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THE  
ECONOMY  
OF  
CEYLON

THIS book, says Sir Ivor Jennings, 'would never have been written by me if I could have found somebody more competent willing to do it. It is neither deep nor learned . . . because I am no economist.'

Whatever it may not be, it is eminently readable and, in the best sense, provocative. It achieves its two objects of provoking thought and providing undergraduates with that elementary knowledge of the economic system which at present they often lack.

One reason for this lack has been the inadequacy of the statistical information about Ceylon. Such statistics as exist have had to be searched for in the Reports of individual Government departments. This is the first time that any attempt has been made to collate and interpret them. The interpretation exposes some popular fallacies, but it is always an informed and objective interpretation based on published facts.

#### BY THE SAME AUTHOR

*Cabinet Government*, 2nd impression, 1937

*Parliament*, 1939

*The British Constitution*, 5th impression, 1945

*Parliamentary Reform*, 1934

*The Law and the Constitution*, 3rd edition, 3rd impression, 1945

*Principles of Local Government Law*, 3rd edition, 1947

*A Federation for Western Europe*, 1940

*Guide to the Local Government Act*, 1929

*The Poor Law Code*, 2nd edition, 1936

*The Law relating to Town and County Planning*, 2nd edition,  
1946

*The Law relating to Local Authorities*, 1933

*The Law of Housing*, 2nd edition, 1936

*The Law of Public Health*, 1936

*Local Authorities in Wartime*, 2nd edition, 1941

*The Constitution of Ceylon*, in preparation

#### IN COLLABORATION

*The Law of Food and Drugs*, 1938

*Constitutional Laws of the British Empire*, 2nd impression, 1944

THE  
ECONOMY  
OF  
CEYLON

BY  
SIR IVOR JENNINGS  
*Vice-Chancellor, University of Ceylon*



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TO  
L. M. D.  
WHO ASKS THE SAME KIND OF QUESTIONS AND  
RECEIVES EQUALLY INCONCLUSIVE ANSWERS



## PREFACE

When I first came to Ceylon, I decided to read all the essays on social and economic subjects submitted at the University Entrance Examination, in order that I might learn something of the ideas of those who would become undergraduates. I was dismayed at the ignorance displayed. The elementary information which was expected from every schoolboy of sixteen in Great Britain was evidently unknown, and the 'ideas' consisted of a set of slogans. A little more experience showed that the students were not to blame. It is rare to be able to take part in any informed discussion on these topics, and neither the State Council nor the newspaper helps much. The kind of education in elementary economics which English boys, even factory workers, obtain at home, in the train, in the canteen, and at the club, simply does not exist. Even undergraduates can hold debates about the Ministers' Draft or the *Soulbury Report* without having read either. When I complain about this I receive the answer that not many students are 'taking' Government! The future government of one's country can be discussed by intelligent young men without reading the essential documents, unless, of course, somebody is going to set an examination on the subject: and even then lecture notes may be a substitute.

Wondering how this situation could be remedied, I came to the conclusion that if somebody produced a 'textbook' at least the candidates for examinations would read some parts of it. I therefore tried to get

such a textbook written. My approaches proving unfruitful, I dropped the idea. In December 1944, however, I returned from India with a combined attack of dengue and malaria which kept me at home for a considerable period. Looking round for something to occupy my time, I noticed the files of the Social Services Commission, which contained a selection of statistics and a number of preliminary memoranda on social and economic conditions in the Island, and it occurred to me that some of this material could be written up as a series of elementary essays. The result was this volume, which is not based on any deep research or profound knowledge, but gives whatever statistical information is available and connects it with such elementary propositions as the ordinary educated man carries in his head. There ensued a long delay, due mainly to my absence in England, and I could not undertake the final revision until March 1946, when (as it happened) I had another attack of malaria.

This explanation has been necessary in order that the defects of the book may be understood and perhaps excused. It would never have been written by me if I could have found somebody more competent willing to do it. It is neither deep nor learned partly because I am no economist, and partly because it was written during an attack of fever. In spite of some recent amendments, it bears the impress of the period when it was written, December 1944 and January 1945. It is in parts provocative because I am anxious that students should think about these things instead of repeating the stale slogans of political propaganda. I know, of course, that some of them will be content to brand the author with some sort of political epithet;

but a few will examine the premises and the argument to find out where the fallacy lies. Whether in the end they agree with me or not is irrelevant. I have no wish to put over a doctrine; I am anxious only to induce people to consider the implications of the statements they make.

Some of the defects of the book are due not to me but to the inadequacy of the statistical information published by the Ceylon Government. This is the first time, I think, that the relevant statistics have been collected and that some attempt has been made to coordinate them. If the result of the book is to show how difficult it is to produce a picture of the economic system from the published documents it will have served a useful purpose.

I am much indebted to Professor B. B. Das Gupta for reading the book in typescript and supplying me with his comments. I need hardly say that he takes no responsibility for anything in it. I am also indebted to my stenographer, Mr D. Heyn of the University Office, who has always been most successful in deciphering my manuscripts.

W. I. J.

University of Ceylon  
January 1948



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**CORRIGENDUM**

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## CHAPTER I

# WE, THE PEOPLE

### 1. POPULATION

There are in Ceylon some 6½ million people, men, women and children, who have to be fed, clothed, housed, educated, maintained in health, married, and, sooner or later (usually sooner than later), buried. This book is an attempt to describe, in general terms, how all this is done. It is no easy task. Political Economy ought to be an exact science; but its accuracy depends upon the volume of information which is made available by governmental and other public bodies and upon the degree to which it can be correlated. In Ceylon the information is slight, and little attempt has been made to relate its various parts in such a manner that the state of the country can be surveyed as a whole. We take the population to be 6½ millions because it is a convenient round figure which is an approximation to the truth. For many purposes, however, a more exact figure is required. Progressive States have an enumeration of the people and an investigation of their characteristics at least once in every ten years. In Ceylon there has been no enumeration since 1931 and no full census since 1921. In 1931 the enumeration showed that there were 5,312,548 persons in the Island. It is, however, possible, and even probable, that this figure was somewhat understated. It is most difficult in a country like Ceylon, where the climate often permits sleeping out and many people have no fixed homes, to make certain that every person is counted.

To the number counted in 1931 must be added the natural increase in the population since that year (i.e. the excess of births over deaths), and the balance of migration (i.e. the excess of immigrants over emigrants). All, or nearly all, births and deaths are registered, so that the natural increase in population can be calculated. Those who enter and leave Ceylon by the usual channels are counted, so that the balance of migration through those channels is known. Experience suggests, however, that there are many migrants who are not counted, chiefly because it is not always necessary to enter by the front door. Using these figures, however, and estimating the increase during the past year, the Registrar-General estimated that in 1945 there were 6,425,992 persons in the Island, the number being made up as follows :

TABLE 1 : ESTIMATED POPULATION, 1945 <sup>1</sup>

AGE-GROUPS	MALES	FEMALES	TOTAL
Under 5 years	471,669	454,595	926,264
5-14 years	839,315	770,505	1,609,820
15-54 years	1,847,285	1,630,081	3,477,366
55 and upwards	242,667	169,875	412,542
Total	3,400,936	3,025,056	6,425,992

The figures have been analysed in this manner because the political economy of the Island depends on production by individuals, the men and women who work, whether they work in their own paddy-fields, or earn wages or salaries in the employment of others, or

<sup>1</sup> Supplied by the Registrar-General to the Social Services Commission. Since this was written there has been a general census showing a population on first scrutiny of 6,650,825.

draw an income through superintending the work of their employees. Most of them are to be found in the group whose ages are between 15 and 54. The infants under 5 years of age are incapable of producing much, though they may help a little by scaring the birds away from the ripening paddy or looking after cattle. The children between the ages of 6 and 14 ought to be at school, for education is (subject to some important qualifications) compulsory between those ages. Since the population is (for reasons which need not be explained) calculated in quinquennial age-groups, we have to take the children between the ages of 5 and 15. We know, of course, that many children between these ages are in fact engaged in production. Even if they attend school they may help their parents outside school hours. In fact, however, a large number of children of school age are not at school at all. We shall probably exaggerate a little if we take it that only *half* the children of school age are at school. On the other hand, there are many young persons over the age of 15 who are at school or otherwise are continuing their education, and there are many women who are not engaged in production. Those persons who are over the age of 54 tend to retire from active production. The practice is by no means universal, and many work to 60 or even later. Between the ages of 55 and 59 there are estimated to be 84,442 males and 50,897 females, giving a total of 135,339. If we make allowances for women who do not work, older children not at work, and chronic invalids, cripples, blind persons, the deaf and dumb, and the mentally deficient, we shall not be far wrong if we assume that the production which maintains some 6½ million persons is undertaken by some 3½ million people.

There are certain other characteristics of the figures to which attention should be drawn:

(1) There is an excess of males over females. To a small degree this is due to the fact that there are in Ceylon many people, especially Indians and Europeans, who keep their families elsewhere. Thus, in 1921, in every 1,000 Europeans there were on the average 571 males; in every 1,000 Indian Tamils there were on the average 554 males; and in every 1,000 Indian Moors there were on the average 799 males.<sup>2</sup> This is, however, by no means a complete explanation; for among 1,000 Ceylonese there were on the average 522 males.<sup>3</sup> The truth seems to be that the death-rate is higher among females than among males. There are very few countries where this is so, and one explanation is the high rate of maternal mortality, which in 1921 was six times in Ceylon what it was in Great Britain. Even this is not a complete explanation, however, for females in Ceylon appear generally to be more susceptible to disease than males. These conclusions, tentative though they are, suggest that more attention should be paid to the health of women.

(2) There is a high proportion of children to adults. The number of children under 15 is 39.5 per cent of the whole population. In England and Wales it is about 21.7 per cent and in Scotland 25 per cent. Partly, this is due to the low expectation of life referred to below: but it is an important factor, for not only are most of the children non-producers, but also public expenditure on social services is (or ought to be) higher in the case of a child than in the case of an adult. On the other hand,

<sup>2</sup> *Census Report*, 1921, Vol. I, Pt. II, p.3.

<sup>3</sup> *ibid.* 11

a high proportion of children is evidence of an increasing population and promises an increase in the future productivity of the Island.

(3) There is a low proportion of aged persons. All the persons over 54 are only 6.4 per cent of the population, and those over 64 are 2.3 per cent of the population. In England and Wales those over 54 are 19 per cent and those over 64 are nearly 9 per cent. This is evidence of a low expectation of life in Ceylon, no doubt due in part to the climate, but also in part due to the low standard of living and the inadequacy of social services.

(4) The population is increasing rapidly, as Table II makes clear.

TABLE II : INCREASE OF POPULATION <sup>4</sup>

CENSUS	NUMBER	INCREASE SINCE LAST CENSUS
1871	2,405,576	
1881	2,763,984	358,408
1891	3,012,224	248,240
1901	3,578,333	566,109
1911	4,110,367	532,034
1921	4,504,549	394,182
1931	5,312,548	807,999
1945 (estimate)	6,425,992	1,113,444
1946	6,650,825	1,338,277

Thus, the population is increasing at an average rate of 80,000 a year. Unless there is a corresponding increase in productivity, this must result in a lowering of the standard of living.

## 2. THE FAMILY

The social and economic unit is not the individual but the family. Usually, the family

<sup>4</sup> Census Report, 1931, p.1.

means the husband, the wife and the unmarried children who live at home. On the other hand, and especially in Ceylon, the term often has a wider meaning, so as to include all close relations. For most social and economic purposes, however, the family means the household—all those who pool their resources and act as a single economic unit. It may thus include several families in the narrower sense, living together, especially in the Northern and Eastern Provinces, where the joint-family system of the Hindus prevails. Even in the Sinhalese areas, however, it often includes aged parents, widowed daughters and orphaned nephews and nieces. Unfortunately we have no accurate figures. According to the 1931 *Census Report*,<sup>5</sup> there were 1,021,000 separate buildings holding a population of 4,516,000, or 4.4 persons to a building: but it cannot be hoped that these figures are accurate, and the number of persons includes servants, who should be separated because they are paid wages. The evidence, such as it is, suggests that the number of persons to a building is being reduced. Thus, in 1871 it was 5.9; in 1901 it was 5.2; and in 1921 it was 4.8. Since there has been no decrease in the birth-rate, this must be due primarily to a separation of families.

It appears, in fact, that in the Sinhalese villages the household is normally a single family—father, mother and children. The social surveys of the villages show the numbers per family to be almost the same as the numbers per household according to the last census. The following are examples :

Puttalam District	..	..	3.4	per family
Kurunegala District	..	..	4.2	" "
Galle District	..	..	4.9	" "
Matara District	..	..	4.6	" "

No doubt a different result would be shown in the Northern and Eastern Provinces; but in Colombo and (perhaps) on the estates there would be many one-member 'families'. To some extent these would cancel out when the average was taken. It will therefore be wise for us to assume that the household and the family, in the narrow sense, are the same in Ceylon as they are in Great Britain. We must, however, remember the social convention, which is much less true of Great Britain, whereby close relatives help to support each other in time of need and, if necessary, provide 'homes' for poor and unattached relatives.

### 3. THE DIVISIONS OF THE PEOPLE

It will be seen from the previous sections that the different social conventions of the Sinhalese and the Tamils have some economic results. There are others. For instance, the method of cultivating paddy lands is different in the Northern Province from what it is in the wet zone, and the palmyra generally takes the place of the coconut palm. These are not consequences of different social conventions; they are rather due to climatic differences and differences of soil. They nevertheless have social and economic results. Thus, it is said that the hard labour necessary to make a living out of the sun-baked lands of the north makes the Ceylon Tamil hard-working, persistent and thrifty, even when he moves south, whereas the Sinhalese, living in an area where things grow almost without effort, is apt to be lazy, easily discouraged and careless. Whether these characteristics persist in the second generation when the conditions which cause them have been removed seems very doubtful. The Ceylon Tamil in Colombo differs in very little from the Sinhalese of

Colombo. There are, however, other traditional differences. Thus, business attracts the Ceylon and Indian Moors, but apparently does not attract the Sinhalese and the Tamils. The Ceylon Malays often become policemen, drivers and watchers. In Colombo Harbour there are jobs normally taken by Sinhalese and others normally taken by Indian Tamils, though there appear to be no reasons for it except tradition.<sup>6</sup>

Moreover, the relics of caste differences are not without their importance. Scavenging is normally left to Indian Tamils, though this tradition is breaking down. The dhobies, the toddy-tappers, the tom-tom beaters, the cinnamon peelers, the goldsmiths, the fishermen, and others, tend to be members of the respective castes, while the Rodiyas are still sufficiently despised to prevent many of them from following any but their traditional profession. All these distinctions break down among the educated Ceylonese, but they undoubtedly have important economic consequences by restricting, in some degree, the mobility of labour. Among peoples which have no castes a man takes whatever job he can get, and he changes his job if he sees any economic advantage in so doing. In Ceylon this is not always possible and some would rather starve than take work associated with particular castes.

It is nevertheless true that neither 'race'<sup>7</sup> nor caste is fundamentally important in Ceylon. Economically speaking, it makes very little difference what is one's 'community'. Convention has it that one must marry within the community, and race (though not caste) is a

<sup>6</sup> *Report of a Commission on Immigration into Ceylon (Sessional Paper III of 1938)*, p.9.

<sup>7</sup> All the 'races' of Ceylon, like the 'races' of Europe, are mixed. Scientifically speaking, they are not 'races' at all, but merely social units.

favourite talking-point with some of those who have learned either too little or too much from the West; but for the purposes of earning one's daily rice and curry both are almost as irrelevant in Ceylon as they are in the world at large. The fundamental division in this Island is caused not by race or caste but by class. In part, this division is a relic of Sinhalese feudalism, which continued in the Kandyan Provinces at least until 1848, and never broke down completely even in the low country. In the main, however, it was a Western importation, made stronger and more rigid through local conditions than it has become in any of the three countries which have influenced the development of Ceylon.

The Portuguese and the Dutch came for the profit to be made out of cinnamon and pearls. The British came to keep Trincomalee out of the hands of the French but remained like the Portuguese and the Dutch for the sake of profit. They became, in effect, a wealthy caste; unlike other castes, however, they claimed no exclusiveness (except socially). On the contrary, they welcomed those who would become sufficiently Westernized as to fit themselves for subordinate positions under the Government, and equally those who would assist in the development of the country and so prevent its becoming a financial liability to the British taxpayer, as all colonies (contrary to the accepted tradition in this Island) threatened to do. What is more, England in the early part of the nineteenth century was in the throes of the Evangelical Movement, which demanded not only that the 'heathen' be converted but also that they be educated. Nor had the British then made up

their minds as to the language in which the less advanced peoples should be educated. In the present century it is accepted doctrine that primary education, at least, should be in the language of the home.<sup>8</sup> In the nineteenth century it seemed easier, in the absence of books and teachers using the language of the people, to make use of English.

The result of this development was to create a special class of Westernized Ceylonese, holding Government posts or making profits from coconuts or coffee, wearing European clothes, eating European food, worshipping (often) in Christian churches, and, above all, speaking English. Economically and socially they are dominant, not merely through the wealth that they have acquired in the course of four generations, but also because they hold the key that admits to all the better-paid posts under the Government, in the professions, and in commerce. The one requirement for any position of affluence is a knowledge of English; but that knowledge could be acquired only by some years' study in schools which charged fees. The fees, though, were the least significant items: for the ordinary child of the working class, if he went to school at all, left at the age of 11 or 12, before he had acquired a competent knowledge even of his own language.

