs and targeting should be built in at the initial stage of programme design. Finding the right balance

though, between sufficiently narrow coverage to be affordable and sufficiently broad coverage to get necessary political support, can make it hard to exercise needed economies; without political constituencies, there is little hope for basic-needs or other equity-oriented programmes.

Third, if the social programmes cause current expenditures, or, in the case of food, imports to get out of hand, there are likely to be additional hidden costs — in the form of an adverse effect on policies. In Sri Lanka, the heavy social expenditures have had a net negative impact on pricing and other policies. To some extent, they have encouraged excessive emphasis on short-term budget and foreign exchange problems, at the expense of longer-run problems, and have fostered a 'welfare mentality' which has sapped individual or group self-help efforts (e.g. see the subsequent discussion of the role of government programmes in contributing to unemployment).

On the other hand, it is easy to slip into the trap of blaming all of Sri Lanka's policy problems on the social programmes. For example, it is not clear that Sri Lanka has had worse-than-average pricing policies for a low-income country. As has been noted, its farm price policies have been much better than average, and because of the 'foreign exchange entitlement certificates', its foreign exchange pricing policy has been substantially better than the official exchange rate would suggest. Similarly, the welfare-mentality argument, which has been hotly debated at least since the time of the introduction of the 'poor-law' reforms in England in the early 19th century, can also be carried too far. It hardly seems consistent, for example, with the nearly 6% growth rate of rice production in the 1960s.

An extreme case of blaming all Sri Lanka's policy problems on the social programmes is the argument that, with lower social expenditures, Sri Lanka could have grown as fast as East Asian countries like Malaysia or Korea. It seems inconsistent, though, to argue that expenditures relevant to human-capital development should have been lower, because they were a drain on growth, and at the same time to argue that Sri Lanka's growth should be judged by the standards of countries whose rapid growth is widely attributed to their human capital. In addition, to imply that all that stood between Sri Lanka's and Korea's growth records was Sri Lanka's social expenditures would be to attribute to them all the economic, cultural and political differences between South Asian countries (among which Sri Lanka's long-term *per*

Table 2.

	1953	1963	1969/1970	1973
Gini coefficient	0.46	0.45	0.41	0.35
Income share of the poorest 20% (%)	5.2	4.4	5.5	7.2

capita growth rate looks fairly good) and the fast growing export-oriented East Asian countries. With lower social expenditures, would Sri Lanka have avoided labour strife? Would it have followed an export-oriented rather than import-substitution industrial strategy? Would the SLFP have had a strongly positive attitude toward private-sector industry? At some point, the argument ceases to have much to do with social expenditures *per se* and becomes, in effect, 'if Sri Lanka were not Sri Lanka'.

If social expenditures were substantially lower and if, as is likely, political constraints had prevented a sharp redistribution of social programmes from the population as a whole to the poor, caloric intake, and health and education services received by the poor would have been less; and there would have been corresponding deterioration in social indicators. There are too many unquantified relationships and too many assumptions required to enable a useful quantitative comparison of the growth benefits and social costs from substantial cut-backs in social programmes. There remains ample room for disagreement in judgements on Sri Lanka's development record as a whole — with its increasingly unaffordable social expenditures, its variations in economic management and growth rates, and its unusual social accomplishments. There is also room for disagreement on the cross-country standards against which Sri Lanka should be judged. Should one say, so to speak, that the bottle is half empty or that it is half full? But clearly, the social ac-

complishments could have been achieved at less cost, and growth could have been much better. One could, thus, hardly recommend Sri Lanka as a model for countries interested in basic needs to emulate. At the same time, the facts do not seem to support either those who would condemn Sri Lanka's development record as a dismal failure or those who see the social programmes as all that stood in the way of exceptionally high growth.

3. INCOME DISTRIBUTION

The household surveys of 1953, 1963, 1969/1970 and 1973 show a continuing improvement in the distribution of incomes, as indicated by Table 2.⁴¹

It is interesting to note that in 1963, when the Gini coefficient was at the not very low level of 0.45, Sri Lanka's social indicators (Table 1) were already exceptionally favourable for its income level. This illustrates that equality of income distribution and satisfaction of basic needs are quite different things, although improving income distribution can be an important means of meeting basic needs.⁴²

The record of improvement in Sri Lanka's income distribution seems extraordinary. A study carried out at the World Bank indicates that Sri Lanka was the only country of the 35 countries for which data were available where the marginal share accruing to the bottom 60% of the population (between 1963 and 1973 in

Table 3. *Average consumption expenditure by quintiles, 1963 and 1973*
(rupees per 2 months per spending unit)

Percentage of spending units	1963	1973	Ratio of cols. (2) : (1)
	(1)	(at 1963 prices) (2)	
0-20	191.3	163.8	0.856
20-40	248.7	276.4	1.075
40-60	334.7	337.8	1.009
60-80	430.4	440.2	1.023
80-100	717.3	829.2	1.156
Average	382.6	409.5	1.070

Source: E. L. H. Lee, *op. cit.*, derived from the 1963 and 1973 Surveys of Consumer Finances.

the case of Sri Lanka) was higher than 60%.⁴³ However, some recent analysis has questioned these findings.⁴⁴ The major argument is that the distribution of real consumption (in constant prices) worsened between 1963 and 1973, and the real consumption of the bottom quintile declined (see Table 3).

While one might have thought that a higher share accruing to the poor of a higher GDP (in constant prices) must mean higher real consumption for the poor, this is not necessarily the case. What happened essentially is that in 1973 the cost of living of lower-income deciles rose by more than that of the population as a whole, primarily because the relative price of foodgrains had increased. Thus incomes of the poor (except paddy farmers who produced more than their own requirements) rose more slowly than the prices of wheat and rice.