The class division which results is more rigid than any class division in the West. There is comparatively little chance in Ceylon for the 'self-made man'. There is little industry, and the Ceylonese, other than the Moors, do not take kindly to trade. Contracting to supply labour is almost the only means available for the landless

<sup>8</sup> The term 'mother tongue' is not used in this book. Normally it means the home language: but in Ceylon it has been perverted to fit in with an unscientific race theory.

man, and even that requires capital or at least credit. There is, consequently, little movement between classes due to the rise of the newly rich and the fall of those who have been unable to keep their inheritance. Death duties, which elsewhere operate to distribute capital, are so low that they can usually be provided by mortgage. Finally, the road opened in Western countries through compulsory education and a large number of scholarships is not open in Ceylon. Education is not truly compulsory, and there are few scholarships. The number of the 'English-educated' is slowly expanding, but the expansion is due mainly to the enlargement of the middle class through a high birth-rate and a comparatively low death-rate, not through the absorption in the middle class of elements from the working class. Moreover, there is very little movement within the middle class itself. Wealth is mainly in land and therefore does not lend itself to such rapid multiplication as obtains where it consists of shares in trade and commerce. To succeed in a profession it is necessary to proceed to the top of the educational system, and this is possible (in the absence of scholarships) only to those whose parents can afford to maintain them up to the level of the Higher School Certificate Examination. The Civil Service is one of the quickest ways to affluence: for such an appointment not only carries a comparatively high salary but a substantial dowry on marriage also: but the Civil Service is open only to those who pass through the University or the Law College with distinction, and this, too, requires maintenance at school up to the level of the Higher School Certificate Examination. Those who are on the 'clerical' level tend to remain there, at least for two or three generations.

It must be remembered, however, that in an agricultural country like Ceylon the middle class is comparatively very small. Only about 7,000 of the 160,000 children of each year receive 'English education', and the middle class may be roughly estimated at 350,000 in a population of 6½ millions. Nevertheless, the existence of this small, rigid and exclusive middle class is one of the most significant economic and social factors.

## CHAPTER II

# MONEY

Everybody knows something about money, but few have any clear idea of the way in which the monetary system works. A five-rupee note is headed 'Government of Ceylon' and bears the signatures of H. J. Huxham and C. H. Collins, two of the Commissioners of Currency. It also carries the legend: 'This note is legal tender for the payment of any amount.' Everybody knows that if he presents it at a shop or boutique anywhere in the Island he can obtain goods to the value of five rupees; for instance, two tins of a certain brand of cigarettes. The note itself is a piece of paper. It obtains its value—that is, it can be exchanged for two tins of cigarettes or other goods—for two reasons. The first is that the law says so. 'Legal tender' means that if I owe a debt of five rupees and offer the note to my creditor, I have offered to extinguish my debt. He cannot refuse to take it unless he wishes to forgive me my debt. The curious phrase 'legal tender for any amount' does not mean that I can offer one five-rupee note to extinguish a debt of one hundred rupees, but that, if I offer twenty five-rupee notes (or ten ten-rupee notes or one hundred-rupee note) I have done all that I am required to do to extinguish the debt.

The second reason for my ability to buy goods to the value of five rupees by presenting a five-rupee note is that the shopkeeper knows that he can repay *his* debt

with five-rupee notes. Everybody in the Island recognizes the value and the validity of a five-rupee note. It is a recognized medium of exchange. If I want to exchange a wireless set for a gramophone I do not need to look round for a person who wants to exchange a gramophone for a wireless set. I sell my wireless set for, say, three hundred rupees. That is, I receive currency notes to the value of three hundred rupees in exchange for my wireless set. Then I find somebody who wants to sell a gramophone and offer him three hundred rupees in currency notes. In actual practice, the procedure is much more complicated. I sell my labour to the University of Ceylon for, say, five hundred rupees a month. I may receive payment in currency notes; and then I use the currency notes to buy the things I need—rent, food clothes, cigarettes, recreation, and the rest. This can be done because everybody has faith in currency notes. Everybody knows that everybody else will accept currency notes in exchange for goods and services. Above all, the Government of Ceylon accepts its own currency notes in payment for taxes or goods or services.

In theory, of course, the Government of Ceylon can print as many notes as it pleases. The currency in circulation in the Island has in fact risen from about 45 million rupees in 1939 to over 280 millions. If it goes on printing notes, however, it tends to depreciate the value of its currency in terms of goods. There is a traditional scale of value which assumes that the value of money remains fixed. For instance, my tin of cigarettes is priced at Rs. 2.50. It may go up to Rs. 3 or down to Rs. 2 owing to the relation of supply and demand in the market, the cost of production, the taxation, and so on: but the assumption is that one rupee is one rupee. If the Government of Ceylon prints notes in millions and

pays them out, however, the demand for cigarettes will go up, and so will the cost of production. The price of a tin of cigarettes will go up to Rs. 3, Rs. 4, and so on. In fact, if the Government continues to print notes and to issue them, the cost of a tin of cigarettes, expressed in paper notes, may go up to millions of rupees. So will the price of most other goods and services. Moreover, the salaries and wages paid to those who produce or handle the goods in Ceylon, and indeed of everybody else in the Island, will be quite inadequate. Because of the rise in prices, they will be unable to buy goods and services on the scale to which they have been accustomed. Accordingly, salaries and wages will go up. But if salaries and wages go up, the cost of production will go up, and so will the prices of goods. So prices and wages will go chasing each other up the scale and more and more notes will be issued. This is what is called the 'vicious spiral' of 'currency inflation'. What it means, in short, is that, as more and more notes are issued, they become of less and less value in terms of goods.

Accordingly, it is the business of the Government to keep the value of its notes stable. This is done, in the case of the poorer countries, by keeping the values of their currency stable in terms of the currency of some wealthier nation. For instance, the currency of Eire is 'tied' to sterling. That is to say, the holder of Irish currency notes can, if he wishes, insist on exchanging them for British currency notes. Then, if the value of the Irish notes begins to depreciate, many holders will convert the Irish notes into British notes, and the former will, to that extent, go out of circulation. In other words, the excess notes will go back to the issuing authority and the value of the remaining notes will be

restored. Allowing for the commission paid on the exchange, the value of the Irish note will be, and remain, the same as the value of the British note. Similarly the Canadian dollar is 'tied' to the United States dollar.

The wealthier countries, such as Great Britain and the United States, could not use this method. They had to choose some medium of exchange whose value did not fluctuate violently. This medium was gold. There is a limited quantity of gold in the world, and it is possible to describe any given quantity in terms of weight and fineness (or purity). It is true that the quantity in existence is not absolutely fixed. Fresh gold is constantly being mined; and in fact discoveries of new sources of gold have had serious effects on economic conditions by increasing the quantity of gold and so decreasing its value in terms of goods and services. On the whole, however, the value is fixed, and the value of currency can be expressed in terms of gold. Thus, a pound sterling was equivalent to a certain quantity of gold of a stated fineness. So was a dollar. A debt could thus be paid in sterling, dollars, or gold. The value of sterling could not depreciate by very much, for it was fixed in terms of gold.

This is a very simplified version of what took place, and there were in fact grave difficulties in the use of the gold standard. Eventually, most of the nations of the world had to 'go off gold', and various devices have had to be used to keep the major currencies stable. They are, however, relatively stable so that if Ceylon keeps its currency 'tied' directly or indirectly to sterling there is not much fear that the Ceylon rupee will depreciate. The Ceylon rupee is, in fact, tied to the Indian rupee. A person who pays Ceylon rupees to the Commissioners of Currency in Colombo can demand to

be paid in Indian rupees in Bombay at the rate of one Indian rupee, less a fixed discount if the amount be small, for one Ceylon rupee. The Indian rupee was linked to sterling; thus the Ceylon currency is closely linked with the currencies of the two countries with which Ceylon did most of its trade. In 1938 the United Kingdom bought 53.08 per cent of Ceylon's exports and sold 20.61 per cent of Ceylon's imports, while India and Burma bought 3.89 per cent of Ceylon's exports and sold 36.73 per cent of Ceylon's imports. Grave results would therefore follow any substantial variation in the exchange rates in Bombay and London.

It must be realized, however, that, though most business transactions are expressed in rupees, the actual use of currency is extremely limited. The cultivator of paddy lands, for instance, may not use currency at all. His rent is a share of the paddy, and he pays for his seed-paddy and the hire of buffaloes in paddy. In all probability he is in debt to his boutique for seed-paddy, textiles, curry-stuffs and kerosene. The debt he pays in paddy. Since the paddy of his field and the plantain and jak trees of his compound provide him with the rest of his food and his coconut trees provide his cooking fat and the wattles and kadjans for his hut, he may never handle money at all.

At the other extreme, the person of the middle class uses currency only for small payments. His salary is either paid direct to his bank account or is paid by a cheque, the amount of which the bank collects and credits to his account. Most of his payments are by cheque. A cheque is simply a means of transferring a credit. Thus, the University of Ceylon pays the salaries of those who bank at the Mercantile Bank by means of a cheque drawn on the Bank of Ceylon in favour

of the Mercantile Bank. The Bank of Ceylon then credits the Mercantile Bank with the total of the cheque and debits the University account. The Mercantile Bank, in turn, credits the accounts of its respective customers, including X. If, now, X wishes to pay his rent to Y, he draws a cheque on the Mercantile Bank in favour of Y. Y pays it into his own bank, say, the Chartered Bank. The Chartered Bank then claims a credit from the Mercantile Bank, which charges the amount of the cheque against X's account. The Chartered Bank, having received a credit at the Mercantile Bank, credits Y's account. Thus, all the transactions are carried through without the use of currency, though both X and Y will carry small sums in their pocket-books for the payment of small bills. Business firms and public establishments use cheques almost exclusively, though they keep in their offices small sums in notes which they describe, significantly, as 'petty cash'; and most workmen, as distinct from salaried employees, are paid in currency notes. Accordingly, the index of business is not the volume of currency in circulation but the volume of cheques passing through the Colombo Clearing House. When business is good, the volume is large; when business is bad, as at the bottom of a depression, the volume is small.

Finally, currency is not used at all for overseas trading. It is necessary to emphasize this point in Ceylon, for there is a persistent legend, which crops up constantly in public speeches, that there is something reprehensible called 'sending money out of the country'. No money is sent out of the country except small sums taken out by individuals and exchanged into other currencies as required. These small amounts of currency come back to Ceylon as soon as possible. Otherwise,

no money leaves the country for the obvious reason that it is quite valueless outside the country, except for purposes of exchange. A person with a pocketful of Ceylon notes may not be able to get a square meal in Bombay, London, New York or Rio de Janeiro. Ceylon notes have a value in Ceylon because of law and custom, but nobody wants Ceylon notes in Bombay, London, New York or Rio de Janeiro. There are, of course, money-changers who will, for a consideration, give Indian rupees, sterling, dollars or pesos in exchange. They send the notes back to Ceylon, where they are worth something, and make a profit on the transaction. In other words, Ceylon notes have a value outside Ceylon only because they can be sent back to Ceylon. The businessman in London, however, wants not Ceylon notes but sterling.

We may trace what really happens if we consider the very simple case of Sifton's Limited, who own a large tea estate in Uva, an office and dispatching house in Colombo, a wholesale establishment in London, and a chain of grocery stores throughout England. 'Sifton's tea' is known to every English housewife, and it comes from the estate in Uva. Fifty years ago, Sifton's bought for a song a large stretch of almost valueless patana in Uva, for which they paid by cheque on their Colombo bank. They then sent out a superintendent and several assistants to make the patanas bloom into a tea-garden. As there was no Ceylonese labour prepared to work at that height, the superintendent imported labourers from South India, who were attracted by the comparatively high rate of pay available. They made estate roads, built lines for themselves and bungalows for the superintendent and his assistants, dug up the patanas, planted tea, tended the young plants, and

generally made the tea-garden which we now find spread over many acres. Finally, when a crop was expected, they built several factories on the estate, installed the necessary machinery, and established the Colombo office.

All this while, the superintendent was drawing on Sifton's account at the Colombo bank. Some of the goods he required, such as the machinery and corrugated iron-sheeting for the factories, were imported from England, but there was a great deal of local expenditure, and a good deal of Ceylonese labour—especially carpenters, brickmakers and bricklayers, clerks, etc.—was directly or indirectly employed. The superintendent and his assistants, and the whole labour force, were paid in Ceylon rupees which they spent in Colombo, Nuwara Eliya and the boutiques and toddy shops of the villages near the estate. Some of the labourers, however, being thrifty people and having families to support on 'the coast', bought Ceylon money orders every month which were duly cashed at Indian post offices and their total charged by the Government of India to the Government of Ceylon. All this came out of Sifton's account at their Colombo bank, and the Colombo bank provided the credit because they were informed that the equivalent in sterling had been provided at their head office in London. In other words, Sifton's provided the necessary capital in sterling in London in order that rupees might be provided in Colombo. Though some of the credits transferred to Colombo in this way were again transferred out of Ceylon, because the European 'planters' saved a little money and the Indian labourers bought money orders, the greater part of the expenditure went to enrich people in Ceylon.

Of course, Sifton's are not philanthropists. They did not provide sterling in London in order that the shopkeepers of Colombo and Nuwara Eliya, and the boutique-keepers, toddy tavern-keepers, blacksmiths, carters, builders, bricklayers and carpenters of the Uva villages might benefit. They provided capital in London because they expected a profit in London. It was not, however, a profit in Ceylon rupees. Sifton's did not want Ceylon rupees; they wanted tea, tea which they could blend in London and sell to thirsty housewives in Sifton's well-known grocery stores. Now they have the tea. Every month the successors of the original planters send chests of tea to Colombo, whence Sifton's Colombo office arranges to send the chests to London. In order to make this possible, Sifton's have to continue paying sterling in London which keeps their Colombo account in funds. The Colombo office draws on this account, provides the superintendent with funds to pay himself, his assistants, his clerical staff and his labourers, pays the taxes on the estate and the Colombo office, pays the income-tax charged by the Government of Ceylon, and generally finances the production of tea on Sifton's estate. Practically the whole of this money (and a large part of it is money) is spent in Ceylon. In return for the credit provided in London, Sifton's in London receive tea, which they sell, usually at a handsome profit, through their shops. This handsome profit Sifton's regard as the return on the capital which they provided in the early days in order to get the estate and the Colombo office established. Sometimes, of course, there are no profits or the profits are very low. In time of depression the British housewife cuts her expenditure on tea. Also, there is always the risk that she and her family will prefer coffee or coca-

cola. Fortunately for Ceylon she is a conservative creature, like all British people, and a 'cup of tea does cheer you up, my dear'.

However, the essential point is that nobody sends money out of Ceylon to Sifton's Limited. On the contrary, Sifton's Limited provide money (or a credit) in London in order that money may be spent in Ceylon. In actual fact, no money is sent either way. If this one-way traffic in tea were to go on for ever without being offset, the Colombo banks would pile up more and more sterling credits in London. In fact, however, most of the traffic is two-way. Though tea goes out from Ceylon, rice and many other things (in normal times) come into Ceylon. Let us consider the case of Slack's Limited, who in normal times import large quantities of rice from Burma. They, too (let us assume), are a London company with offices in Rangoon and Colombo. They have agents in Burma who collect paddy, parboil it, and send it to Colombo in schooners. There the Colombo agents sell the rice to shops, restaurants and boutiques. The paddy is paid for in Burma, and other Burma expenses are met, in Indian rupees provided by the Rangoon banks because sterling credits have been established by Slack's in London. The rice is paid for in Colombo in Ceylon rupees: but Slack's do not want Ceylon rupees; they require sterling in London. The Colombo bank has no difficulty about providing the sterling because it has large credits there owing to the payments made by Sifton's and other exporters to meet their expenses in Ceylon. Thus, the people of Ceylon get their rice and other imported goods because Sifton's and others export tea and other Ceylon products. The exports pay for the imports.

This is again a very simplified version of what takes

place. One cannot precisely set off Slack's income against Sifton's expenditure. Ceylon exports goods to many countries and imports goods from many more. In London, which is still the centre of the world's international trade, a complicated system of accounts is carried on to finance that trade. Nor need we have taken British companies as examples. There are Ceylonese-owned and Indian-owned estates; a large part of the import trade is in Indian hands. The essential fact is, however, that no money is 'sent out of the country'. Tea, rubber, coconut products, cinnamon, cardamoms, cocoa, plumbago, gems, Kalutara hats and other Ceylon products are exported. Rice, wheat, curry-stuffs, textiles, machinery, coal, oil, and many other things are imported. On the whole the value of the goods exported is somewhat higher than the value of the goods imported, as Table III makes clear.

TABLE III : IMPORTS AND EXPORTS <sup>9</sup>

YEAR	IMPORTS (Rs.)	EXPORTS (Rs.)	SURPLUS OF EXPORTS (Rs.)
1924	312,328,467	385,517,418	73,188,951
1925	360,380,317	492,616,430	132,236,113
1926	407,867,109	503,148,990	95,281,881
1927	421,127,976	449,273,744	28,145,768
1928	412,119,639	392,569,975	-19,549,664
1929	429,295,323	407,372,810	-21,922,513
1930	324,356,513	310,171,163	-14,185,350
1931	228,196,177	226,707,241	-1,488,936
1932	196,367,565	170,309,678	-26,057,887
1933	177,347,912	183,204,777	5,856,865
1934	217,088,892	245,379,818	28,290,926
1935	227,535,033	235,603,135	8,068,102
1936	214,434,469	252,146,273	37,711,804
1937	243,135,826	316,497,704	73,361,878
1938	236,274,876	268,131,559	31,856,683

There are several points to note about this Table.

(1) The value of the exports fluctuates considerably.

<sup>9</sup> *Ceylon Blue Book*, 1938, p. 16.

In 1926 it was over Rs. 503 millions, whereas in 1932 it was little more than Rs. 170 millions. We shall see that these fluctuations are due almost entirely to changes in world prices for tea and rubber. These are determined by world conditions, and the period of low values from 1930 onwards corresponds with the economic depression which swept the world. Its effects were accentuated by over-production, especially of rubber, with the result that by international agreement restrictive production came into operation in 1933 and 1934.

(2) When exports go down in value, imports also go down. In fact, there is a close correspondence between the value of the exports and the value of the imports. This is in accordance with the principle already demonstrated, that imports are paid for by exports. When exports go down, the people of Ceylon have to wrap their sarongs more closely. They cannot have Burma rice and Indian textiles unless they export tea, rubber and coconuts to pay for them.

(3) In the years 1928 to 1932 there was a surplus of imports over exports. These were the years of depression when there was much unemployment. The best years, for ordinary people, were those in which the surplus of exports was highest.

All this flatly denies the theory about 'sending money out of the country'. No money is in fact sent. What is sent is tea, rubber, copra and other products of the Island, in return for which Ceylon receives food, clothing and other products. The higher the exports go, the higher the imports. The more tea, rubber and copra are exported, the more food, clothing and luxuries are available to the people of the Island. In fact, most nations are highly gratified when they have a surplus of exports. It enables the local

producers—workers as well as capitalists—to enjoy full employment and a larger quantity and a wider range of imported articles. In particular, Great Britain became wealthy through its export trade. British people for generations ‘sent money out of the country’ in the only way in which it is possible—by sending goods or providing credits. We have seen how our hypothetical planting company, Sifton’s, deliberately ‘sent money out of the country’ (i.e. provided credits in London) in the hope of receiving tea which could be sold for the benefit of its shareholders. Great Britain now regards itself as impoverished because it has had to sell a large part of its overseas investments. It sent large sums ‘out of the country’ and has had to recall them to pay for its wartime imports. British people are firmly resolved to start their export trade again and ‘send money out of the country’.

There is, of course, this difference, which in large measure explains, though it does not justify, the common and otherwise very peculiar prejudice against the export trade. A large part of the capital used to develop the trade of the Island came from Great Britain. There are no exact figures, but the rough estimates made by the Banking Commission produce the result shown in Table IIIA (on page 26).

The total capital spent on tea was found by assuming an average of Rs. 500 an acre, ‘a figure rather on the low side’,<sup>10</sup> and in all probability more capital was spent on the British estates than on the Ceylonese estates. The estimate for coconuts was made by the Coconut Commission, and was between Rs. 300 million and Rs. 500 million. The higher figure has been taken

<sup>10</sup> *Report of the Ceylon Banking Commission (Sessional Paper XXII of 1934)*, p. 156.

because the figure 'would probably be an under- rather than an over-estimate'<sup>11</sup> (though what that means when such a wide margin is given is difficult to say).

TABLE IIIA : CEYLONESE AND NON-CEYLONESE  
ESTATE CAPITAL, 1934<sup>12</sup>

	TOTAL (Million Rs.)	CEYLONESE (Million Rs.)	NON- CEYLONESE (Million Rs.)	FOREIGN PERCENTAGE
Tea	280	56	224	80
Rubber	240	130	110	45
Coconuts	500	450	50	10
Total	1,020	636	384	say 40

On the other hand, the estimate for non-Ceylonese capital was between 5 per cent and 10 per cent, and the higher figure has been taken because the foreigner probably spent more per acre. There are other complications. Forty per cent of the coconuts are consumed in the Island. This does not reduce the capital used for export to Rs. 300 million, however, because the internal consumption is mainly in nuts (though a good deal of coconut oil is used for lighting), whereas the export is in large measure in copra, desiccated coconut, and oil, all of which would require more capital. Again, British capitalists do not normally follow the practice of buying estates on mortgage, nor do they raise capital for development by mortgage. Usually the capital is available for use; if not, it is raised by debentures and shares. In any case, it would be British capital and not Ceylonese. On the other hand, much of the Ceylonese capital was raised by mortgage. In a few cases the British banks would have provided the funds (though British banks very rightly

<sup>11</sup> *Report of the Ceylon Banking Commission*, p. 165.

<sup>12</sup> *ibid*, pp. 156, 161 and 165.

hate mortgages—one of the reasons for the success of British banking), and a large part will have come from Chettians. What is more, Ceylonese estates get mortgaged in a depression, whereas British capitalists usually build reserves in a boom to tide over the depression which they know will follow as surely as night follows day. Thus while there would rarely be mortgages on British-owned tea and rubber, it was estimated in 1934 that the proportion of debt on coconut estates was 50 to 70 per cent.<sup>13</sup> Probably a substantial portion of the creditors were Indian. Finally, the estimates relate to estates only. A large part of the capital employed in the export trade, however, is not in the estates at all, but in Colombo. It consists of the capital used by the agencies, the exporting houses, the banks, the lighterage companies, etc. For all of these reasons the proportion of non-Ceylonese capital is probably much higher than 40 per cent and may be as high as 80 per cent.

Nevertheless, the prejudice is quite misconceived. Nearly the whole of the capital has been spent in Ceylon and, as we shall see, a large part of the expenditure has inured to the benefit of the Ceylonese. The current expenditure in the Island, too, is very large. The income which is reached by taxation is estimated by the Financial Secretary to be (in normal times) some Rs. 600 million. Of this Rs. 16 million is retained by taxation.<sup>14</sup> Thus, the Ceylonese obtain some Rs. 536 million out of Rs. 600 million. Practically the whole of this comes directly or indirectly from export trade because the internal trade of the Island is very small. The Rs. 600 million does not include the greater part

<sup>13</sup> *ibid.*, p. 166.

<sup>14</sup> *Report on Incidence of Taxation (Sessional Paper VII of 1942)*, p. 5.

of the 'income' of the villages because it consists not of money which can be reached by taxation but of goods like paddy, chena crops, fruit, vegetables and coconuts, which are retained for consumption. But for the export trade the people of Ceylon would be some Rs. 500 million a year poorer. Moreover, the Rs. 64 million which goes overseas does not go as money but as tea, rubber and coconuts whose value gives a surplus of exports over imports.

It is of course true that if the capital were in Ceylonese hands, and if the estates and commercial houses were equally efficiently managed—which is very unlikely because the efficiency comes from a long experience in all parts of the world—the Rs. 64 million which goes overseas would benefit Ceylon instead of Great Britain and India. One of two things would happen: either there would be an increase of imports or the Rs. 64 million would remain abroad. If there was an increase of imports, there would be increased consumption in Ceylon. If the profit remained abroad it would be invested there, and the profits on the investments would return to Ceylon as a surplus of imports over exports. In either case the standard of living would be raised slightly. Accordingly, it is very desirable that overseas capital should be replaced gradually by Ceylonese capital—gradually, because there must be no loss of efficiency and experience is always gained slowly. It is, however, essential that the export trade should be maintained and if possible increased.

It is also desirable that, if it is at all possible, Ceylon should not have to rely so heavily on an export trade in commodities which are so subject to violent fluctuations. The more varied the economy the less the risk of depression. The coffee blight would have been much

less of a catastrophe to the Island if there had also been production of tea. If a new sort of blight were to destroy the tea estates, or some meddling University professor invented a tea that could be grown in the Highlands of Scotland, or the Englishman were to revert to his traditional belief that 'beer is best', the plight of Ceylon would be parlous indeed. If synthetic rubber as good and as cheap as natural rubber could be produced in the United States, the Island would suffer severely. The spread of the soya bean or the discovery of some new kind of vegetable oil would affect a large part of the Ceylonese capital in coconut estates and have serious effects on labour. These would be major catastrophes, but there are more frequent fluctuations due to causes affecting the three major industries of the Island. The more numerous the industries, the less severely the effects would be felt and the less the risk that all the industries would be concerned at the same time.

There are, unfortunately, changes in world economic conditions which do affect all industries simultaneously, as this Island discovered in 1930. Ceylon can do very little to avoid them, though it can study their effects and take steps to minimize their consequences. It can also take an interest in, and give some support to, the efforts of the nations to control the international economic system. A country dependent upon exports and imports cannot afford to ignore international institutions and international conferences. The well does not draw water from one's own compound.

## CHAPTER III

# CAPITAL AND CAPITALISTS

There is nothing mysterious or reprehensible about capital. It consists simply of the instruments used in production. If I have a back garden, I already have capital, for land is capital. If I want to make my back garden produce vegetables, however, I have to employ more capital. I must at least have a mamoty for digging and a rake for weeding. If I am ambitious and aspire to a vegetable farm, I must have ploughs, buffaloes, farm buildings, and carts or trucks.

It is one of the defects of Ceylon agriculture that its capital equipment is so poor. Most of Ceylon consists of very fertile land, but one must not presume on its fertility. Land which is constantly used for the same crop soon becomes impoverished in the minerals and other substances which that crop takes from the soil. Moreover, the units are often so small that it is uneconomic to use it. The little paddy-field of a quarter acre,<sup>15</sup> cannot be properly cultivated because the owner or owners—and the peculiar laws of inheritance often divide it among several—have not the means for efficient cultivation. A large part of Ceylon is unproductive because not for generations has anybody spent money on it. The ancients provided large capital works in the form of immense and complicated irrigation schemes. In the course of

<sup>15</sup> Or even less. See *Report of the Ceylon Banking Commission*, p. 136, where a unit of 1/138th part of an acre is mentioned.

centuries bunds have been breached, channels silted up, and breeding places for malarial mosquitoes established. In recent years much has been done by the Government to repair the bunds, restore the tanks, and clean the channels. Much more needs to be done before the dry zone becomes as productive as it was when Anuradhapura was the capital of Ceylon.

Meanwhile British capital has converted the patanas and the jungle-covered hills into tea estates and the valleys into rubber estates. No doubt in the process there has been soil erosion which has done harm to paddy-fields in the lower reaches of the river—though paddy-fields which received no silt and no manure would be in a sorry state after centuries of intensive cultivation. It is certain that in some places rubber has replaced paddy and dry-land crops. It has yet to be proved, however, that the benefits derived from the rubber have not far exceeded the benefits that might have been obtained from other crops. The fact that the profits, if any, have gone overseas as a surplus of exports over imports proves nothing; for the question is whether the people would have had a lower or higher standard of living if there had been no rubber.

With the export trade has come the import trade, and with both the large commercial establishments of Colombo and Galle. Here, too, capital has been required—buildings, distributive equipment and stock-in-trade—and here too the capital has come mainly from overseas. Nevertheless, these commercial establishments provide employment for many Ceylonese and incomes for many more: for the consequences of any successful trade or industry are felt far beyond the range of those who are actively engaged in it. It puts up the standard of living for a substantial sec-

tion of the population. Colombo is essentially a commercial centre dependent in very large measure on trade which passes through the Harbour and upon the planting industries which make that trade possible.

The biggest capitalist in Ceylon, however, is the Government itself, though few of its enterprises either do or can show a profit. It owns all the main roads, the railway, most of the electric light and power industry, nearly all the hospitals, many of the schools, and a wide variety of other establishments from the State Council Building to the Kachcheries of the Assistant Government Agents. Ceylon is in fact more 'socialist' than many Western countries, chiefly because the Government has had to take the lead in providing services which elsewhere have been provided by private enterprise. Partly, the explanation lies in the essential poverty of the people of the country. The standard of living is higher than in most oriental countries, but only because of the importation of foreign capital. It is extremely difficult, to use the expressive Americanism, for a poor country to 'pull itself up by its socks'. Where the standard of living is low there is little scope for the accumulation of capital, whether in Governmental or private hands. Capital is built up from savings; and people who are on the poverty line, or below it, cannot save. Yet British colonial policy, in the days when the finances of the Island were in British hands, followed the principle that a colony must finance itself, except in so far as it could attract private capital from overseas. Fortunately Ceylon **did** attract large amounts of foreign capital, whose expenditure in the Island not only enriched the capitalists but also the people of the Island. The result was to enable the Government to collect quite a substantial

income by taxation and so to build some of the services which the Island needed. It is certain, however, that the development would have been more rapid if the British Government had adopted the policy which it is now applying in Africa and the West Indies. This policy consists in direct subsidies, found by the British taxpayer, to the colonial Government, which is thus enabled to provide the services which will in due course raise the standard of living. The initial lift, to revert to the Americanism, is thus provided by the British taxpayer, and the momentum so acquired ought not to be lost.

This is not the whole explanation of the backwardness of the Island as compared with Western countries. The importation of foreign capital and the adoption of English as a normal means of converse have created quite a substantial middle class, whose number we have estimated at 350,000. It has shown itself, on the whole, to be singularly unenterprising. It has certainly developed the coconut industry and has taken an interest in rubber—about half the rubber industry is in Ceylonese hands. It has also exploited the plumbago and mica deposits, but so inefficiently that both are declining industries. In normal times the former is quite unable to compete with Madagascar, and large mica deposits have deteriorated owing to exposure to the air. There are other industries which owe their existence to the enterprise of individual Ceylonese, but their number can be counted on the fingers. This lack of enterprise seems to be explained by two traditions. The first is an inordinate anxiety for posts in the public service, an anxiety due not to a desire to assist in the development of the country or the improvement of the lot of its citizens but to a desire for 'security'—a safe

and comfortable job, a substantial dowry, a fairly high salary, and a pension to sweeten those declining years which are not spent in the service of the community. The second, and perhaps even more potent, tradition is that land is the main source of investment. This tradition is characteristic of countries where a peasant economy is predominant. Land in such countries seems to have an almost mystical attraction which those of us who come from industrial countries do not feel in the slightest. There is, no doubt, a more prosaic attraction also in Ceylon. Land means, usually, a coconut estate. The capital involved is much smaller, proportionately to the value of the land, than in the case of tea and rubber, and coconuts are much more easily looked after by a person whose main occupation is in Colombo or elsewhere in the Island. Once the estate is planted only a little manuring (which is frequently omitted) and the picking of the nuts is called for. There is not a large permanent labour force; but casual labour is hired in the nearby village. Also, this being Ceylonese and not Indian labour, the Government of India is not interested; and the comparatively high standards required by the law (on the insistence of the Government of India) in the case of tea and rubber do not (or did not until recently) apply to coconuts. Consequently, coconut cultivation is the relatively poor man's investment.

Land is, of course, a highly speculative investment in Ceylon as in other countries. Indeed, it is somewhat more speculative when it is used for tea, rubber, or coconuts. These products have all to be sold in competitive world markets which are very sensitive to general economic conditions and prices therefore fluctuate enormously. It may seem surprising that a

middle class which seeks 'security' in employment should prefer speculation in its investments. No doubt the explanation is to be found not merely in the factors already mentioned, but in the virtual absence, until recently, of an alternative. Tea, rubber and coconuts are responsible for the wealth of the Island. All business is dependent upon these products. Indeed, there is very little business except in the building and distributive trades, both of which are ancillary to the import and export trades: but the building and the distributive trades require unremitting and careful attention in the proprietors while they are on a small scale. In other words, they are not only an investment but an employment also. A man can go into the public service or into business: he cannot go into both: and if he goes into the latter only he does not get 'security'. What is more, the distributive trades being concerned mainly with imported goods require contacts with other countries, especially Great Britain and India. For all of these reasons the major distributive trades are almost all in British and Indian hands and do not provide opportunities for Ceylonese investors. Thus we have the paradox that while, on the one hand, most Ceylonese seek 'security' in employment and (except in the case of the Ceylon Moors) will not go into business, on the other hand their investments are in the highly speculative form of land or interests in land—tea, rubber or plumbago shares and mortgages.

It may of course be urged that the general lack of enterprise among the Ceylonese is beside the point, because Ceylon would do well to skip the stage of private capitalism. Those who have seen the consequences of uncontrolled capitalism in the West, in Japan, and in India, would find it difficult to meet this

argument. The alternative is, however, State Capitalism or Socialism—which are, of course, the same. Those middle-class Ceylonese who put forward this alternative must face the consequences, and the consequences are both high taxation and readiness to invest in Government loans. It might have been expected that, with a State Council dependent on adult franchise, there would have been no difficulty in the acceptance of the principle of high taxation. This would, however, ignore one of the effects of the rigid class distinction mentioned in Chapter I. Though the members of the State Council are elected on the widest possible franchise, they are all members of the middle class and many of them are wealthy men. Indeed, the absence of parties, the reliance upon purely personal qualities, and the cost of elections, favour the wealthier candidates. It is as easy for a poor man to get to the House of Lords as it is for him to get to the State Council. In the result, the State Council, like the local authorities, has shown itself very reluctant to increase taxation.

Investment in Government loans is possible only so long as there are Government loans on offer, and until the outbreak of war there was little opportunity for a tradition to be established. Substantial sums have recently been raised on loan in Ceylon, but nearly all the direct investors have been European. A good deal of Ceylonese money has however gone into the loans through Government Departments, banks and insurance companies. Also, persistent propaganda by the National Savings Commissioner has popularized Savings Certificates. There are, too, other forms of 'small savings'. Table IV (p. 37) shows that the amounts are small. The total of 'small savings' may be placed at Rs. 200,000,000, or roughly Rs. 13 per head of popula-

tion. The corresponding figure in the United Kingdom is £140, or Rs. 1,900, per head of population, and this excludes benevolent associations and building societies.