The contradiction between trends in the distribution of income (at current prices) and in the distribution of consumption (at constant prices) is due not only to this shift in the relative price of foodgrains. It also reflects a likely understatement of the degree of income inequalities. Comparison of expenditure (consumption) and income data for upper-income groups suggests an increase in 1973 (over 1963) in the degree to which their incomes were understated; this is not surprising, given the much greater emphasis in 1973 on redistribution as a government policy.⁴⁵

In a narrow sense — i.e. the comparison of 1963 and 1973 — the critics have a strong case. But although 1973 was chosen as the terminal year because of the availability of data from the Survey of Consumer Finances, it was not typical of the late 1960s or early 1970s.⁴⁶ The survey was conducted in January/February 1973. Foodgrain availability (based on production, imports and stock charges for 1972) was at its lowest annual level since 1966. In addition, the 1973 Survey was conducted during a seasonal low point of supply, while that of 1963 was roughly at the time of a major festival.

The 1969/1970 Socio-Economic Survey, on the other hand, came in an unusually good year. Nevertheless, the distribution of income in 1970 was probably about typical for the good growth years of the end of the 1960s. Some relatively minor questions have also been raised about the data in the 1969/1970 Socio-Economic Survey, particularly its exclusion of single-person 'households' (only about 5% of the total); but these questions are not such as to discredit the improvement in distribution of income that it reports. The major economic cause of the improvement appears quite plausible:

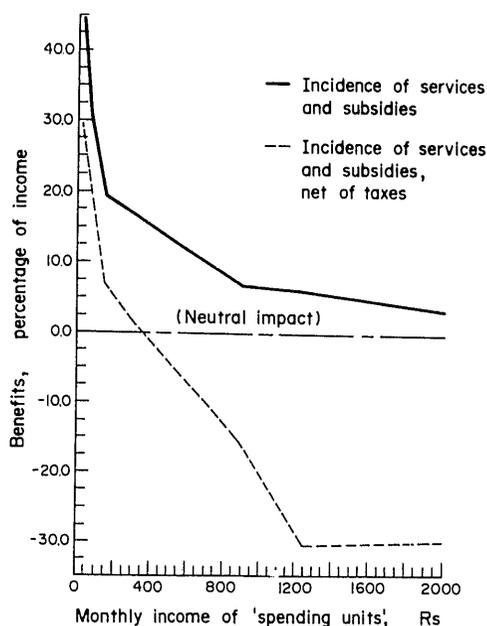


Figure 2. *Incidence of services and subsidies as a percentage of income, 1973.*

Source: P. J. Alailima, 'Fiscal incidence in Sri Lanka', *op. cit.*

ible: relative stability in formal-sector wages (i.e. in the middle to upper-middle part of the income distribution) at a time when rural incomes of small farmers were increasing (due to fairly rapid growth in production of paddy and other non-estate crops without a decline in crop prices). Food balance sheets also indicate an improvement in 3-yr averages of *per capita* food consumption. *Per capita* food consumption was 1924 cal for 1951–1953, 2040 cal for 1961–1963 and 2201 cal for 1971–1973.⁴⁷

In addition, Sri Lanka's extensive service and subsidy programmes had a significant equalizing influence on incomes. A comprehensive recent study⁴⁸ based on critical analysis of relevant survey data concludes that the distribution of government subsidies and services was substantially more equal than that of income, even before taking account of the effect of taxes (see Figure 2).⁴⁹ Taking the distribution (incidence) of all taxes, subsidies and services as a whole, there was a reduction in income inequality of about one-fifth.⁵⁰ In effect, social programmes appear to have substituted to some extent for the more radical redistribution of assets and incomes which some have hypothesized to be essential to meet basic needs in low-income countries.

There is no sample survey data available for

the distribution of incomes since 1973. The increase in the death-rate in 1974 and 1975 indicates, to say the least, that the poor did not fare well — particularly on the estates, where the increases in mortality was highest. However, in response to the inflation-induced deterioration in the living standards of the poor, and resultant political and union pressures (including international attention to the plight of the tea workers), there were general increases in wages in 1974 and 1975. The decline in the relative price foodgrains since 1975, combined with the increased demand for labour on the tea estates, and the (very expensive and overly broad) subsidy on wheat flour, have improved the position of the poor. At the same time, the combination of slow growth and nationalization probably worsened the relative position of the rich, including particularly earnings from dividends and rents.⁵¹ The net effect on income distribution was probably a worsening from 1973 to 1975 and then an improvement.

In sum, the distribution of income and consumption appears to have improved during the fairly rapid growth period of the 1960s, even before taking account of the incidence of taxes, subsidies and services, or more importantly, of the real improvements in the distribution of welfare indicated by the data on social indicators. The improvement (or, at worst, stability) in income distribution during this period is important, since it is often thought that Sri Lanka achieved its improvement in income distribution by sacrificing growth for equity. Rather, the period of the severest redistribution measures, the first half of the 1970s, seems to have been one of a decline in real incomes of the poor, and of deterioration in 'basic-needs' programmes. Thus, although there have been trade-offs between social programmes and growth, there have also been complementarities of growth in output with the absolute, and to some extent relative, incomes of the poor and with the distribution of welfare. This occurred, though, not because growth always has this effect, but because of the structure of growth in Sri Lanka, which involved extensive social programmes and substantial increases in the incomes of small farmers.