TABLE IV: SMALL SAVINGS IN 1943<sup>16</sup>

INVESTMENT	DEPOSITORS	BALANCE OF DEPOSITS ON 31 DECEMBER 1943
Post Office Savings Bank Ceylon	734,190	Rs. 21,516,304
Savings Bank Eastern Bank	88,931 1,789	26,478,992 1,873,770
Bank of Ceylon Savings Certificates	4,171	4,977,000 <sup>17</sup>  10,023,177
Total		64,869,243

To this total must be added the following:

Insurance policies in 16 companies	..	Rs. 130,000,000
Balances of 7 benevolent associations	..	Rs. 5,700,000
Balances of 5 provident funds	..	Rs. 900,000
		Rs. 136,600,000

In Ceylon as in Great Britain, however, the war has given an impetus to the Savings Movement which it is unlikely to lose in time of peace. The National Savings Commissioner appears to have realized that, on a long view, the development of the practice of thrift is of greater importance than the immediate investment of large sums, so that the small sums invested through savings groups, especially in the schools, are poten-

<sup>16</sup> Social Services Commission. It is not possible to give comprehensive figures for any later years. On 31 December 1946, however, the number of depositors in the Post Office Savings Bank had increased to 1,020,000 and the balance to Rs. 104,364,002; in the Ceylon Savings Bank the number of depositors was 108,872 and the balance Rs. 59,554,893; and the value of Savings Certificates outstanding was Rs. 28,263,576.

<sup>17</sup> September 1943.

tially more important than the much larger sums invested in the loans. In both respects, however, a tradition of lending to Government is being established: and, though it cannot yet be said that Ceylon could raise from its own resources all the sums that might be necessary for its development, a substantial part of the capital should be obtained in this way. Had the opportunity of the war been seized, it would not be necessary to make so qualified a statement. Owing to the accidents of war, large Imperial expenditure has been incurred in the Island since 1942, the total sum probably exceeding Rs. 800 million. Had this sum been maintained in sterling balances in London, the whole of the Island's capital needs for the next generation could have been met. No figures are available, but it appears that in fact a large part of the expenditure has been offset by the sale of land at inflated prices and the purchase of luxury articles. It is of course an advantage to Ceylon to get tea and rubber estates into Ceylonese hands, for the surplus of exports then becomes available for increased imports or for establishing foreign investments, either of which will raise the standard of living: but land should be bought at the bottom of a depression and not at the top of a boom. The use for the importation of luxury articles of the exchange made available by Imperial expenditure is, of course, a clear example of waste. Only the seller benefits from it.

Opinion in the Island on the subject of capital is, in short, a little confused. On the one hand, there is strong objection to the foreign capital which has developed some at least of the resources of the Island and enabled it to reach a fairly high standard of living. That capital demands the payment of interest which

goes out, however, as a surplus (in value) of exports over imports. To call this 'exploitation' is simply to use an abusive name for a normal capitalist process which is carried on much more fully in the West than in Ceylon. There are vast quantities of American capital in Great Britain and there were, until 1939, even vaster quantities of British capital in the United States. On the other hand few seem to realize that the alternative to foreign capital is Ceylonese capital, and that capital is accumulated by voluntary or compulsory saving. There is nothing whatever to prevent Ceylon from buying out all the foreign capital or even from beginning to 'exploit' on its own. Indeed, it is easier for Ceylonese to invest in Great Britain than for British capitalists to invest in Ceylon. The employment of Ceylonese (or any other) capital in England would be welcomed by the English, as helping to create employment and raising the standard of living. The essential difference in the two countries is not merely one of resources and population, but also one of national psychology. The Englishman is by tradition a capitalist. He likes to have 'money in the bank' and he is prepared, at the right stage, to use his money to create more. Ceylon, on the other hand, has a tradition of personal indebtedness which gives infinite scope to the moneylender but does not help in the development of the Island.

## CHAPTER IV

# THE ESTATES

Nine-tenths of the exports from Ceylon are plantation products. Table V analyses the exports in 1938.

TABLE V : EXPORTS IN 1938 <sup>18</sup>

ESTATE PRODUCTS	Rs.	Rs.
Tea	172,354,752	
Rubber	45,274,962	
Coconut products	34,493,145	
Cacao	1,430,692	
Cardamoms	484,775	
Cinnamon products	2,011,214	
Citronella oil	1,182,031	257,231,571
<hr/>		
OTHER DOMESTIC EXPORTS		
Plumbago	1,747,451	
Other exports	4,555,500	6,302,951
<hr/>		
Re-exports		20,325,105
Postal articles		1,073,652
<hr/>		
TOTAL		284,933,279 <sup>19</sup>

These exports pay for the imports and (except in time of depression) interest on capital. The nature of the imports is indicated by Table VI (p. 41).

These imports include rice to the value of Rs. 54,000,000 and cotton piece-goods to the value of Rs. 20,000,000. Ceylon thus depends for its food and clothing on its export of estate products.

The weakness of this economy arises from the fact that the main exports are subject to such wide fluctua-

<sup>18</sup> Compiled from *Ceylon Blue Book*, 1938, and *Administration Report on the Customs and Shipping*, 1938.

<sup>19</sup> The total differs from that in Table III because it includes re-exports and ships' stores.

TABLE VI : IMPORTS IN 1938 <sup>20</sup>

Food, drink and tobacco	Rs. 107,297,660
Raw materials, etc.	„ 33,809,773
Manufactured articles	„ 94,169,907
Animals not for food	„ 251,761
Bullion and specie	„ 745,775
TOTAL	Rs. 236,274,876

tions. The demand for tea is comparatively stable: but Ceylon has to compete with India and Indonesia. The main demand for rubber, however, is from the automobile industry, which is one of the first to suffer from the effects of a world depression. Also, there is strong competition in the rubber market, especially with Malaya and Indonesia. And hereafter there will be the further difficulty of competition from synthetic rubber. Coconut products suffer from competition with many countries and with other types of oil-producing commodities and show a similar sensitiveness to world economic conditions. Table VII (p. 42) shows the relation between the price of the commodity on the world market and the value of the export.

In the case of tea and rubber these figures are not due entirely to the operation of economic causes; for since 1933 in the case of tea and since 1934 in the case of rubber there has been restriction of production by international agreement. In both cases there has been a substantial fall in the quantity exported, though this has been more than compensated by a rise in price. Thus in 1932 some 253 million pounds of tea produced Rs. 108 million, whereas in 1934 some 219 million pounds of tea produced Rs. 145 million. Similarly in 1933 some 142 million pounds of rubber produced

<sup>20</sup> See note 18.

Rs. 23 million, whereas in 1935 some 120 million pounds of rubber produced Rs. 38 million.

TABLE VII: ESTATE PRODUCTS <sup>21</sup>

YEAR	TEA		RUBBER		COCONUT PRODUCTS	
	Per lb. (Rs.)	Value (Rs.)	Per lb. (Rs.)	Value (Rs.)	Per Candy (Rs.)	Value (Rs.)
1929	1.04	214,892,692	0.75	63,749,711	85.42	77,686,956
1925	0.96	199,609,338	1.73	169,992,247	80.36	81,355,740
1926	0.99	213,063,798	1.21	170,078,219	79.40	79,146,085
1927	0.94	293,691,876	0.95	119,174,347	76.88	77,048,541
1928	0.85	201,235,039	0.55	73,985,953	76.22	78,875,126
1929	0.81	205,114,200	0.52	86,630,874	64.47	64,278,097
1930	0.75	181,974,157	0.27	47,158,226	52.36	46,779,594
1931	0.57	138,656,337	0.14	19,841,665	35.06	36,300,951
1932	0.42	107,662,702	0.11	13,232,696	42.21	35,050,547
1933	0.54	117,884,764	0.15	22,995,245	29.75	28,949,724
1934	0.66	145,027,368	0.31	56,615,226	21.98	28,983,614
1935	0.64	145,717,550	0.30	38,293,614	38.15	36,039,865
1936	0.67	153,335,772	0.41	46,840,344	48.01	33,549,779
1937	0.76	170,516,847	0.50	77,010,122	47.23	48,461,936
1938	0.70	172,354,752	0.37	45,274,962	27.74	34,493,145

It will be seen from Table VII that the values of the three major commodities rise and fall almost in unison. The best year for tea was 1927 and the worst 1932; the best year for rubber was 1926 and the worst 1932; the best year for coconuts was 1925 and the worst 1933. These changes are in the main a reflex of world economic conditions. In other words, the three commodities follow the 'trade cycle' very closely. In boom conditions the values are up; in a depression they fall. When it is remembered that these commodities cover the greater part of the export trade, that the exports pay for imports, and that the imports are mainly food and clothing, it will be appreciated that the trade cycle has substantial effects on the prosperity of the Island.

The fluctuations are not equally violent, however. The fall from 1927 to 1932 in the case of tea was 63

<sup>21</sup> *Ceylon Blue Book*, 1938, pp. P4 and S4.

per cent; the fall from 1926 to 1932 in the case of rubber was 92 per cent; the fall from 1925 to 1933 in the case of coconuts was 64 per cent. This accords with the conclusions of the London Stock Exchange and commodity markets, that rubber is a highly speculative investment. As has already been mentioned, the main demand comes from the automobile industry. The middle-class man's first reaction to the coming of a depression is to postpone the purchase of his new car. At the end of the depression he hesitates to get a new car until he is sure that his business has turned the corner. On the other hand tea, soap and margarine are regarded almost as essentials, so that exports of tea and coconut products show much less violent fluctuations.

The fluctuations in the Table cover the 'boomlet' of 1925, when Great Britain restored the gold standard, and the great depression. Rubber was Rs. 1.73 a lb. in 1925, but the price fell in 1926 owing to over-production. The increase in the quantity exported (from 102 to 132 million pounds), however, put up the total value of the export. The expected boom did not materialize, and the price of rubber fell rapidly as the depression came on, until at the bottom in 1932 rubber was 11 cents a lb. After that world economic conditions were gradually restored, though 1938, the year of Munich, was one of hesitation. In the case of copra, over-production and the resulting severe competition seems to have been the most important factor, and the price fell with remarkable consistency from 1925 to 1934. The quantities varied, however, so that the worst year, when the depression also was operating, was 1933. The troubled year, 1938, also marked a setback. The price of tea was similarly affected by over-production until

the restriction scheme came into operation: but, the Ceylon tea industry being efficiently run, exports were high until the depression of 1929 began to have its effects in restricted sales. The industry recovered from the depression very quickly, however, and export values rose from 1932 to 1938 in spite of a fall in the price of tea in the troubled year 1938.

The Table thus shows clearly how dependent Ceylon is on world economic conditions. It must be remembered that in 1938 the exports of these three commodities amounted to Rs. 252 million out of a total export of domestic products of Rs. 264 million (see Table V). It is therefore surprising how little interest is shown in these world conditions. The explanation appears to be the prevalence of a belief, rarely precisely formulated, that tea and rubber, being industries run mainly with European capital and Indian labour, do not concern the people of Ceylon. The validity of this belief needs to be fully analysed.

(1) The effect of European ownership is to vest the profits, if any, in the European owners. These profits consist of that part of the annual surplus which is not retained in the industry for capital expenditure. The annual surplus consists of the total obtained by sale in London (or other centre) less the cost of getting the product to London (or other centre). The cost of getting the product to London may be analysed into the following elements:—

- (a) the cost of production on the estates, including the cost of supervision by Visiting Agents;
- (b) the cost of transport to Colombo;
- (c) the agency or corresponding costs in Colombo;
- (d) the cost of shipping from Colombo;
- (e) the cost of marketing in London; and

## (f) British and Ceylon taxation.

Of these six items, the first three, and in part the fourth and sixth, involve expenditure in Ceylon. In some slight degree, this expenditure is transferred overseas. The European personnel in normal times save some money, which is often invested through the London Stock Exchange or (more often) through insurance companies, provident funds, and so on. The Indian labourers, too, send part of their income to India.<sup>22</sup> By far the greater part of the expenditure, however, is in Ceylon itself. In so far as that expenditure is on imported goods (European food and clothing for the European personnel; rice, curry-stuffs and textiles for the Indian workers) it does not inure to the benefit of any Ceylonese. The export of tea and rubber is then offset by imports which would not be necessary were it not for the estates. Even when all these allowances have been made, the balance is very substantial and is part of the general wealth of the country.

(2) A considerable part of this balance is necessitated by the direct employment of Ceylonese. The estates themselves employ a good deal of Ceylonese labour. Table VIII (p. 45) gives the number of employees *resident* on the estates in 1921 and 1931 respectively, classified according to 'race'.

In addition to these are many villagers employed on, but not resident on, estates. The figures of employees on tea and rubber estates employing Indian labour, for 1938 and 1943, are given in Table IX (p. 45).

These figures are misleading because they confuse *residents* and *workers*. Of the 671, 921 Indians resident

<sup>22</sup> In 1943, a boom year, the amount was about Rs. 3,800,000. and in 1944 it was about Rs. 5,200,000. *Administration Report of the Controller of Labour, 1944*, p. 32.

TABLE VIII : ESTATE POPULATION BY RACE <sup>23</sup>

	1921	1931
Low-country Sinhalese	37,111	50,490
Kandyan Sinhalese	17,468	25,296
Ceylon Tamils	2,716	5,541
Ceylon Moors	2,300	2,831
Malays	1,483	1,988
Burghers and Eurasians	2,039	2,031
<b>Total Ceylonese</b>	<b>63,117</b>	<b>88,177</b>
Indian Tamils	493,944	692,540
Indian Moors	4,214	4,665
Europeans	2,670	2,814
Others	..	1,738
<b>Total Non-Ceylonese</b>	<b>500,828</b>	<b>701,757</b>
<b>GRAND TOTAL</b>	<b>563,945</b>	<b>789,934</b>

TABLE IX : INDIAN EMPLOYEES ON ESTATES <sup>24</sup>

	1938	1943
Indians	682,299	671,921
Non-Indians	90,499	149,634
<b>TOTAL</b>	<b>772,798</b>	<b>821,555</b>

on estates only 438,019 were employed. The number of non-Indians employed was apparently 125,866.<sup>25</sup> Thus, on the estates employing Indian labour, 22 per cent of the employees were non-Indian. If other estates were included, the proportion would probably be at least 25 per cent.

(3) The labour thus employed is in large measure village labour for whom employment on estates is what

<sup>23</sup> *Census Report, 1921, Volume IV, p. 6; Census Report, 1931, p. 240.*

<sup>24</sup> Social Services Commission.

<sup>25</sup> *Administration Report of the Controller of Labour, 1943, pp. 15 and 35. In 1944 the figures were 441,491 and 120,187; ibid. for 1944, p. 37. It is, however, impossible to reconcile the various figures.*

is called in the *Census Reports* a 'subsidiary occupation'. That is, the main occupation is paddy cultivation or chena cultivation or other cultivation of food. This main occupation is, however, essentially seasonal, so that there are substantial periods of the year when the villager would be unemployed were it not for the employment offered by the estates. The villager thus has two strings to his bow. If there is a drought or his crop fails for some other reason, he can fall back upon the estate. If, on the other hand, the tea and rubber industries are hit by a depression, he will at least have his paddy or his chena. He is thus in a far safer condition than the industrial worker, who is dependent on the prosperity of his industry, or than the ordinary cultivator, who is dependent on his cultivation. It is rare for drought and depression to come together, though when it does, as in 1933-4, there is enormous and widespread distress.

(4) The European planter and the Indian labourer spend the greater part of their income in Ceylon though partly on imported foods. As has been explained already, this income is derived, in the case of an estate owned by a European company, from credits placed in London and transferred to the Colombo banks. Were there no estates, the wealth thus circulated in Ceylon would not exist. The wealth passes into circulation through the boutiques in the villages near the estates, through the urban areas in and near the hill country, and through the towns of Colombo and Galle. Colombo and Galle are, however, concerned with all the trade of the Island, and not merely with tea and rubber. The towns which are primarily dependent on tea and rubber are Kandy, Matale, Kegalla, Gampola, Ratnapura, Nawalapitiya, Hatton, Badulla,

Lunugala and Kalutara, though in some of these coconuts also play a part. Nuwara Eliya and Bandarawela have a somewhat wider economy because, though in tea areas, they are also holiday centres for the urban population of the wet zone.

(5) The influence of tea and rubber in the wealth of the country is, however, far wider than even this statement would suggest. There is very little internal commerce in domestic products. Some paddy and other agricultural products are produced for sale in the Northern, Eastern and North Central Provinces and in the Hambantota District of the Southern Province. In the wet zone there is some sale of fruit and vegetables, mainly in the village fairs. Fresh fish and some dried fish also are produced in Ceylon for sale in the Island. Mainly, however, internal trade is in imported goods—rice, textiles, meat, dried fish, vegetables, grains, dhals, etc. These imported foods are, of course, paid for by the exports. If we go back to Table V we see that, of the exports of domestic products, tea accounts for some 67 per cent and rubber for some 18 per cent. Other estate products, including coconuts, account for 15 per cent. The urban population is essentially dependent upon Government expenditure and commerce. In the latter, tea and rubber obviously play the predominant part. In fact, were it not for tea and rubber, Ceylon would be a peasant country with a small external trade in coconuts and plumbago. The wealth which is exhibited in the towns would not exist.

(6) The expenditure of Government in 1937-8 was a little more than Rs. 115 million. The income was rather more than Rs. 113 million. This income is classified in Table X.

TABLE X : REVENUE IN 1937-8 <sup>26</sup>

	(Rs.)
I. Customs	56,222,468.06
II. Port, Harbour, Wharf, Warehouse and other dues	6,303,898.72
III. Excise	10,359,821.18
IV. Income-tax, Estate Duty & Stamps	17,606,667.20
V. Licences and Internal Revenues not otherwise classified	1,705,355.39
VI. Fees of Court or Office, and Payment for specific services	2,003,155.61
VII. Medical Services	2,020,035.90
VIII. Reimbursements	3,246,736.48
IX. Postal and Telecommunications Services	5,801,106.96
X. Interest, Annuities, etc.	4,202,591.21
XI. Miscellaneous receipts	2,495,479.00
XII. Land Revenue	1,099,030.75
XIII. Land Sales	229,541.26
XIV. Colonial Development Fund	26,666.67
XV. Recovery from Loan	25,036.20
TOTAL	113,347,590.59

The most noticeable feature is that half the revenue came from customs. These included the export duty on tea, which accounted for over Rs. 4 million, and duties on imports, which accounted for over Rs. 52 million. The imports were, however, paid for by exports, of which 85 per cent consisted of tea and rubber. Harbour dues accounted for another Rs. 6 million of the revenue, and these were due mainly to the export trade and the corresponding import trade. Under Head IV the largest item is income-tax, which provided over Rs. 13 million. Table XI (p. 50) shows the sources from which income-tax was drawn.

The meaning of 'Agriculture' is not specifically defined, but as few have any substantial income from crops, other than plantation crops, it may be assumed

<sup>26</sup> *Ceylon Blue Book*, 1938, pp. B10-13. The revenue for 1942-3 and 1943-4 is given in Table XX.

that the income was derived almost wholly from tea, rubber and coconuts.

TABLE XI : SOURCES OF INCOME <sup>27</sup>

SOURCE	No.	INCOME (Rs.)
Agriculture	5,917	53,820,315
Government Employees	6,732	30,504,860
Other Public Employees	494	1,866,099
Other Employees	4,640	31,514,348
Manufacture and Production	91	5,572,931
Distribution (Trade,	1,816	18,390,125
Finance	140	9,250,848
Miscellaneous Trades	491	6,635,280
Professions	1,697	6,458,630
Ceylon Interest and Dividends	8,937	14,033,268
Other Interest and Dividends	1,398	3,069,427
Income from Property	7,329	10,839,845
Miscellaneous Income	629	1,244,132
GROSS INCOME		193,200,108

<sup>27</sup> *Administration Report of the Commissioner of Income-tax, Estate Duty and Stamps, 1938, p. 17.*

Though it is not strictly relevant to the argument it may be interesting to give the sources of income in 1943-4 (*ibid.*, 1944, p. 10) :

TABLE XI A : SOURCES OF INCOME, 1943-4

SOURCE	No.	INCOME (Rs.)
Agriculture	9,294	126,632,209
Government Employees	9,116	42,184,329
Other Public Employees	588	2,295,640
Other Employees	5,695	39,233,126
Manufacture and Production	439	18,385,855
Distribution (Trade)	3,209	52,782,084
Finance	772	25,832,023
Miscellaneous Trades	1,500	25,038,739
Professions	1,704	9,395,665
Ceylon Interest and Dividends	9,207	21,870,449
Other Interest and Dividends	1,124	2,485,215
Income from Property	10,162	12,027,596
Miscellaneous Income	1,420	4,310,188
GROSS INCOME		382,473,118

The Government employees are of course paid from the sources quoted in Table X. 'Other employees' will be mainly employees on estates and in commerce, since the next item shows how small is the income derived from manufacture and production. 'Distribution', of course, is another name for commerce, which is essentially dependent on the export trade. 'Finance' covers the whole range; but as the rest of the range is founded on tea, rubber and coconuts, so is 'finance'. Nearly all the companies engage in plantation production or commerce, so that 'Ceylon Interest and Dividends' come mainly from tea, rubber and coconuts,

Comparison with Table XI shows the effect of wartime inflation, the income having generally been earned in 1942. The number of persons charged with tax increased from about 22,000 to 28,239, an increase of only 30 per cent, while the income on which tax was charged increased by almost 100 per cent. The high prices for estate products resulted in an increase of 135 per cent under 'Agriculture', while the shortage of goods and consequent high prices produced very large incomes under 'Manufacture and Production', 'Distribution', 'Finance' and 'Miscellaneous Trades'. A redistribution enables us to produce Table XIB.

TABLE XI B :  
EFFECT OF INFLATION ON INCOMES, 1937-43

	1937	1943	INCREASE PER CENT
No. of income-tax payers	22,000	28,239	28
	(Rs.)	(Rs.)	
Production, Distribution and Finance	93,669,499	248,670,910	165
Employment and Professions	60,343,937	93,108,760	54
Property and Interest	27,942,540	36,383,260	34

It will be seen that the producers and the distributors benefited enormously (subject to Excess Profits Duty both in Ceylon and in the United Kingdom), while the middle-class employee gained much more than the rentier.

either directly or indirectly. In other words, tea, rubber and coconuts provide the greater part of the wealth upon which income-tax is levied.

All these factors show the importance of tea and rubber in the national economy. In fact, however, there is no real justification for separating tea and rubber from other plantation products. The fact that most tea estates and many rubber estates are owned by non-Ceylonese and employ much non-Ceylonese labour is really of minor economic significance. If the foreign capital and Indian labour were replaced by Ceylonese capital and Ceylonese labour the effects would hardly be noticeable, assuming of course that the estates were run equally efficiently. Indeed, from an economic point of view the labour is already almost entirely Ceylonese. The only economic question of importance is whether the labour is resident or immigrant. Already in 1938 Sir Edward Jackson estimated that 60 per cent of the so-called Indian labour on the estates had become part of the permanent population of the Island.<sup>28</sup> The total number, he added, 'may confidently be expected to increase by an excess of births over deaths which is greatly assisted by improved conditions of living on estates and by the medical attention given to the workers'. He pointed out, too, that the tendency to settle was growing, and that the proportion of settled labour was much greater than it had been twenty years before.

There is indeed some advantage in using immigrant labour. If the figures of migration be studied, it will be found that in years of prosperity there is a heavy surplus of immigrants and in years of depression a

<sup>28</sup> *Report of a Commission on Immigration into Ceylon (Sessional Paper III of 1938)*, p. 26.

heavy surplus of emigrants.<sup>29</sup> In other words, migration tends to mitigate the harmful effects of the trade cycle. It tends to diminish the effects of an inflation, because a larger labour force remits funds to India and so restricts the spending of money and the consequent rise in prices in Ceylon. It tends to diminish the effects of a depression because the migrant labour force moves back to India and compels that country, instead of Ceylon, to bear the burden of unemployment and under-employment.

However, these are incidental questions, like all questions of so-called 'race'. The essential point is that the plantations—and we now include the coconut estates—are fundamental to the economy of Ceylon. In 1921 the number of persons dependent on plantation cultivation was 1,066,723,<sup>30</sup> or about 25 per cent of the population. Nor is this all. Of the villagers who depended primarily on other forms of cultivation (e.g. paddy), over 60,000 were employed on estates; and with dependants they would probably number 150,000. Since then the proportion of Ceylonese labour has increased to 25 per cent. Nor must it be forgotten that there are ancillary industries such as coir manufacture, oil milling, toddy tapping, and arrack distilling, which employ large numbers of persons. Practically the whole urban population, too, is concerned directly with the wealth produced by the estates. The total urban population in 1921 was 580,953, and by 1931 (with an increased number of urban areas) it had grown to 699,446, or 13.2 per cent of the population of the Island.<sup>31</sup>

<sup>29</sup> See *Ceylon Blue Book*, 1938, p. 2, and Orde Brown in *Sessional Paper XIX* of 1943, Diagram II.

<sup>30</sup> *Census Report*, 1921, Vol. I, Pt. I., p. 58.

<sup>31</sup> *Census Report*, 1931, p. 6.

We are apt to think of the great mass of the population being dependent primarily on paddy cultivation. The actual number in 1921 was 1,603,254<sup>32</sup> or about 36 per cent. This was less than the combined total of those dependent on the estates and the urban population, which together made up about 38 per cent. There is, no doubt, some justification for the politicians' concern with the villager. He belongs to the depressed classes. Any alleviation of his lot, however, must be at the expense of tea, rubber and coconuts. Accordingly, the condition precedent to the development of rural Ceylon is the maintenance of supremacy in plantation cultivation.

<sup>32</sup> *Census Report, 1921, Vol. I, Pt. II, p. 78.*

## APTER V

# RURAL CEYLON

### 1. DIAGNOSIS

Strictly speaking, rural Ceylon includes the estates. Economically speaking, however, they differ so much from the rest of the Island that it is necessary to exclude them. It must nevertheless be remembered that

(1) many villagers work on the estates or on the roads and railways which have been provided, primarily, for the transport of estate produce;

(2) many villagers produce plantation crops in small holdings; and

(3) most villagers derive their shelter, their cooking fat and some of their food from that 'universal provider', the coconut palm.

These factors are of varying importance in the different parts of Ceylon. Tea dominates the villages in the hills. Rubber is to be found mainly on the low hills and in the valleys to the west of the hills; and coconuts cover the coastal belt from Puttalam to Tangalla (save for the Kalutara District, where the rubber comes down almost to the sea) and a large part of the Kurunegala District, and are not without importance in the Jaffna Peninsula, Mannar Island, and a narrow coastal strip from Batticaloa to Pottuvil. Elsewhere where there are villages paddy predominates, though a large part of Ceylon consists of sparsely-inhabited jungle.

In many places the estates so to speak cut into

the villages; that is, they are found within the territorial limits of the villages. On the other hand, the resident villagers often own land outside the territorial limits of their villages. For a proper survey of village life we must consider not the territorial limits but the agricultural limits. Our knowledge of village economy is extremely limited: for, though most people know a few villages, economic surveys have been made only of selected villages in certain areas—the Raigam Korale, and the Districts of Puttalam, Chilaw, Kurunegala, Kalutara, Galle, Matara and Hambantota. These are nearly all in what may be called the land of coconuts. In these areas, however, there appear to be common characteristics which may be summarized as follows:

(1) Generally speaking, land is owned by a minority of families. The following Table gives the figures in the villages recently surveyed :

TABLE XII : OWNERSHIP OF LAND (Selected Villages)<sup>33</sup>

DISTRICT	NO. OF FAMILIES	NO. OF FAMILIES WITH LAND
Puttalam	173	84
Kurunegala	2,051	1,289
Galle	1,249	543
Matara	645	290

(2) Generally speaking, holdings are very small. The following are the figures in the villages recently surveyed :

TABLE XIII : CULTIVATED HOLDINGS (Selected Villages)<sup>34</sup>

DISTRICT	NO. OF FAMILIES WITH LAND	LAND IN ACRES	AVERAGE
Puttalam	84	394 $\frac{3}{4}$	4.2/3
Kurunegala	1,289	9,074 $\frac{1}{2}$	7
Galle	343	1,801 $\frac{1}{4}$	5.1/3
Matara	290	1,187	4

<sup>33</sup> Economic Surveys.

<sup>34</sup> Economic Surveys.

Averages are, however, misleading, for a single large estate will offset many small holdings. Moreover, the figures relate to ownership, not to cultivators. Speaking generally, in these areas half the cultivators of paddy have less than one acre and half the cultivators of coconuts have less than two acres. This minute sub-division of the land is the major problem of the wet zone. It is due primarily to the system of succession which results in excessive sub-division. It does not happen in countries where primogeniture (i.e. descent to the eldest son) is the rule, since there the land descends as a unit. Though primogeniture is no longer the rule in England, minute sub-division does not result because all land which would otherwise be divided is held on trust for sale: that is, the executors sell the land and distribute the proceeds. In Ceylon, however, sub-division is the normal practice. The person with a holding of less than an acre of paddy cannot cultivate economically because his income is too small to permit of the expenditure which would be necessary to increase the yield. He is thus entrapped in a vicious circle. He cannot increase his income because he has no capital; he cannot get the capital because he has so small an income: in the result the land slowly deteriorates and the villager gets more and more impoverished.

(3) The tenant of paddy lands pays his charges in paddy. These include a share to the owner for rent and another share for seed paddy. The owner of the buffaloes is similarly paid in paddy, and if hired labour is required, the wages are in paddy. If the cultivator is in debt to the boutique-keeper or the moneylender, his obligation will probably be to pay a share of the paddy crop. This system can no doubt be explained partly by the almost complete absence

of a money economy and partly by the uncertainty of the crop. The cultivator cannot pay in money because he handles very little. In any event, he cannot pay fixed charges whether in cash or in kind, because he does not know what his crop will be. There may be no crop at all, for the rains may fail or floods overwhelm his holding or the bund of the tank be breached. It is safer for him to promise a share, for then if he gets little he will give little. On the other hand this system, which gives to the cultivator a comparatively small share of his produce, discourages him from making capital improvements. If he builds a new bund his landlord, boutique-keeper and wealthier neighbours will gain more than he.

(4) The technique of cultivation is generally poor. Partly, this arises from multiple sub-division and consequential poverty. The cultivator cannot plough properly because he has not the buffaloes and the implements. He uses his own poor strain of seed-paddy instead of buying better qualities. He cannot purchase manure and he has not the cattle to provide manure. On the other hand, some of the defects of the technique are due to conservatism. He often prefers puddling to ploughing because it is less trouble. He often collects his seed haphazard instead of choosing the best strains from his own land. He scatters the seed broadcast and does not transplant. Tradition often prevents the use of cowdung as manure.

(5) Where there is no sub-division, there is generally some form of joint ownership. In some cases the co-owners cultivate the land in common, a process which generally prevents the use of improved methods because agreement cannot be reached. In other cases, one co-owner cultivates, taking a share of the produce

and dividing the rest among the other co-owners. In that case any additional expenditure of capital and any increased labour enriches the co-owners as well as the cultivator, so there is every incentive to do neither. Elsewhere the system of *thattumaru* prevails. In that system each co-owner cultivates in succession, a process which encourages each of them to put as little into the land and to take as much out of it as possible. In short, all forms of co-ownership tend towards the impoverishment of the land.

(6) The range of crops is small. In the wet zone paddy is the staple product. In most areas there are coconuts, which are used for food, cooking fats and shelter even when they are not grown as a cash crop. Tea, rubber, cardamoms, citronella, cinnamon and tobacco provide cash crops in some of the more favoured villages. Everywhere vegetables are grown, though usually most unsystematically. Kurakkan, mango, jak, arecanut, betel, breadfruit, papaw, plantain and orange are grown in compounds, and occasionally a little more systematically, but usually the villager has neither the means nor the knowledge to make from them a substantial addition to the family income. In areas where there is jungle, chena cultivation is possible. Chena cultivation consists in the most uneconomic process of burning jungle and planting dry land crops—kurakkan, maize, millets, pulses, gingelly, chillies, or vegetables—in the land thus manured. After one crop it is usually necessary to let the jungle grow again for seven or eight years. Meanwhile valuable forest products are lost and soil erosion takes place. Chena cultivation, in short, must be regarded, from the point of view of the community, as the worst possible method of cultivation. On the other hand, many villagers would die without it.

(7) Agriculture without livestock is almost unthinkable. Cattle provide motive-power, manure and food. Other kinds of livestock such as goats, pigs and poultry, provide a valuable subsidiary source of food and income. Moreover, the Ceylon villager has ample time for looking after livestock. His crops are seasonal, and his range of crops is generally small; there are periods of the year when neither paddy nor coconuts call for attention. If the peasant economy of Ceylon were flourishing, therefore, we should find a vast development of animal husbandry. In fact, however, we find nothing of the kind. Partly, the cause is economic: the villager cannot afford to purchase and rear the necessary livestock. In large measure, however, the cause is religious and social. The Buddhist generally objects to the rearing of animals and poultry for food, and there is even a prejudice against milk. The Muslims, too, object to the rearing of pigs. To the Hindus the cow is sacred. What livestock there is, however, is generally of poor quality. There are few animals so pitiful as village cattle. They are generally full of parasites; an average of two bottles of milk a day is usual; the branding is usually so bad that their hides are useless; little or no fodder grass is grown; shelter for the cattle is very rarely provided. The result has been a consistent degeneration of the stock which is necessarily progressive.

(8) In many countries with a seaboard as long as that of Ceylon and a sea less fruitful than the Indian Ocean, agriculture and fishing go together. When the fisherman is not at sea he is looking after his crops; when the agriculturist is not looking after his crops he is at sea. The two would fit very well in Ceylon, where the monsoons restrict the fishing season. Unfortunately

social tradition prohibits this marriage of two industries. Fishing is by social tradition limited to certain castes; and the fishermen generally do not own or cultivate land.

(9) Another form of sustenance to the agricultural population is the cottage industry. The future of the cottage industry which has to compete with factory products is very doubtful, and is discussed in the next chapter. In any event, the cottage industries of Ceylon have not been developed very considerably. Spinning and weaving, lace-making, dairying, the manufacture of mats and baskets, brushes and brooms, jaggery-making, bee-keeping, etc., are all possible. Coir spinning is carried on fairly extensively in the Southern Province.<sup>35</sup> One difficulty is that, in order to make good husks, the nut must be plucked before it is mature, and it takes four months to soak a husk unless it is beaten. Spinning is done by hand, and mainly by women and children. The income of a family from yarn spun in this way cannot, in normal times, exceed ten cents a day, whereas (if prices were maintained) the income if simple machines were used would be one rupee a day. Though such machines can be obtained for Rs. 6, the villagers cannot afford even that amount of capital. Also, the yarn is sold to the boutiques, whose owners have done their best to discourage machine spinning, partly because they fear that there will be a glut, and partly because they fear that if larger quantities are produced, the villagers will be able to by-pass the boutiques and deal directly with the manufacturers. Usually the boutiques do not pay cash but make advances in the form of goods, thus making a double

<sup>35</sup> *Report on the Economic Survey of Nine Villages in the Galle District*, pp. 25-6.

profit, on the goods and on the yarn. It may be added that the West long ago discovered the perils of 'truck', as it is called, and forbade payment in kind. Where the village cultivator has anything to sell, his marketing arrangements are generally unsatisfactory. The larger growers can send their produce to the nearest town by lorry or bullock-cart, and the estates have their own Colombo Agents to whom they can consign their goods. The small producer, on the other hand, has to sell what he can on the spot. His three agencies are the itinerant trader, the village fair, and the local boutique-keeper. The following description,<sup>36</sup> from the Kurunegala District, is generally applicable:

'The itinerant trader goes round the houses, fields, or chenas, and collects the nuts, tobacco or other produce and transports them by lorry. Traders from Kurunegala, Chilaw, Dandagamuwa, and Negombo visit villages to buy poultry, eggs, cattle or goats. Those from Negombo and Dandagamuwa do considerable trade in cattle, in Wannī hatpattu. Traders from Kurunegala visit the fairs in the district and buy plantains, other fruits, and vegetables and transport them by lorries or buses to Colombo and Negombo.