4. BASIC NEEDS AND UNEMPLOYMENT

Unemployment is a very serious problem in Sri Lanka. Sample surveys have shown a growth in the unemployment rate for at least 15 yr, reaching about 20% of the labour force, or

about 1 million people, in 1977.⁵² The unemployed represent not just underutilized resources, but a threat to Sri Lanka's political stability. They do not, however, represent a basic-needs problem, *per se*. They are mostly young (90% under 30 in 1975),⁵³ generally (75%) with at least some post-primary education. Eighty-five per cent are supported by their parents and three-fourths are looking for their first jobs.⁵⁴ In contrast, the problem of poverty is severest among those who are employed but have low incomes. They tend to be landless labourers, marginal farmers, estate labourers, or unskilled workers in the informal sector. Their households have a higher-than-average proportion of dependants, few assets and less-than-average access to education or even the rice ration (because they cannot afford to buy their full entitlement).⁵⁵ They need not more jobs, but more productive, better paid, jobs. Thus, the Sri Lankan situation indicates the danger of the recently popular approach to development of treating 'employment' — usually with primary focus on minimizing unemployment — as the central development objective which unifies growth and equity objectives.

Although unemployment in Sri Lanka is primarily not a basic-needs problem, there are some connections between the factors that led to the meeting of basic needs and the factors that have led to high unemployment,⁵⁶ which may have implications for other countries. While the drive for education leads to a series of development benefits (discussed previously), it also tends to lead to a mismatch between the aspirations of new entrants to the labour force and the requirement of the labour market for people to fill relatively unskilled, low-productivity jobs.⁵⁷ Hence the well-chosen title of the innovative and comprehensive 1971 ILO Employment Report on Ceylon — 'Matching employment opportunities and expectations'. It is easy to blame this mismatch on 'inappropriate' curricula and teaching methods, and they have undoubtedly contributed to the problem. But Sri Lanka's curricula and teaching methods have been no more 'inappropriate' than those of many other countries with much lower unemployment. More important than curricula, though, in Sri Lanka is that a very poor economy simply does not require 75% of new entrants to the labour force to have more than a basic primary education.

This mismatch need not automatically lead to unusually high open unemployment. Rather, one might think that, over time, the excess

supply of relatively educated people looking for white-collar or skilled jobs in government and in the formal private sector would drive down the wage differential attributable to education and drive up the minimum education standards for any given job; after a while, unsuccessful job-seekers would give up and take whatever jobs were available. Such adjustment mechanisms have operated to some extent in Sri Lanka.⁵⁸ Nevertheless, for a variety of economic and non-economic reasons, the wage differential in Sri Lanka, as in many other countries, has not been driven down to 'market-clearing' levels.⁵⁹ In addition, public- or formal private-sector jobs tend to be more secure and to offer much better career prospects; such jobs are worth waiting for. In other words, relatively educated young people in Sri Lanka have a high 'reservation wage'. They tend to choose to remain ('voluntarily') unemployed in large part because, from their point of view, it is financially profitable in the long run to do so; unfortunately, from the point of view of the society at large, the high unemployment that results is the country's major economic and political problem. At any given time, it may (rightly) appear rational to an individual to wait, even if the chances of getting a good job are low and the waiting time is long (3 yr or more for half of those unemployed in Sri Lanka in 1973). If, for example, a government white-collar job offers lifetime income, security, status and career prospects worth together five times those in the agriculture or informal sector, then it may be considered worthwhile to wait for that job, even if one's chances are only one in three or four.⁶⁰ In such, rather typical, circumstances for a developing country, it is likely that, the greater the mismatch between job opportunities and the qualifications and expectations of new entrants to the labour force, the higher will be the open unemployment.⁶¹

In addition, for any given mismatch, the lower the costs of waiting and the higher the benefits from waiting, the higher the unemployment. In Sri Lanka, the welfare programmes such as the food ration or free health care reduce the costs of waiting and, thus, increase the time that parents or other relatives are willing to support a job-seeker. Also, the spread of welfare programmes into rural areas makes it more attractive, depending on the nature of the job search progress, for the unemployed to live in rural areas. If this is feasible (and 70% of the unemployed in Sri Lanka live in rural areas), then the costs of waiting are reduced further, since those waiting

can now live with their families and take advantage of lower rural food prices. The ability to live in a rural area while remaining unemployed may thus cause an increase in unemployment.⁶²

Furthermore, the spread of female education is likely to mean that women will make up an increasing proportion of the unemployed, partly because there may be more social or other restrictions on jobs open to them and partly because the opportunity cost of waiting is often lower than for men. This would be particularly the case for women whose parents could not otherwise force them to work, or would set limits as to what kinds of jobs, geographic areas or residential arrangements were acceptable. For someone who has the option of withdrawing from the labour force entirely, the costs of remaining unemployed while waiting for a good job are obviously reduced. In 1975, the unemployment rate for women was 38% while for men it was 15%.

In addition, the Sri Lankan political situation increases the returns to waiting for a good job. The insurrection of 1971 and the fact that the 20% of the labour force who are unemployed are relations of a very large percentage of the total population indicate that the unemployed and their families can put considerable pressure on the government to 'solve' the unemployment problem by creating permanent jobs for the unemployed. Successive governments have tried to do so. Since such programmes tend to be restricted to those who are 'unemployed', rather than those who are overeducated for their current jobs, there is a substantial incentive to remain unemployed, rather than to accept an inferior job while looking for a better one. There are also other reasons to remain unemployed: more time to look for a job; loss of self-esteem from accepting a low-status job; and an alleged preference of employers for those who are unemployed over those who have accepted a low-status job.