'The weekly fairs form another important link between the village economy and the outside world . . . The rents charged per stall vary from 25 cents to 75 cents. . . . The fairs are held on different days of the week and traders move from fair to fair. They select a sufficient number of them to keep them occupied throughout the week. The wares exhibited in the fairs include cloth, dried fish, curry-stuffs, miscellaneous manufactured articles of household use, and rice. The majority of the traders in some fairs are Indians who enjoy a practical monopoly of the cloth trade. They also deal in dry fish, curry-stuffs, and manufactured articles. Vegetables and plantains that come to the fairs are col-

<sup>36</sup> *Report on the Economic Survey of the Kurunegala District* (1940), p. 20.

lected in the open spaces, bought wholesale by the traders, and almost at once taken in lorries to Kurunegala, Kandy, Colombo or Negombo. Small quantities, usually what remains after the traders have made their purchases, are bought by petty retailers who exhibit them in the open spaces in the fair. These are taken by the villagers. That forms their share of the vegetables produced in the area.

‘The fair is the villager’s market *par excellence* . . . . Thither he takes cash obtained through the sale to the itinerant trader of the coconut, tobacco, poultry, eggs or goats, to buy his requirements. There he is provided with a ready market for plantains, vegetables, betel leaves, or honey, at competitive prices. There the village women are able to sell their surplus coconut oil and buy curry-stuffs or dry fish with the proceeds.

‘The village boutique-keeper is an important part of the village economy. The fairs come but once a week and the terms there are necessarily cash. But the boutique-keeper is always there and he gives credit. He is therefore indispensable to the villager. Sometimes he advances loans which can be repaid in copra, coconut or other produce. In Wannī and Hiriyala hatpattus trade by barter is more common. During the off-season on chenas and paddy lands, the boutiques advance rice and provisions to the villagers and get in return paddy, kurakkan, gingelly or meneri after harvesting.

‘The boutique-keeper and the itinerant trader appropriate to themselves a fair share of the middlemen’s profits. They are in an advantageous position *vis-a-vis* the villager. The boutique-keeper is something of a monopolist both as a seller of goods, which he keeps in stock, and as a buyer of the village produce. Through the sale of goods on credit and by advancing loans to the villagers when they are in difficulties, he ensures that the latter bring their produce to him even if no stipulation is made in that regard. He is thus able to sell dear and buy cheap. The itinerant trader takes advantage of the villagers’ ignorance of market conditions. Sometimes he buys the crop while it is still in the field and makes advance payment. Since the farmer then is

usually in difficulties, the trader often gets the crop at bargain prices. . . . .'

(11) In almost all the villages surveyed, agriculture and its connected industries provide a very low standard of living. Table XIV gives some of the figures of gross family incomes, in cash and kind.

TABLE XIV: GROSS FAMILY INCOMES (Selected Villages)<sup>37</sup>

INCOME PER MENSEM	PUTTALAM	KURUNE- GALA	GALLE	MATARA
Below Rs. 5	32	213	59	27
Rs. 5 and under Rs. 10	32	553	331	104
Rs. 10 and under Rs. 15	39	495	291	149
Rs. 15 and under Rs. 20	18	246	179	118
Rs. 20 and under Rs. 25	14	126	95	70
Rs. 25 and under Rs. 35	14	131	111	57
Rs. 35 and under Rs. 45	3	59	43	35
Rs. 45 and under Rs. 55	4	37	30	21
Rs. 55 and under Rs. 65	3	18	19	14
Rs. 65 and under Rs. 75	1	13	10	4
Rs. 75 and under				
Rs. 100	5	23	19	13
Over Rs. 100	8	59	62	33
Total	173	1,973	1,249	645

These figures relate to the period 1936-8 and may have been somewhat understated. On the other hand, they include all kinds of income, including income derived from labour on estates, the roads and the railways, which provides a substantial addition to many family budgets. Among the earners included, too, are plumbago miners, gemmers, boutique-keepers, tavern-keepers, carters, carpenters, blacksmiths, fishermen, and so on, some of whom have a higher standard of living than cultivators. It must be remembered, also, that usually the whole family assists in cultivation and that the wives of cultivators often work as labourers or run the cottage industries.

<sup>37</sup> Economic Surveys.

The standard of living thus disclosed is so low that it is evident that the great majority of people in the wet zone—and an even stronger case could be made in the dry zone—are permanently on the verge of starvation. One consequence was well brought out by the Commissioner for Relief in 1936.<sup>38</sup>

‘The specially dangerous feature of the domestic economy of many of the people is the lack of any reserve at the back of their low standard of diet. They are brought very near to starvation point by any small disturbance of their normal equilibrium such as the death of a man, sickness or unemployment, bad weather conditions, even a small fire in the Court, an invasion of their small patch of cultivation by deer, wild boar, an elephant or a neighbour’s cattle. . . . Then the morning meal may be reduced to a small quantity of weak plain tea with a suspicion of sugar in the palm of the hand touched by the tongue to get an impression of sweetness, and later to nothing. The midday meal becomes a small quantity of boiled breadfruit, jak, papaw or some jungle fruit.’

This quotation refers specifically to the dry zone; but it applies, with the necessary modifications, to the wet zone also. The average villager is always on the edge of catastrophe; and if he is usually saved at the last moment it is due to the firm tradition of the Island that one must never refuse food or alms to a person who is in need of either.

The above analysis, depressing though it is, refers to normal conditions. The Economic Surveys on which it is mainly based were conducted in a period when there was no trade depression to affect employment on the estates and elsewhere, and no natural catastrophe to interfere with the normal life of the cultivator. Depressions are unfortunately a feature of the

<sup>38</sup> *Report on the Relief of Distress due to Sickness and Shortage of Food (Sessional Paper V of 1939)*, p. 4.

markets in which Ceylon is concerned; and, though the cultivator as such is not directly affected, they inevitably reduce the demand for labour which, in many areas, provides the difference between subsistence and want. The effects of the depression of 1929-32 have been thus described:<sup>39</sup>

‘Ceylon shared the general economic depression which for several years had afflicted the whole world. There had been a severe fall in the price of its principal commercial products and trade was at a low ebb. The public revenue had decreased and all public works had been drastically cut down. The export of tea and rubber was restricted in an endeavour to raise the price of these commodities and this restriction had caused the closing down of an appreciable acreage of estates, particularly among the small holdings.

‘The effect of the general depression was most marked in the towns. It was also felt in the villages of the wet zone where most of the tea, rubber and coconut plantations are situated. There the people were deprived of much of the employment to which they had been accustomed. The estates no longer needed the same amount of casual labour for weeding, tapping and plucking. Contractors no longer required their services on public and private works. Their coconuts ceased to add to the family income. But in almost every village there are rice fields and gardens which provide some degree of insurance against a slump in commercial products and the depression served to stimulate the cultivation of vegetables for sale in the weekly “fairs” which had sprung up throughout the country.

‘The villagers of the dry zone were hardly affected by the depression, but it is reported that the weekly “fairs” had discouraged their thrifty habits of storing their grain against the coming of leaner times. To these fairs came knowledgeable dealers ready to buy up rice and other grains, and pedlars displaying attractive cloths and what is known at “muck and truck”.

<sup>39</sup> *ibid.*, p. 8.

The simple villager yielded to the temptation to exchange his home-grown food for cash and the cash for little luxuries, thus exhausting his reserves. Such an effect is at first inevitable when the peasant begins to move towards a "higher standard of living" represented in other countries, perhaps, by the silk stocking and gramophone.

'Broadly speaking, therefore, by the time the drought arrived the peasants of the dry zone were on the whole in their normal poor condition but their small reserves of food were being somewhat depleted by the "fairs". The peasants of the wet zone, who were normally better off, had lost many of their usual chances of maintaining that higher standard and had begun to sink towards the level of those in the dry zone.'

The Economic Surveys give a clearer picture of what happened in the coconut areas, and to a less degree in the tea and rubber areas. With the fall in the price of copra in 1930 and 1931<sup>40</sup> expenditure on the coconut estates was heavily reduced, the staff of workers was reduced, and wages were lowered. The supply of labour exceeded the demand, and employment could not be obtained even at the lower wages. The surplus labour moved to the towns, and many of the villages surveyed, especially in the Chilaw, Puttalam and Kurunegala Districts, show a fall of population between the census of 1931 and the surveys of 1936 and 1937. Those who owned lands had some powers of resistance, particularly because (as the above quotation indicates) there was a concurrent increased demand for country rice and vegetables. The land holdings are, however, often too small to maintain families which cannot supplement their incomes by casual labour, and in many cases they were mortgaged. Since it proved impossible to raise the money to pay interest, the mortgagees in many instances foreclosed, the land passing into the

<sup>40</sup> See Table VII.

hands of moneylenders and other capitalists. Here, once more, we see the importance of estate crops and export trade even to the villagers: but the main conclusion, for present purposes, is that the standard of living is so low that the villagers have no protection against depression. An 'economic blizzard' which starts in the United States may cause a fall of population and a loss of land in the remotest village of Ceylon.

There are, however, other catastrophes of more immediate consequence to the villager, notably floods, drought and disease. In 1904 there were great floods; in 1905 and 1906 there was drought; in 1916 there were floods and in 1934-5 there were floods, drought and a malaria epidemic. These were major catastrophes affecting a large section of the population: locally, they are much more frequent. Their possible consequences may be studied from the unprecedented distress of 1934-5. By 1932 the villagers were already in a weak position owing to the depression of 1929-32. In 1934 the rains which normally precede the southwest monsoon did not arrive and in many districts the paddy crop failed. Not until October were the rains normal; but the October rains, during which the seed germinated, were followed by another drought, which caused the crops to wither. The shortage in the 1934 paddy crop alone was estimated at 3 million bushels. Paradoxically in October there were floods in the Galle and Matara Districts and in November in the Negombo and Chilaw Districts. In October, also, the malaria epidemic began in the Kegalla and Kurunegala Districts and spread to many parts of the Island: there were epidemics in eight districts and more severe malaria than usual in five others. The epidemics in turn affected food production, since masses of producers

went down with fever. A special Commissioner for Relief had to be appointed and over Rs. 8 million had to be voted for relief alone.

## 2. REMEDIES

This picture of rural Ceylon is depressing but apparently not exaggerated. It is natural that there should be a search for remedies; but most of those proposed are too simple to be effective or have consequences which will be worse than the disease. The most popular remedy appears to be 'more land'. The fundamental defect, at least in the wet zone, is that the cultivator has a holding so small that it is impossible for him to make an adequate living. Indeed, the opportunity is usually taken of blaming the foreign capitalist, who has deprived the poor Ceylonese villager of his land. In point of fact, of course, tea grows where nothing else will grow, or at least has grown. If all the tea estates were surrendered there might be some additional chenas and there would certainly be less erosion (though there is no erosion on a properly conducted estate); but there would be little addition to the lands cultivable by the villagers, and in the process Ceylon would lose the greater part of its wealth. The case against rubber is more plausible because some of the rubber estates could be devoted to other forms of agriculture. The fact that rubber is grown shows, however, that economically it is better to produce rubber than other agricultural products. Though some of the village families may have suffered, the country as a whole has gained. Even in the best years only a very small part of the income from rubber goes as profit, and of the profit over one-half goes to Ceylonese. In point of fact, the estates which have

deprived the villagers of cultivable land are the coconut estates, nearly all of which are owned by Ceylonese. Here, as in the case of rubber, the simple answer is that it has been more profitable to grow coconuts than to grow other crops. However, it is not necessary to take the argument seriously: it is 'politics' (in the non-scientific sense) and not economics. Enough has been said in Chapter IV and in this chapter to show that, if estate products fail, Ceylon is doomed to poverty. The first result would be the failure of all Government revenues; the second would be the complete disappearance of the middle class; and the third would be the reduction of the whole urban population to complete destitution.

However, this does not entirely meet the case for 'more land'. There is plenty of land available in Ceylon without trenching upon the estates upon which the wealth of the Island at present depends. Sometimes, indeed, the land is in the neighbourhood of existing villages. There is, for instance, land available in the Puttalam District, and the Government is willing to make grants. Few have applied for grants, however. 'Apparently the people have either no money to obtain and work them or they prefer the freedom of chena cultivation to the responsibilities of regular cultivation.'<sup>41</sup> There is, also, land and to spare in the jungle. The most fertile parts of the Island, those which once supported a large population, are now the habitat of the wild boar, the peacock and the malarial mosquito. Experience has shown, however, that 'more land' is by no means a complete answer. If the villager is given just land he burns the jungle, takes his chena

<sup>41</sup> *Report on the Economic Survey of Five Villages in Puttalam District (1938)*, p. 13.

crop (if elephants, deer and wild boar will let him) and moves on.

Let us look at the problem from the angle of John Singho, who has a wife and two sturdy sons, all of whom have been miraculously inoculated against malaria. He has been given five acres of jungle, five acres being the maximum that a family of four can cultivate without hired labour. One-third can be laid down to paddy if he can get water to it, and the remainder is high land on which he could grow coconuts, vegetables, fruit, curry-stuffs, pulses, millets and tobacco. It is excellent land, for it was once in the garden of Ceylon, and nature has been manuring it ever since the fall of Anuradhapura. What must he do to make it productive? First, he must clear the jungle. Of course, he can burn it down and take a chena crop: but as he cannot use it for chena two years in succession, he must stump at least one acre in the course of a year: and as he has no bulldozers, buffaloes or hired labour he probably will not do it at all. He must next get water for his paddy. Probably this would require repairing the bund of an ancient tank and digging out the old channel, as well as the usual ridging in the paddy-field itself. Then he must either hoe or plough: the latter is preferable, but it requires a plough and two buffaloes. Then he must purchase seed-paddy of the new and improved varieties and, when it comes up, transplant it. Finally, he must start cultivating his dry land. If he plants coconuts he will get no crop for five years, while fruit trees will require varying periods before they bear. Meanwhile, he will have built himself a house. If he wants a temple, a school and a hospital he must walk to the nearest village, which may be miles away.

It is quite obvious that John Singho cannot do these things without capital. In the early colonization schemes, therefore, he was provided not merely with land but also with water. The tank was repaired and reopened at the public expense by the Irrigation Department. Even this was not enough, and by successive stages the capital provided by the State was increased. In the latest, and so far most successful, colonization schemes, the land is handed over to Singho as a going concern, cleared, fenced, irrigated and stocked. Also, the land being allotted in colonies, schools, hospitals and other public establishments have been provided. The cost is of course enormous as Table XV indicates.

TABLE XV: COST OF COLONIZATION SCHEMES <sup>42</sup>

	LAND ALLOTTED (ACRES)	ALLOTTEES	(Rs.) COST
Nachchaduwa	228	160	1,721,057
Kalawewa-Yoda-ela	1,060	226	175,050
Minneriya	3,100	559	3,301,110
Pitigala	70	17	not available
Malay, Hambantota	285	49	34,743
Karachchi-Iranamadu	216	36	3,191,022
Pasdun Korale East	2,163	603	70,421
Tabbowa	1,594	328	990,028

It is obvious that, even with vast expenditure, this can at present touch only the fringe of the problem. It is, of course, not quite such a large problem as it looks. Once a colony has been successfully started it ought to grow of its own accord to the maximum capacity of the land under the tank. The same would apply to the

<sup>42</sup> *Administration Reports of the Land Commissioner, 1938, pp. 7-13, and 1939, pp. 5-10. No later information is available. Nor are the figures always comparable. The number of allottees at Tabbowa up to 1938 was 316, but the number on the land was only 183. The other figures in that column apparently relate to allottees on the land.*

schemes, which are at present in the experimental stage, for converting the patanas into vegetable and dairy farms. The initial expenditure must always be heavy, and much money must be spent on experiments, not all of which will succeed; but success brings success in geometrical proportion. Accordingly, the policy of colonization is not economically impossible. The tank country can undoubtedly hold a very large population. The estimates usually given of the population of the Island in the days when Anuradhapura was the capital are usually inflated by national pride—one member of the State Council has mentioned the impossible figure of 84 millions—but it must obviously have been measured in millions. The *Census Report* of 1901 suggested that 10 millions would not be an extravagant estimate, though the *Report* of 1911 says that the number could not have been larger than in 1911 (i.e. about 4 millions).<sup>43</sup> If this is so, it is not economically impossible to shift part of the population back to the dry zone.

It must be realized, however, that it is not merely a question of land and capital. The reason for the depopulation of the Wannu was, apparently, the spread of malaria, though whether this came before or after the breaching of the bunds is a matter of dispute. To put it down will require not only vast expenditure in the Wannu, but also a population sturdy enough to do the fighting. The undernourished and often malarious people of the ordinary wet-zone villages are not of that breed. 'More land', even with capital, is not a complete answer. Moreover, as we have seen, the practices of the villagers do not lend themselves to a battle against the jungle. The methods of cultivation in the wet zone

are antiquated, lazy and uneconomic. To shift the population will be useless if they use the same methods. It is true that one of the primary causes is lack of capital, and capital is provided under the colonization schemes, but the removal of one of the causes will not in itself alter the practices which have become traditional. Accordingly, the problem of cultivation in the wet zone has to be tackled.

The problem might solve itself by a shift of population to the towns. This would happen only if there was a development of industries on a substantial scale, a prospect which is discussed in the next chapter. The partial depopulation of the villages would probably leave the more efficient producers behind, and they would have larger holdings. There would be increased demand for rice, curry-stuffs, vegetables, fruit, milk, eggs and meat from the towns; though the villager would be able to compete with imported foods only if he was efficient as a producer and had developed a good marketing organization. The sentimental attachment to land would tend to disappear, as it has done in all highly industrialized countries; land would become a commodity to be bought and sold like other commodities and not necessarily left to descend in numerous sub-divisions or to starve in joint ownership. This is the simplest and cheapest of all policies if it is possible, a question to which (as we shall see) it is not easy to give a definite answer. Even so, it carries the implication that agriculture must be efficiently done and marketing efficiently organized.

Another popular suggestion, which was in some degree put into operation before the war,<sup>44</sup> was the

<sup>44</sup> The following (pp. 75-6) were the import duties on food in 1938. In the cases marked (+) there was an Imperial preference, the figures given being the foreign rate.

FOOD	TYPE	RATE	
		Per cent	Rs. Cts.
Biscuits and cakes	ad valorem	25 +	
Butter (tinned & frozen)	do.	25 +	
Cereal foods (prepared)	do.	25 +	
Cheese	do.	20 +	
Chillies, dried	per cwt.		1.25
Confectionery	ad valorem	25 +	
Cream	do.	25 +	
Currants	per cwt.		1.25
Eggs	per 100		3.00
Fish, dried or salted	per cwt.		2.00 +
Fish, jadi	per cwt.		0.75
Fish, Maldivé	per cwt.		2.00
Fish, tinned, potted or preserved	ad valorem	20 +	
Flour, wheat	per cwt.		2.00
Fruit, fresh, apples and grapes	ad valorem	20 +	
Fruit (tinned, bottled or preserved)	do.	25 +	
Ghee, animal	per cwt.		17.00
Ghee, vegetable	do.		10.00
Ginger, raw or dried, except preserved ginger	do.		5.00
Grain (other than paddy and rice, and malt for brewing); wheat, gram, peas, beans, barley and other	do.		1.00 +
Jams, jellies and preserves	ad valorem	25 +	
Meat, fish, poultry and game, frozen or refrigerated	do.	25 +	
Meat (tinned, potted or preserved)	do.	25 +	
Onions	per cwt.		0.20
Paddy	do.		0.66
Pepper, whole	do.		1.50
Potatoes	do.		1.00

use of tariffs and quotas to restrict imports of food. Before the war Ceylon annually imported some 12 million cwt. of rice, mainly from Burma, but the villager could rarely find a market for his country rice. Partly the preference was traditional. Muttu samba rice attracted by its aesthetic qualities. Heaped on a dish it was an attractive sight, while country rice looked dirty. In so far as this difference was due to the fact that imported rice was highly milled, it was in fact a difference which ought to have given a preference to country rice, which was much the more nutritive. Parboiled Burma rice, however, was as nutritive as country rice. It is doubtful if this aesthetic preference could be removed by tariffs and quotas. Tariffs might, in fact, stimulate it, since they would give the impression that the imported rice was the better. Propaganda, not a tariff or a quota, is the instru-

FOOD	TYPE	RATE	
		Per cent	Rs. Cts.
Rice	per cwt.		1.00
Salt, unrefined	do.		4.00
Sugar, refined & candy	do.		5.50
Sugar, unrefined and jaggery	do.		1.50
Vegetables (preserved or tinned)	ad valorem	25 +	
Others, not on free list	do.	15	
<i>FREE LIST</i>			
Animals, living of all sorts			
Coconut oil			
Curry-stuffs			
Meat, fish, poultry and game, fresh			
Milk foods			
Milk			

From *Ceylon Blue Book*, 1938, pp. A2-7. The import duty on rice produced Rs. 10,449,116 in 1938 (ibid., p. P10).

ment to be used. In fact, however, the economic motive was probably dominant. Burma rice was cheap and its quality uniform. It could be obtained throughout the Island through the normal channels of trade, which were highly organized and efficient. Country rice was inefficiently produced, varied in quality, was not always available, and was inefficiently marketed. The purpose of a tariff would be to put up the price of imported rice to the consumer in order that the cultivator might have a higher price for his country rice. Undoubtedly a higher price would stimulate production of country rice and give the cultivator a higher income. But at what a price? The consumers of 12 million cwt. of rice would pay more in order to subsidize the cultivator's inefficiency.

Ceylon is as fertile as Burma and her people as able. Burma rice has not merely to be collected in Rangoon but transported to Colombo and redistributed. Country rice therefore has a substantial preference in any event, and the only reason for its inability to compete is the inefficiency of production and marketing. A proposal to impose a tariff is a proposal to tax the consumers of 12 million cwt. of rice in order that production and marketing may continue to be inefficient. What is more, the tax will fall on the poor, whose diet is almost entirely made up of Burma rice, and the benefit will go mainly to the rich, for it is usually the owner and not the cultivator who has surplus paddy. Most of the cultivators in the wet zone, in fact, consume more rice than they produce. Another consequence would be a rise in the cost of production of tea and rubber, since the estates use Burma rice almost exclusively and it forms the major part of the labourers' food.

A quota, however designed, would have the same effects; for it would raise the price of rice by creating scarcity. In other words, in order to subsidize an inefficient agriculture, some people have to eat less rice or none at all.

Tariffs or quotas on other articles of food might not be so objectionable. In some cases—chillies and onions seem to supply examples—the absence of an adequate Ceylon supply is simply due to the ease of importation from India. It is difficult to believe that the home-produced article could not compete with the imported article without artificial aid if production and marketing were efficiently organized, even allowing for the fact that wages are higher in Ceylon than in India. On the other hand, it could not be said that a rise in the price of chillies, for instance, would do much harm to Ceylon. Also there might be cases—none is known—where an internal market was destroyed through the dumping of a surplus in a particular year. In principle, taxes and other restrictions on the people's food are objectionable, except for revenue; but the objections vary in force. Generally speaking, however, any such taxes and restrictions in Ceylon would be a subsidy to inefficiency. The solution is to remedy the inefficiency, not to subsidize and encourage it.

Another device is to give guaranteed prices for agricultural products. In the long run, fluctuations in the prices of foodstuffs do not benefit either the producer or the consumer, for the conventional rates of wages bear a close relation to the cost of living, but they always change more slowly. If the cost of living rises, wages will rise only after a time-lag. If the cost of living falls, the time-lag is usually less, because

the fall usually comes during a depression when unemployment is rife and wages are cut. Experience during the war, in Ceylon as in the West, has shown that it is better to keep the cost of living stable, and this requires the stabilization of the prices of common commodities, clothing as well as food. This can be done effectively—as wartime experience has again shown—only if the State acts as wholesaler. The danger of such a system (which does not arise in wartime) is that for political reasons the State will subsidize inefficiency at the expense of the consumers, the producers being comparatively better organized and their demands more vocal. Also, where the State has a monopoly it tends to be inefficient itself, especially in Ceylon where ‘red tape’ is strongly in evidence. There is the further difficulty that in Ceylon a large part of the wholesale trade is in Indian hands and that the Government of India is accustomed to protect its ‘nationals’ and their trade. These disadvantages go far to offset the advantages which could be obtained from stabilizing prices both for the producer and for the consumer. Possibly the safer method is that which the Island has already adopted, the establishment of an Agricultural Marketing Department to compete with private enterprise and to keep prices down. Thus the Department has been able, by purchasing vegetables, eggs, etc., and selling direct in Colombo and elsewhere, to bring down the prices in the markets and shops. It would perhaps be even more successful if it had power to import goods from overseas and so compete with the merchants at their own sources of supply and to tap other sources where they found prices rising unnecessarily. So far as internal purchases are concerned the Department is able to cut out the middle-

man by going direct to the producer. The saving is not as great as is commonly assumed, because the vast difference in the price to the producer and the price to the consumer is not, as is often supposed, a clear profit to the middleman. It is nearly all due to the costs of collection, transport and distribution, including losses by pilfering, wastage and unsold produce. It is nevertheless true, as we have seen, that the marketing system for Ceylon produce is inefficient, and that the small producer can be held to ransom by the itinerant trader and the boutique-keeper.

The elimination of the middleman—the itinerant trader and the boutique-keeper who is also purchasing agent—is probably the way to break the vicious circle in which the cultivator finds himself. The cultivator needs direct access to the wholesaler in the towns, preferably the Marketing Department. For this purpose two things are necessary. First, he needs a source of credit other than the boutique. Secondly, he needs a marketing organization. The credit, it should be emphasized, is credit for cultivation. Under a really efficient system there would be no need for such credit. The producer would have capital enough to produce his crop without financial assistance, the crop itself providing the capital necessary to produce the next. Where individual producers are unable to do this, however, they can organize themselves into cooperative societies for the purpose. In 1939 there were 1,201 such societies with unlimited liability, having a total membership of 30,960.<sup>45</sup> They are not composed wholly of agricultural producers, for of the 41,203 loans granted in 1938-9, practically one-third (14,533 or 32.3

<sup>45</sup> *Administration Report on the Working of Co-operative Societies from May 1, 1938, to April 30, 1939*, p. 11.

per cent) were for trade, and only 12,873 or 28.6 per cent were for cultivation. Some of the other loans were for justifiable capitalization, such as buying cattle, improving land, and buying carts. On the other hand, many were for purposes which ought to be undertaken not by credit societies but by other instruments such as mortgage banks or building societies.<sup>46</sup> Over 91 per cent of the total loans, however, representing nearly 88 per cent of the total amount lent, were for productive purposes. The amount lent in 1938-9 was Rs. 194,865, and the amount recovered Rs. 1,722,634. The working capital was Rs. 1,726,246, including reserves of Rs. 387,027.<sup>47</sup> This represents a substantial effort, but it has barely touched the fringe of the problem.

'Among the northern peasantry cooperative credit has proved a definite boon to agriculture—elsewhere it is doubtful if agriculture has been or is being assisted to a really worthwhile extent by cooperative credit. The fault is not with cooperative credit alone. It is of little advantage making finance available where finance cannot be put to productive use, and under existing conditions it is difficult to resist the conclusion that in many parts of the country, especially in the Sinhalese districts, rural agriculture is very nearly what is termed a "deficit economy". In these circumstances not only is unproductive borrowing encouraged but the borrower is tempted to put to unproductive use the money he has taken for an alleged productive purpose.'<sup>48</sup>

The Acting Registrar of Cooperative Societies adds a quotation from the *Report of the Reserve Bank of India*:<sup>49</sup>

'Profit in agriculture, as it is carried on in the majority of holdings in India is more often than not a doubtful quantity. This uncertainty, instead of leading

<sup>46</sup> *ibid.*

<sup>49</sup> *ibid.*

<sup>47</sup> *ibid.*, pp. 11-13

<sup>48</sup> *ibid.*, p. 15.

to thrift and saving, results in the creation of a psychology of living for the day, so that even when large gains are made in boom times there is a strong temptation to use them up rather than to make provision for the future. Debt comes to be looked upon as an ordinary condition of life, and the fundamental principle that borrowings should be utilized for productive and self-liquidating purposes tends to be forgotten. For all these reasons the ordinary sources of credit are not easily accessible to agriculture. The question of agricultural finance is therefore closely linked up with the question of the improvement of agriculture. Before credit can become freely available to the farmer he must be made credit-worthy.'

Cooperation for marketing has proved even more difficult to establish, and as late as 1939 the Acting Registrar of Cooperative Societies could record that the failures had exceeded the successes. Cooperation has, however, received strong support in another direction, through the use of consumers' cooperative societies for the distribution of rationed food and goods in short supply. Though many of these may not survive the needs which produced them, they will have performed a useful task in educating the people in cooperative principles. Co-operative marketing is the most desirable development in this field, for in no other way can the small producer make a breach in the circle which surrounds him. If his marketing system can be made efficient, his income can be increased without a rise in prices to consumers or the restriction of supplies. If he had a larger income he would be able to use more efficient methods of production, at least where he was owner as well as cultivator and had avoided the system of joint ownership. If agriculture was made profitable for a section of the producers they would begin to buy out the less efficient producers and

establish more economical units of production. If there were more economical units, it would be possible to use more up-to-date methods, to reduce the costs of production, and to standardize products. It is a long road, but it can be traversed.

Meanwhile, it is necessary to continue the process of teaching improved methods. The Department of Agriculture has been engaged in this process for years, though its success has not been great. Some remarks in the *Administration Report of the Acting Director of Agriculture* for 1938<sup>50</sup> will not only explain why but also provide a survey of the problem of Rural Ceylon from an angle slightly different from that adopted in this chapter.

'Apart from the free issue of seed and poultry within prescribed limits the means available to the Agricultural Instructor . . . are those of advice and persuasion, sometimes almost degenerating to importunity. In these circumstances the personal factor is very important both in the instructor and in the instructed. In the case of the latter a very noticeable feature is the absence of a cohesive village social order influenced and guided by disinterested men whose leadership is recognized, the class of men who, two generations ago, would, by the mere exercise of personal influence, ensure that all irrigation and drainage channels are communally repaired and all fences erected at the proper time. The Agricultural Instructor has no line of approach to the general village life; he is unable to create mass enthusiasm. If he tries to do so by selecting his own leader, a rival leader promptly springs up in opposition. Therefore he has to deal with each inhabitant of the village as a separate unit; and it is difficult to fill the individual man with enthusiasm to grow a crop, which he has not grown, through a desire to improve his own economic condition.

'The instructor for his part must be not only an agri-

<sup>50</sup> pp. 12-14.

culturist who has personal experience of the difficulties of raising crops and has had the disappointments of a farmer, but must also be a psychologist, a teacher, a man who will not feel himself to be an "outsider" in the company of farmers. That combination of qualities is not common in any country. In the conditions that obtain in Ceylon it must be a rare accident. So long as the business of Government is conducted in the English language, the Agricultural Instructor must be found amongst the English-educated classes. This requirement rules out about 98 per cent of the population. The other two per cent are generally drawn from the town or suburb dwellers who had the good fortune to be born in the proximity of English schools and who have had no agricultural background. They seek employment in the Department not because they have any preference or aptitude for agricultural work or the capacity to communicate to a peasant the knowledge that they may acquire in a short course of training and to disperse the latter's conservative prejudices, but because they are anxious to obtain some form of monthly paid employment preferably under Government. A young man may successively, or even simultaneously, apply for employment in the Survey Department, in a bank, in the Excise Department, and in the Department of Agriculture. In these circumstances a high percentage of misfits brings down the average usefulness of the staff. Perhaps the most satisfactory method of making appointments to the field branch of the Department would be to select men about thirty years of age with ten years' experience in successful private farming; but it may be predicted with certainty that there would not be a single candidate on these conditions. The English-educated man has neither the inclination for farming nor belief in its adequacy as a career. This disability will remain until the whole population receives its education, both elementary and secondary, through the medium of the language which is employed in the business of Government.

'Almost at the very outset of the application of this new policy of village development the Agricultural

Officer was faced with certain more objective factors which discouraged village agriculture. The most important of these was the absence of a remunerative market. There is no demand for an increased supply of the perishable varieties of agricultural goods; that is to say, there is hardly any person in the country who wishes to consume this class of goods and is willing and able to pay for them a price which would give the producer a reasonable return on his outlay in money and labour, but goes without them because they are not available in the market. The greater part of non-perishables which *peasant agriculture* can produce are at present imported—almost exclusively from India. It is stated by those who know both India and Ceylon that the Indian peasant labours unceasingly to produce them and maintains a standard of living which is lower than that of the corresponding class in Ceylon. Ceylon is not more favourably situated than India with regard to the soil, the water supply, security from pests, and the conditions of health in those districts which are suitable for annual crops. It is inevitable that if the Ceylonese farmer seeks to produce the same goods in competition with the Indian in the Ceylon market the standard of living will come down to the Indian level. The Agricultural Officer cannot induce him to produce them on these terms.

‘The next important factor that militates against village development is the possession of land in undivided shares. No owner is willing to effect permanent improvements to lands of which he is not the sole owner. The form of tenure is practically universal in the areas in the wet zone which are densely populated. All officers of the Department are convinced that so long as joint ownership continues the main feature of the countryside must be a patchwork of neglected no-man’s lands. They do not suggest that the law of inheritance should be changed; but they do say that the results of the present law of inheritance are inconsistent with the economic use of the land.

‘Stray cattle are a major enemy of the peasant. When a whole season’s work of a family may be destroyed in

one night by the invasion of the garden by somebody-else's cattle, the sense of insecurity makes a man reluctant to make an effort to raise crops. The peasant cannot easily afford to spend money on an effective fence, and even the best fence is often made vulnerable by human intervention on behalf of the predatory cow. One comes away from a garden-to-garden visit in a village like Massena with a conviction that industrious agriculture is impossible unless the nuisance is stamped out. There is a feeling in the country that in this matter there is a conflict of interest between the poor man and the capitalist. In the first place the destructive cow belongs not to the poor man but to the wealthier and more influential members of the village population. In the second place the victim of their destructive habits is generally not the capitalist but the poor, hard-working peasant.

'The non-agricultural section of the population does not realize to what extent the prevalence of the theft of predial produce discourages enterprise. The Agricultural Instructor who suggests to the owner of a piece of land that he might raise some garden produce receives from the owner the reply that he is not willing to labour for somebody else to take the fruit. The excuse sometimes advanced on behalf of the thief is that poverty drives him to the theft. The argument may be plausible, even if it is immoral, if the poor helpless man is the thief and the rich man is the victim. But generally the only difference between the thief and the owner of the stolen goods is that the former is less industrious than the latter. The thief is generally the stronger man, the man who can raise the same crop as his neighbour if only he is willing to work. One of the reasons why agriculture is more successful in the Jaffna Peninsula than in the south is that the Jaffna man has the sense of security from thefts.