In spite of the economic rationality of waiting for several years for a good job, it would be wrong to imply that all voluntary employment among educated youth is 'rational', or that caste and class behaviour norms do not also play a part. While those from families with higher socio-economic status undoubtedly are over-represented at the university and 'A' levels, Sri Lankan parents, like those elsewhere, have seen education as the key to social and economic mobility. Parents work hard and forego labour inputs from their children so that the children can have access to the better life-chances that education provides; many might

well be willing to go on supporting an educated unemployed child long after it becomes apparent that the child will eventually have to settle for whatever low-status, low-pay work is available. It would also be wrong to imply that the unemployed do no productive work at all (although this remains an area where insufficient empirical evidence is available). Unemployed youth being supported by their parents do contribute to their families' livelihoods and often, particularly in peak agricultural seasons, will do work for others. The number of hours spent with no economically productive output would depend, among other things, on the parents' tolerance and their feelings about the social status they hope that their child's education will bring.

Finally, it would be wrong to imply that anything that governments do to reduce the unemployment problem will only increase the incentive to remain unemployed and, thus, make things worse. There are constructive steps that can be taken, in Sri Lanka as elsewhere, that have fewer 'side effects' than the steps discussed above. These would include, for example, elimination of pricing distortions that subsidize capital in relation to labour; changes in curricula and counselling aimed at reducing student and parental expectations; fixed-term employment on productive public-sector projects, but with an explicit condition that no permanent government employment will follow; and continuing reductions in the overall income and security advantage of a white-collar, public-sector job.

In sum, while the elimination of unemployment is primarily not a problem of basic needs, some basic-needs programmes — food subsidies or the spread of social programmes to rural areas — have the inadvertent effect of lowering the cost of remaining unemployed while searching for a good job. Other programmes not directly a part of a basic-needs approach but derived from common political and economic sources — rapid extension of post-primary education for both boys and girls, or well-intended government steps to ease the plight of the unemployed — lower costs of waiting further and increase expectations of benefits. The greater affordability of unemployment in countries where basic needs have been largely met means that its level is likely to remain higher than in countries where this is not the case.⁶³ One would hardly wish to argue that this is not a price worth paying — that, in effect, the risk of death from diseases related to malnutrition or health practices should be higher so the cost of remaining unemployed will also be higher. On

the other hand, governments should take steps in both employment and basic-needs policies to minimize the extent to which welfare programmes subsidize or otherwise encourage unemployment.

5. CONCLUSION

Sri Lanka has had serious development problems, including high unemployment, preemption of a high percentage of the budget and of imports for social expenditures, and an extremely adverse turn in external terms of trade. These problems were exacerbated by some policy weaknesses in the 1960s and more widespread policy weaknesses in the 1970s. But contrary to what is commonly assumed, it was not primarily excessive expenditure on social programmes that caused growth to deteriorate in the first half of the 1970s, but the poor growth policies and terms of trade. The growing unaffordability of the food ration programme indicates that there are indeed difficult trade-offs between basic needs and growth and that it is important that programmes be lean and targeted to enable them to remain viable. On the other hand, Sri Lanka's relatively good record on growth and social programmes in the 1960s (and the apparent deterioration in the distribution of real consumption and in social programmes in the early 1970s) confirms the importance of complementarities as well as trade-offs.

Sri Lanka's record on social indicators suggests that expenditure over a number of years at a high percentage of the total government budget can lead to striking progress in the underlying social objectives of the economic development process. Even the highly controversial food ration and subsidy programmes seem to have had nutrition, mortality and income distribution benefits. The widely accepted view that the social benefits were greatly outweighed by the economic costs now appear open to question, particularly since Sri Lanka has initiated steps to restore growth, and to cut back and target subsidies. Had the economic deterioration of the 1970s continued for a good deal longer, however, there might be no such room for question. And there is no room for question but that Sri Lanka could have achieved even more in meeting basic needs if it had had better growth management.

To put the costs of Sri Lanka's social expenditures in perspective, in the first half of the 1970s they were about \$15 *per capita*/yr, split

roughly equally between the food subsidy and social services. By the standards of domestic poverty programmes in aid-donor countries, or even by the standards of donor-funded development projects in poor countries, \$15 *per capita* hardly sounds high in relation to Sri Lanka's social accomplishments. Even that \$15 overstates costs of direct basic-needs programmes, since it includes both benefits to those whose basic needs have already been substantially met and social programmes with objectives other than basic needs (e.g. higher education).

For the future, acceleration of growth seems much more feasible in Sri Lanka than in most other slow growing countries. Sri Lanka's potential for *per capita* income growth has been enhanced by its relatively highly developed human resources, its low rate of population growth and its comparatively low wage rates. Whether it will achieve accelerated and sustained growth⁶⁴ depends heavily on the quality and stability of growth policies and, in industry, on labour discipline. Both are primarily political, rather than economic, questions.

Like most other countries, Sri Lanka is in

many ways a special case in large part dependent on its own historical circumstances. Because of this, and because of the serious deficiencies in its past growth efforts, and its essentially untargeted social programmes, Sri Lanka cannot be held out as a basic-needs 'model' for others. Yet, it is one of the very few non-socialist countries to have been embarked for many years on a basic-needs approach. Its experience appears to shed light on a number of issues and hypotheses relevant to basic needs, including: trade-offs and complementarities between basic needs and growth; the tension between the lower economic costs of targeted programmes and the greater political feasibility of less targeted programmes; relative priorities among basic-needs programmes; and the complex relationship of basic needs to income distribution and unemployment. Overall, since Sri Lanka has accomplished more in meeting basic needs than most countries with three or four times its *per capita* income and appears to have average or better growth prospects, its development experience can no longer be written off as a failure.

NOTES

1. Thus, there is no single basic-needs strategy; rather basic-needs approaches to development are compatible with a broad range of market-oriented or socialist economic and political systems. The basic-needs approach by this definition comprehends the recent trend in development economics toward more emphasis on issues of poverty and income distribution. It differs primarily in the explicit emphasis it puts on attainment of basic needs of the poor, with improvements in their absolute and relative incomes being viewed as important means of doing so. It does not matter, for purposes of this paper, whether one considers the means required to achieve good health — such as adequate nutrition, potable water, housing or clothing — as basic needs themselves. See *Employment Growth and Basic Needs: A One World Problem* (Geneva: ILO, 1976). Also see M. ul Haq, 'Progress report on basic needs' (World Bank, August 1977), for further development of some of the concepts and unresolved issues of the basic-needs approach.

2. Note on data in this paper: Years for which data are presented are largely determined by their availability from population censuses or surveys. Data on demographic factors and employment for 1946, 1953, 1963 and 1971 are from the censuses. Data for 1970 (1969/1970) are from the Socio-Economic Survey. Employment data for 1973 and 1975 are from the 1973 Labour Force Participation Survey and the 1975 Land and Labour Utilization Survey. Income distribution data for 1963 and 1973 are from the Surveys of Consumer Finances. Data on growth in output are from the Central Bank of Ceylon; output growth rates

are computed from 2-yr average base and terminal periods.

3. Sri Lanka's indicators were all significantly better than expected (at $p < 0.05$). See Appendix Table A1 for the relevant regression equations. A good deal of controversy has surrounded the 'physical quality of life index' (PQLI), on which Sri Lanka scored extremely high, because of the arbitrariness of its choice of indicators and weighting among indicators. [The 'PQLI' is explained in J. W. Sewell *et al.*, *The United States and World Development: Agenda 1977* (New York: Praeger, 1977).] However, if one accepts the four indicators above (either as direct measures or as proxies for other measures), then Sri Lanka would be the highest scoring country in relation to its income no matter what weighting was used.

4. D. Morawetz, 'Economic lessons from some small socialist developing countries', Mimeo (World Bank, 1978). His argument of lower than expected improvement in social indicators rests primarily on a regression equation with an extraordinarily low R^2 of 0.01. This equation does not include a term which would allow for the increasing difficulty of further progress as a country comes closer to maximum attainable levels. Morawetz dismisses this problem by noting that Korea, which also had good social indicators in the base year, made faster progress than Sri Lanka. Unfortunately, this use of the best performing countries (the fast growing East Asian countries), rather than a more typical group of developing countries, as the standard for comparison, detracts from Morawetz's otherwise quite interesting analysis.

5. See E. J. Wijemanne, 'Educational reforms in Sri Lanka' (Marga Institute, 1977).
6. For comparative data on expenditures and enrolment rates, see M. Zymelman, 'Patterns of education expenditures', World Bank Staff Working Paper No. 246 (November 1976).
7. A major reform intended largely to address these problems was undertaken in 1972, but it ran into implementation problems and present resistance. As a result of this, and of the politicization by the previous government of the social-science curriculum, the new government abandoned many of the changes made. However, it is premature to determine how education policy will evolve over the next several years.
8. On the importance of malaria control in relation to other causes of the decline in Sri Lanka's mortality rate, see R. H. Gray, 'The decline of mortality in Ceylon and the demographic effects of malaria control', *Population Studies*, Vol. 28, No. 2 (July 1974).
9. Nevertheless, the cancellation from 1975 to 1977 of training for 'assistant medical practitioners' is one among several indications of a remaining imbalance favouring intensive, physician-based, curative health care in Sri Lanka. This imbalance is not surprising, since the extensive system developed from a conventional intensive system.
10. The criteria determining how choices are made between Western and ayurvedic (and other indigenous) treatment in rural Sri Lanka are discussed in C. F. Arndt, 'Health seeking behavior in Wegeriya', Mimeo (George Washington University, 1977).
11. This is not meant to imply that ayurvedic medicine is in most circumstances as effective as Western medicine, or that traditional medicine in other countries should be presumed as effective as that of Sri Lanka. However, other countries have also made extensive use of traditional health systems, most notably China, as well as India (where Sri Lanka's ayurvedic system originated).
12. '... the (government procurement) paddy price has been above the c.i.f. (paddy) equivalent price since the early 1950s'. P. Richards and E. Stoutjesdijk, *Agriculture in Ceylon until 1975* (Paris: OECD Development Centre, 1969), p. 54. On comparative rice/fertilizer ratios in 1970, see P. Timmer and W. P. Falcon, 'The political economy of rice production and trade in Asia', in L. Reynolds (ed.), *Agriculture in Development Theory* (Yale University Press, 1975), Table 14.2. The heavy input subsidies – primarily on irrigation, fertilizer and credit – undoubtedly had a positive impact on output; but they also had a high fiscal cost and encouraged inefficiencies in the allocation of scarce inputs.
13. See P. Isenman and H. W. Singer, 'Food aid: disincentive effects and their policy implications', *Economic Development and Cultural Change*, Vol. 25, No. 2 (January 1977), for a discussion of the conditions under which large-scale food imports will lead to a disincentive effect on domestic agricultural production.
14. In addition to the benefits discussed above, the ration also helped to keep wages in Sri Lanka relatively low and stable (until the early 1970s). The ration programme originated on the estates and was initially conceived as a way to ensure wage stability rather than as an income supplement or nutrition programme.
15. See, for example, C. L. G. Bell, 'The political framework', in H. Chenery, M. S. Ahluwalia, J. H. Duloy and R. Jolly, *Redistribution with Growth* (London: Oxford University Press, 1974).
16. Also, because of farm price support programmes in food-surplus donor countries, food aid from these countries seems to be to a substantial extent additional – i.e. to result in a higher net total than if food aid were not a part of the aid package.
17. See D. R. Gwatkin, 'Nutritional planning and physical well-being in Kerala and Sri Lanka', Paper presented to an AAAS symposium on 'Nutrition and Agriculture: Strategies for Latin America' (February 1978).
18. To the extent that recipients of rationed rice buy rice on the open market to supplement their ration, the marginal price they pay for wheat is the market price. In this situation, economic theory suggests that the ration would increase calorie and protein consumption by only the same amount as would an income supplement (of an amount equal to the rice subsidy). On the other hand, since the wheat subsidy has no quantity limit, the marginal price is still the rationed price, so there would be a larger increase in calorie and protein consumption than with an equivalent income transfer. (This result would most likely hold in spite of partially compensating cuts in consumption of other foods, since wheat is a relatively low-cost source of calories and protein.)
19. Also, the ration for sugar was cut from 2 to 1 lb/month in 1973, with very little available off-ration, and that at 3–5 times the 1973 price. The reduction in availability was due to the rapid rise in the import price. With these demand pressures, the price of domestic 'jaggery' sugar undoubtedly multiplied as well. Sugar had been a major source of calories.
20. The difference between the observed and expected death-rates for 1974 was significant at 0.01. See Appendix Table A2. While there was a sharp increase in reported cholera deaths in 1974 (333 vs 13 in 1973), this would have caused an increase in the death-rate of only 0.025/1000. The regression analysis is for the years 1963–1976. Preliminary data from 1977 confirm the hypothesis, since the *per capita* food supply was the highest in recent years and the death-rate fell to 7.5/1000.

21. The same general points also apply to a lesser extent to 1975, when food supplies and ration distribution were below average and the death-rate, at 8.5/1000, was still above the trend line.
22. See M. Selowsky and S. Reutlinger, 'Malnutrition and poverty', World Bank Occasional Paper, No. 23 (1976). While there is some dispute about aspects of their methodology, no serious challenges have been raised to their conclusions.
23. The regression results and the Sri Lankan experience suggest that education may not have to be 'relevant' to development in order to have a positive impact on it. Primary and secondary education which, as in Sri Lanka, is not applied to development problems or to the needs of the majority terminating at these levels is undoubtedly less desirable than that which is. But, it appears that in the developing countries, as previously (and to some extent currently) in the developed countries, students manage to acquire useful learning skills in spite of irrelevant curricula; the same might even be said for rote learning which, for all its inadequacies, does teach some skills in remembering and following complicated instructions.
24. The equation ascribes to education the effects of other variables, such as health practices, affected by or otherwise correlated with education. Separating out the ways in which education interacts with these variables is well beyond the scope of this paper.
25. See M. E. Lockheed, D. T. Jamison and L. S. Lau, 'Farmer education and farm literacy: a review of the literature', Mimeo (Educational Testing Service, April 1978). The reasons suggested for the positive effect of education on adoption of improved technology are not meant to imply that the farmers who are illiterate are not 'rational' in their decision-making or not responsive to opportunities to increase their income.
26. The regression analysis of fertility rates reported in Appendix Table A1 is a slight modification of that of D. Morawetz, 'Basic needs policies and population growth', *World Development*, Vol. 6, Nos. 11/12 (November/December 1978), pp. 1251-1259.
27. See R. Cassen, 'Population and development: a survey', *World Development*, Vol. 4, Nos. 10/11 (November 1976), for a survey of the literature on the relationship of development to fertility.
28. Cassen, *op. cit.*
29. Unfortunately, the analysis in the 1971 census was not multivariate, and thus did not allow the effect of female education to be separated from other variables such as income. Data from the 1969/1970 Socio-Economic Survey indicate that female education is not acting simply as a proxy for female employment, since middle-education levels show both low employment and low fertility. The age group of 40-44 was used to show that higher levels of female education reduce completed family size, rather than merely delaying births.
30. The high level of unemployment among young people may also contribute to the increase in the average female age of marriage, due to the delay in a couple's ability to support themselves; however, there was no comparable increase in the male age at marriage. Another suggested cause for the increase in female age at marriage and decline in the percentage of women married is a demographic shift in which there are relatively fewer men of appropriate age for marriage (which is generally about 5 yr older than for women). See M. B. Duza and C. S. Baldwin, *Nuptiality in Population Policy* (New York: Population Council, 1977), Chapter 4.
31. See ILO (1976), *op. cit.*, and Haq, *op. cit.*
32. 'Sri Lanka Water Supply and Sanitation Sector Study' (World Health Organization, 1977).
33. Arndt, *op. cit.*, indicates that a quite rational approach to when and where to seek treatment often coexists with traditional beliefs about the role of spiritualism as the cause and/or cure for some diseases. (The same point could be made about a large percentage of the population in developed countries as well.)
34. This is not to say that potable water is not important, but it does have some potential implications for priorities among basic needs. Similarly, it is not to say that literacy is a necessary condition for acquiring knowledge about water pollution, or that literacy is a sufficient condition for good hygiene.
35. I would like to thank, without implicating, Norman Uphoff for a number of useful comments on earlier drafts of this discussion of participation.
36. This view is reported, but not necessarily endorsed, in *Sri Lanka: An Experience in a Need-Oriented Development - Achievements, Conditions, Limits, Alternatives* (International Foundation for Development Alternatives, 1978).
37. Sri Lanka also has a number of private voluntary organizations which address poverty and social ills, one of which, the Sarvodaya movement, has become known internationally as a symbol of participatory non-governmental efforts to alleviate poverty. The work of the voluntary organizations is not discussed here because of their relatively limited impact on the overall extent to which basic needs have been met in Sri Lanka. For further information on the Sarvodaya movement, see, e.g., N. Colletta, 'Building the socio-psychological infrastructure for popular participation and village development: the Sarvodaya experience', *International Development Review* (3rd Quarter, 1979).
38. The 1969/1970 Expenditure Survey data suggest that calorie consumption on the estates is above average. However, not much faith can be put in this data. The number of wage earners per household on the estates was about double that of the estates, so their calorie requirements were substantially higher. A higher incidence of nutrition-sapping diseases and less

access to non-market sources of food not counted in the surveys also account for some of the apparent higher calorie intake on the estates in 1969/1970 and 1973. The 'Sri Lanka Nutrition Survey' conducted from September 1975 to March 1976 found nutrition status to be substantially lower on the estates than in other rural (or urban) areas (US Centre for Disease Control, 1976). This strengthens the argument above on the effects on mortality of the cutbacks in food distribution. It is likely that a nutrition survey in 1969/1970 would also have shown above average malnutrition in spite of the above average calorie consumption.

39. P. J. Alailima, 'Fiscal incidence in Sri Lanka', World Employment Program Working Paper No. 69 (Geneva: ILO, 1978).

40. D. Morawetz, *25 Years of Economic Development, 1950-1975* (World Bank, 1977), p. 81.

41. 1953, 1963 and 1973 data are from the Surveys of Consumer Finances of those years. Data from them are by 'spending unit', which differs slightly from 'household'. (Data by 'income receiver' are considered less reliable.) The data for 1969/1970 are from the Socio-Economic Survey of 1969/1970, and are by 'household'.

42. Regression analysis of a 47-country sample for which data were available on both income distribution and social indicators shows a simple correlation of the income share of the poorest 40% with life expectancy to be 0.27 and with adult literacy to be 0.26 (both significant at $p = 0.10$).

43. M. S. Ahluwalia, N. G. Carter and H. B. Chenery, 'Growth and poverty in developing countries', *Journal of Development Economics* (1979), pp. 299-341.

44. See E. L. H. Lee, 'Rural poverty in Sri Lanka 1963-1973' in ILO, *Poverty and Landlessness in Rural Asia* (Geneva: ILO, 1977). D. Morawetz, 'Economic lessons from some small socialist developing countries'.

45. Both the 1963 and 1973 Surveys report understatement of incomes of the upper-income groups to be a problem; this is an endemic problem in sample surveys of incomes.

46. The problems with the 1973 data illustrate, *inter alia*, the dangers both of excessive reliance on distribution of incomes at current prices and of excessive focus on years for which good data are available, but which, as is often the case, are untypical. This is a particular problem for economies dependent on the monsoon, since over a decade yearly fluctuations in food availabilities can be as large as trend changes, and since in these economies the real consumption of the poor tends to depend heavily on food availability. Expenditure data are preferable to income data in handling both this problem of relative prices

and the problem of understatement of incomes by upper-income groups.

47. 'Participatory development and dependence' (Marga Institute, 1977).

48. P. J. Alailima, *op. cit.*

49. However, as might be expected, the distribution of subsidies and services in total, excluding social-service charity programmes, was still somewhat unequal; some items, such as higher education or the transport subsidy, were distributed highly unequally.

50. P. J. Alailima, *op. cit.*

51. However, some individuals were able to make substantial amounts from windfall gains resulting from government controls and allocations or from production of consumer products under complete protection from foreign competition. Others became wealthy from the boom in gem exports.

52. Extrapolated from the Land and Labour Utilization Survey, 1975.

53. Eighty-three per cent under 34 in 1971. The 1971 data are in general more reliable. Either estimate indicates a high concentration of unemployment among the young.

54. Labour Force Participation Survey, 1973.

55. P. J. Alailima, 'A profile of poverty in Sri Lanka' (unpublished, 1976). This study was based on data from several surveys.

56. Among the reasons advanced for high open unemployment in Sri Lanka are slow growth, rapid growth in the labour force due to a demographic bulge and subsidies to capital. All three are valid contributors to unemployment, but the situation in India appears to have been as bad or worse on all three, while open unemployment remained insignificant. Since Sri Lanka's *per capita* growth rate has been above average for countries below \$200 *per capita*, slow growth cannot explain the unusually high unemployment rate.

57. There are generally unskilled jobs available in Sri Lanka, particularly during peak agricultural periods, in the less populous 'dry zone' and, recently, on the estates.

58. The income differential in Sri Lanka between those with 'O' level qualifications and those with only primary education has declined from 3:1 to 2:1 between the Surveys of Consumer Finances of 1953 and 1973. This effect of the increased supply of educated people on the wage rate indicates in part that the 'market' is working. In part, it also reflects the shift in the terms of trade in favour of agriculture, since many farmers have a primary education but few have reached the 'O' level.

Also, an increasing number of relatively educated young people in Sri Lanka are apparently willing to accept relatively-low-status jobs, in which secondary (or in some cases primary) education does not add significantly to productivity. There are also many who are not willing to do so. See 'Pattern of job expectations and unemployment among rural youth' (Marga Institute, 1977).

On the 'screening process' by which employers use academic qualifications not directly relevant to the job vacancies to choose among applicants, see C. V. P. Deraniyagala, R. P. Dore and A. W. Little, 'Certification and employment in Sri Lanka' (Sussex: Institute of Development Studies, 1977).

59. Economic reasons would include a premium for discipline, reliability and lower turnover; non-economic reasons would include the political power of public-sector and other educated workers.

60. Another way of putting this argument is that the Sri Lankan case can be explained by a so-called 'segmentation' model of the labour market, of which the Harris-Todaro model of unemployment in East Africa is the best known example. See A. Berry and R. Sabot, 'Labour market performance in developing countries - a survey', *World Development*, Vol. 6, Nos. 11/12 (1978), pp. 1199-1242, for a broad review of relevant issues.

61. See M. Blaug, *Education and the Employment Problem in Developing Countries* (Geneva: ILO, 1973).

62. This would be quite different from, but not inconsistent with the spirit of the Harris-Todaro model, which related the modern/traditional wage differential to rural-urban migration on grounds that the job search required living in the town. More work needs to be done on the nature of the job search. For what kind of jobs do applicants have to queue up almost daily? What kind of jobs tend to be filled by formal applications or by recommendations from current employees, so that prospective candidates could remain in the rural areas and make occasional trips into the city? Sri Lanka's relatively small size and its good and highly subsidized transport system may make it unusually easy for those seeking modern-sector employment to do so while living in a rural area.

63. In other words, the basic-needs and related programmes, as well as government help to the unemployed, contribute to a divergence between private and social costs or unemployment that in turn contributes to an undesirably high unemployment rate.

64. If its growth is fairly rapid, the Sri Lankan experience would support the argument made in favour of an initial heavy investment in human capital as an important (but neither necessary nor sufficient) cause of long-run rapid growth. It would help to generalize this argument beyond the East Asian and European countries (e.g. Japan, Korea and Israel) from which it derives.

APPENDIX

Table A1. *Regression equations**

A. Equations used in Figure 1:								
(1)	LIT (<i>t'</i> values)	=	41.87 (9.28)	+	0.0323 Y (5.79)	-	$3.94 \times 10^{-6} Y^2$ (-4.25)	$\bar{R}^2 = 0.54$ S.E. = 17.92 †FE = 18.36
(2)	$\ln LIFEX$	=	3.197 (41.26)	+	0.132 $\ln Y$ (11.71)			$\bar{R}^2 = 0.70$ S.E. = 0.10 FE = 0.10
(3)	$\ln INF$	=	8.121 (22.90)	-	0.621 $\ln Y$ (-12.01)			$\bar{R}^2 = 0.72$ S.E. = 0.43 FE = 0.45
(4)	$\ln FERT$	=	7.320 (28.96)	-	0.389 $\ln Y$ (-10.56)			$\bar{R}^2 = 0.66$ S.E. = 0.31 FE = 0.32
B. Equations used in Section 1(e)								
(5)	$\ln FERT$	=	7.495 (30.94)	-	0.188 $\ln Y$ (-3.18)	-	0.025 $LIFEX$ -3.76	$\bar{R}^2 = 0.70$ S.E. = 0.29
(6)	$\ln LIFEX$	=	2.83 (45.30)	+	0.065 $\ln Y$ (7.27)	+	0.199 $\ln LIT$ (10.69)	$\bar{R}^2 = 0.88$ S.E. = 0.06
(7)	$\ln INF MOR$	=	8.900 (20.70)	-	0.454 $\ln Y$ (-7.41)	-	0.464 $\ln LIT$ (-3.63)	$\bar{R}^2 = 0.74$ S.E. = 0.41

Where

- LIT = adult literacy,
 $LIFEX$ = life expectancy,
 $INF MOR$ = infant mortality,
 $FERT$ = fertility index = (number of births/ $\frac{1}{2}$ of population aged 15-64),
 Y = *per capita* income.
 Number of observations = 59 countries.

Source of data: World Tables, World Bank, 1977. Data are for 1975 or the closest available year.

Notes: *The specifications used were those that gave the best fits in the range of the sample values, rather than, for example, specifications which provided asymptotes (e.g. 100% literacy) but weaker fits. There is likely to be some simultaneous equations bias in Equations 1, 4 and 5, since literacy and fertility affect *per capita* income, but the conclusions drawn from these equations are not sensitive to small changes in the coefficients. Sri Lanka is excluded from Equations 1-4, since indicators are to be tested against expected values derived from indicators for other countries.

†FE = forecast error. I am grateful to T. N. Srinivasan for pointing out to me that to test the significance of the residual of a given observation, the forecast error should be used rather than the standard error to determine '*t*' values. Using this test, residuals for Sri Lanka in Equations 1-4 were all significant at $p < 0.05$. A one-tail '*t*' was used since, in addressing the question of whether Sri Lanka's residuals are better than expected, there is no ambiguity about the predicted signs.

Table A2. *Sri Lankan death-rates*

1. Significance of the increase in the death-rate in 1974

Lndeath-rate	=	2.143	-	0.012T		\bar{R}^2	=	0.51
('t' values)		(106.57)		(-3.39)		S.E.	=	0.04
						FE	=	0.04

where T = time, from 1963 to 1973, with 1963 as 0. The coefficient of 0.012 indicates that the death-rate was declining (with statistically significant consistency) at a rate of 1.2%/yr from 1963 to 1973. The projected value for 1974 would have been 7.5, while the actual value was 8.9. The difference (residual) is significant at $p = 0.01$.

2. Cause of the increase in the death-rate in 1974

The following equation shows that the open-market price of paddy was, along with the time trend, a significant determinant of the death-rate.

Lndeath-rate _T	=	1.754	-	0.011T	+	0.159Ln(PP),	\bar{R}^2	=	0.45
		(16.47)		(-3.09)		(3.43)	S.E.	=	0.04

Where T = time, from 1963 to 1976, with 1963 as 0.

PP = open-market wholesale paddy price, deflated by the Central Bank wage rate index for government employees. (A historical series on the price of wheat was not available, but the markets for wheat and rice are sufficiently closely related that the shortage of wheat in 1974 was promptly reflected in the price of rice.)

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