'Working with these limitations amongst a very conservative population in a year of very freakish weather conditions, the field officers of the Department have not been able to achieve spectacular results. In some

districts, as in the Southern Province, these officers have been overcome by a spirit of defeatism.'

It is not necessary to accept the economics of the third paragraph of this penetrating analysis. No producer can expect to have a market ready made. Housewives are as conservative in the choice of food as peasants are in their methods of production. Their tongues are not perpetually hanging out for the fruits and vegetables that the cultivator might produce but does not: they just order the cook to buy what they have been accustomed to order. A person who wants a market must create it. The task is, however, impossible for a cultivator with an acre or two of land. He has to have an efficient marketing organization to do the task for him. So far as the Government is concerned another Department, that of Agricultural Marketing, is charged with the responsibility. Its three spheres of action have thus been defined:<sup>51</sup>

'(1) To increase the demand for products of Ceylon, by educating the Ceylon public to consume Ceylon production in greater quantities and in preference to foreign goods.

'(2) To increase the supply of products in Ceylon to meet this increased demand.

'(3) To organize orderly marketing to provide the necessary link between the increased demand and supply, which will give the Ceylon consuming public their Ceylon products at a reasonable price, while at the same time ensuring to the Ceylon producer a fair price for his produce.'

The Department has in fact been very successful in stimulating the demand for Ceylon produce; but it is clear that three developments must coincide—there must be demand from the consumer, supply by the producer, and a marketing organization to bring the

<sup>51</sup> *Administration Report of the Commissioner for the Development of Agricultural Marketing for 1938*, p. 4.

product to the consumer. It is not at all clear that the three Departments concerned—those of Agriculture, Cooperative Societies and Agricultural Marketing—have always coordinated their activities closely. If there has been any lack of coordination, the fault lies partly with the Donoughmore Constitution, which provided coordination only at the political level. It is evident that the propaganda activities of the Department of Agriculture should be directed mainly to those lines of produce for which a market can be found immediately or created very soon. It is useless to persuade the cultivator to produce ghee if there is no market for it. In fact, it is worse than useless, for the result will be that no ghee will be produced when in due course a demand has been created.

Nor need it be assumed that a lower standard of living in India will necessarily prevent Ceylon produce from competing with Indian produce. The Indian producer has to bear high transport costs, wastage in the course of transport, and loss of freshness in all goods of a perishable or semi-perishable nature. These costs together would more than offset a much wider difference of living standards than actually exists—for nobody can assert that the living standard is high. Moreover, the cost of production can be cut by efficiency in production without reducing wages, as the United States has demonstrated: and quality is often more important than cheapness, as Great Britain has demonstrated. Every Ceylonese who buys English cloth in preference to Indian demonstrates that there are products in which quality tells. Food products follow the same rule. British Columbia can send apples through the Panama Canal and across the Atlantic and compete with English apples at Covent Garden in

spite of the much higher Canadian rates of wages. .

What the long quotation demonstrates, however, is the inter-relation of a large number of factors. Some of them have already been mentioned in this chapter—the sub-division of holdings, joint ownership, lack of capital, the conservatism of the cultivator, inefficient marketing, etc. But others are equally important. Even the rigid class distinction mentioned in Chapter I plays its part, and so does the system of education which is both a consequence and a cause of this class division. The absence of leadership is a new point in this book, though it is by no means new historically. The old semi-feudal landowners who once resided in the villages and led the cultivators by their wealth and prestige have departed to Colombo and Kandy, where English education can be obtained for their sons and daughters and the delights of ‘Society’ can be savoured. They have been replaced, if that is the correct word, by the village politician. In due course, no doubt, as democracy becomes more firmly established and education is spread more evenly, he will become a responsible citizen and a leader of responsible citizens. In some villages this type has already appeared, and those villages are remarkable for their progress. Elsewhere, however, he tends to be as raw, as irresponsible, and as self-centred as the type known to the United States while it still had a ‘frontier’. The dangers of this type of ‘politics’ are well exhibited in the cooperative movement, about which the Acting Registrar of Cooperative Societies found it necessary to comment in his *Administration Report for 1938-9*.<sup>52</sup>

‘I have been much concerned to observe of late a growing tendency in almost every part of the country

to allow cooperation to be entangled in politics, whether local or central, and I would wish to take this opportunity of sounding a timely warning both to cooperators and to those who seek to exploit cooperation for political ends. In a country like Ceylon where political thinking is not yet the strong point of the masses and where people are easily swayed by influences, a popular movement like the cooperative movement, in which there is a tempting concentration of the mass vote, soon becomes, for obvious strategical reasons, the object of contention among rival competitors for political power. Every cooperative society, every cooperative union, every cooperative platform offers the prospect of a vantage-ground to the political agent and the vote-canvasser, every cooperative worker has the temptation of power or profit thrown in his way, every intending candidate sets about organizing "ballot-box" societies which we are sometimes asked to register under the Cooperative Ordinance. The results are disastrous. The motives of cooperation are forgotten, dissension is sown, societies are ruined and our work is undone. What I am saying is not a prediction of possibilities but a statement of actual happenings. A society of 53 members suddenly thins itself down to 19 by the violent purge of those who refused to support the losing candidate at a Village Committee election: another is almost wrecked over a question of urban politics; a political canvasser in cooperative clothing does us ill in one whole District; cooperation in another is torn asunder by a trial of strength between two politically-minded cooperators; and as I write I see in the day's paper an account of the stormy anniversary celebrations of a big urban bank, at which the recriminations include the denunciation of the committee as a "den of political thieves". These random instances are, I feel, but the surface eddies of the undercurrent, and I am sure I am not a moment too early with the warning I am issuing to cooperators and to their friends and well-wishers alike. To allow itself to be made the plaything of politics would be the end of cooperation. . . .'

The realization that so many factors are involved,

that so many Departments of Government are responsible, and that with it all nothing can be done unless the villager is stimulated to change his habits, has produced the practice—or perhaps it should be called the theory—of ‘rural reconstruction’. The theory started in India, where apparently it yet remains more a theory than a fact. Its main purpose is, by intensive propaganda, to induce the villager to give up his conservative ways and to take active steps to improve his health, his standard of living, and his economic and social position generally. It appears to suffer from the defect of most short cuts, that people are apt to get lost on the way.<sup>53</sup> One comment on the Gurgaon Experiment in the Punjab reveals the kind of result: ‘Activity was unprecedented, and few who took part in it could resist its contagion except the peasant who, being a docile, apathetic creature, in nine cases out of ten merely did what he was told.’<sup>54</sup> The need for action arose, however, in Ceylon itself. After the drought and malaria epidemic of 1934-5 the Commissioner for Relief commented as follows:<sup>55</sup>

‘In the course of the last year the “distress” has focused public attention on the condition of the peasantry and it seems now to be more generally admitted that their normal condition in the past has been far below what was satisfactory. Presumably this was known before, but it is difficult to point to any comprehensive and concerted effort to do anything about it. Individual Departments can of course justly point to the action they have taken during many decades to try to ameliorate the conditions of village life, but, at

<sup>53</sup> See an interesting summary in *Report on Rural Reconstruction in Ceylon (Sessional Paper XXIII of 1944)*, pp. 56-73.

<sup>54</sup> *ibid.*, p. 57.

<sup>55</sup> *Report on the Relief of Distress due to Sickness and Shortage of Food (Sessional Paper V of 1936)*, pp. 42-4.

any rate until recently, comprehensive and concerted action has been comparatively rare. In other words the rural areas seem to have suffered from the effects of that "departmentalism" against which Lord Curzon in India inveighed in a famous minute. Each Department appears so often to have been working in its own groove without the advice and cooperation in matters of policy and in execution which it should have had from other Departments engaged in trying to solve the same ultimate problems. . . .

'A few illustrations may indicate more clearly this lack of coordination or strategic plan of action. The Irrigation Department has, quite rightly, proceeded on the Pindaric principle that "water is the best thing" and has provided it with skill and energy where it has been asked to do so and up to the limits set by nature at the place selected. But there are instances of tanks restored at great cost without any adequate arrangements by other Departments for bringing a population to the spot to make profitable use of the water so stored. Minneriya was completed in 1903, and until very recently nothing much seems to have happened thereunder in the last thirty years. Crown lands have been sold under derelict tanks in the hope of restoration of the tanks, a hope which subsequent investigation has shown to be incapable of fulfilment. When both water and land and people were available it has been assumed that the same old paddy should be grown, whereas paddy may be only "the next best thing" to vegetables or fodder or some form of "money" crop. Even when the villager was encouraged to grow vegetables he was not encouraged to eat them himself. He sold them in the towns and bought dry fish and other imported articles for his own consumption. There are several thousand school gardens throughout Ceylon which could be used for demonstrations of what can usefully be grown and how to grow it. But because they are in charge of the Education Department they must, it seems, remain outside the purview of the Agricultural Department. The educational policy for some time was stated to be "English, more English, and

better English” which in practice came to mean “Trousers, more trousers, and better trousers”, and the village lads went off to the town where it had been no one’s business to consider what occupations they could find. There is a proposal permanently to feed necessitous children in the rural schools, but there does not seem to have been any prior inquiry as to what they ought to eat or intention to teach them why some ingredients are so necessary and how they can be produced locally....And yet through all the years each Department has been faithfully doing its job.’

Mr Newnham’s *Report* then mentions the points which he had brought to public attention, among them being:

‘(a) The villager is at present the victim of a descending spiral traced by inappropriate food, weakened constitution, disease, lethargy, ignorance, pessimism, antiquated agriculture, and so round and down again.

‘(b) There is urgent need to raise the standard of the peasantry, to improve their physique and increase their wants, earnings and spending power not only for their own sakes but for the sake of the economic progress of Ceylon as a whole.

‘(c) More systematic, cooperative and sustained effort by all the relevant Departments and by other public and private agencies is needed to reverse this spiral until it ascends from improved diet to increased health, greater energy, more initiative, better agriculture and a will to enjoy a fuller life.

‘(d) A new and effective point for this fresh effort may be found in the study of diets initiated by Dr Lucian Nicholls and this should show wherein the present diets are deficient and what foodstuffs producible in Ceylon should be produced and eaten to supply the deficiencies.

‘(e) When this is known the Agricultural, Veterinary, and Fisheries Departments should be asked to tell us how to produce these foodstuffs, what soil will grow them and where and how; what cattle to breed

for agriculture or milk and where; what fish to catch and where and how, and so on.

‘(f) The Irrigation Department would then know with more precision where water is urgently wanted, when, and in what quantities. The Land and Survey Departments would know where land was needed and for what purposes and on what terms. Those concerned with colonization schemes would have more definite prospects to offer to the colonists. The Marketing and Cooperative Societies Departments would contribute their efforts to the general scheme. The development of an area would be planned in prior consultation with those in charge of roads, health, schools, post offices, and police.

‘(g) Meanwhile the Education Department would be telling the children something of the simple facts about food, its constituents and their value, as children are now taught in England. Any free meals provided would be properly balanced and this would be explained to the children. The school gardens would grow, under instructed guidance, such of the more unusual foodstuffs as could be but were not usually grown in the neighbourhood.

‘(h) Meanwhile the Medical Department would be busy with its campaigns against malaria and hookworm. Personal hygiene would continue to be taught in the schools.

‘(i) If a systematic effort is to be made to overcome “departmentalism” and to convert all those concerned with the rural areas into a team moving to a designed goal, viz. the reconstruction of village life and the raising of the peasants’ standard of living, it must clearly be the wholtime business of some Rural Reconstruction Officer or the like to coordinate the activities of all Departments in accordance with a policy previously laid down by the Board of Ministers or the appropriate Ministry. The mere issue of general instructions by circulars to all concerned will do little more than congest the files with able but sterile reports unless it is someone’s job to mate and foster their progeny . . . .

‘(k) If this coordination is effected and drive is provided at the top, it will be the function of the Revenue Officers similarly to coordinate the activities of the district representatives of all Departments, in consultation with and under the general direction of the officer who is doing the same for the whole Island under the control of a Ministry.’

These suggestive and valuable proposals did not cover every aspect of the question. They did not, for instance, consider the relationships between the villager on the one hand and the estates and the towns on the other. The problem is not merely what the cultivator can produce to feed himself, but also what he can produce to sell to his fellow-countrymen and to people overseas. Above all, Mr Newnham did not mention—though he must have been well aware of it—the rarity of any public spirit in the villages which would have produced natural leaders, put down crime and the straying of cattle, and generally converted lethargic individuals into active citizens. This is part of the educational development which may possibly be carried out among adults, and which could certainly be taught in the schools. Indeed it is clear enough that the only way of getting the atmosphere changed in a generation is to introduce universal compulsory education for a minimum of nine years. In any event, Mr Newnham’s scheme was not a plan, but a plan for a plan. It would have been possible to work out a ten-year or twenty-year plan—nothing less would suffice—for reversing the spiral to which he drew attention. Probably only a Royal Commission, with a full-time chairman and secretary, would have had the necessary authority to compel the Departments each to work out its section of the plan and then to coordinate the whole.

In fact, however, the Donoughmore Constitution,

with its dispersal of power and responsibility among three Officers of State and three or more Executive Committees, made even this simple procedure too difficult. Rural Reconstruction was everybody's baby, or nobody's. A conference of Ministers, Revenue Officers and Heads of Departments produced a different plan for a plan in March 1935. Conferences of the six Executive Committees concerned, held in November and December 1935, produced yet another plan for a plan. The matter then went to the Executive Committee of Home Affairs, which was still discussing it when, in March 1936, notices of motion were given in the State Council. These came up for discussion in March 1938, and the State Council resolved that the Board of Ministers formulate and give effect to the scheme. The Board of Ministers appointed a sub-committee, which asked for information from the Departments. These were considered by the sub-committee in July 1941, and the sub-committee decided that, before a scheme could be elaborated, a special officer should examine in detail the work already being done in public and private centres. The special officer reported in May 1942, and his report was published in December 1944.<sup>56</sup> It is now five years since Mr Newnham made his proposals, and the Donoughmore Constitution has itself disappeared.

The delay was not due only to the complications of the Donoughmore Constitution, nor to failure by the Ministers and Executive Committees to realize the urgency of the matter. It was due primarily to disagreement about method, which was also a dispute as to the distribution of responsibility. Various schemes

<sup>56</sup> *Report on Rural Reconstruction in Ceylon (Sessional Paper XXIII of 1944)*; see, for the above, pp. 6-8.

had been started in a small and experimental manner by the Department of Commerce and Industries, the Police, the Education Department, and private persons, while the Agricultural Department, the Department of Medical and Sanitary Services, and the Department of Cooperative Societies were engaged on work which impinged upon Rural Reconstruction. Opinions differ about their success except, significantly enough, in the village of Heenatiyana, where there has undoubtedly been great progress under the leadership of the Reverend Heenatiyana Dhammaloka, a Buddhist priest who has secured the confidence of the villagers and given them genuine and disinterested leadership. Elsewhere it appears to be true that great improvements can be effected in a village where imported officers or the village schoolmaster or (more doubtfully) the police spend money and energy on it: but there is no evidence that any permanent change has been made in the economic position or even the general attitude of the villager. Nor would one expect any such result. The problem is not merely local: it is national, and has to be tackled on a national scale. No doubt as the problems of land tenure, agricultural production, and agricultural marketing are solved it is necessary also to inspire the villager himself: but inspiration without a solution of the national problems will merely be aspiration.

Something might be done on a large scale by a corporation formed on the lines of the Tennessee Valley Authority but freer from political control and able to call not only on large financial resources but also on assistance from all the Government Departments. It would assist the Minister for Agriculture and Lands in his plans for colonization in the dry zone, buy out

uneconomic holdings and joint ownerships, develop plantation crops in association with the villager, reform agriculture by assistance and demonstration, organize marketing, see to the repair and maintenance of irrigation works, insist upon the use of pure water for drinking purposes and (when available) provide cheap electric power, establish rural industries on an economic basis, and so on. This would be a long process and in the course of it the villager would be educated in rural economy. The only effective education for rural development, however, is that given for the nine years of genuinely compulsory education in rural schools whose curricula are adapted to their environment, whose teachers have been properly trained for their task and not merely obtained a Senior School Certificate, and whose buildings and equipment are adequate to their task. The fact is that there is no short cut and that the road to be travelled is long and arduous.

## CHAPTER VI

# INDUSTRIALIZATION

The development of industries is generally accepted as the solution to Ceylon's economic problems. So widespread and emphatic is the belief, that anybody who dares to mention possible disadvantages is at once branded as an emissary of a 'British industry' which (it is thought) is anxious to keep the people of Ceylon poor in order that they may buy British goods at high prices. Alternatively, in case this theory looks a little queer, it is said that 'British industry' is anxious to keep industry out of Ceylon in order that its supply of raw materials may not be reduced. Great Britain, apparently, desires tea, rubber and coconuts to provide the raw materials for its textile, iron and steel, shipbuilding, electrical and automobile industries. If this theory, too, looks a little queer, the two theories can be combined, after the manner of the Banking Commission:<sup>57</sup>

'The early British colonists set out with the idea of discovering markets for British manufacturers, which in turn would supply raw materials needed by the parent country.'

Not only is history thus perverted to satisfy a theory, but also the absurd idea is promulgated that a manufacturer who sends out 'colonists' to sell his products has in his mind the need for supplying raw materials for other manufacturers.

The argument for industrialization is economic, that

<sup>57</sup> *Sessional Paper XXII* of 1934, p. 179.

the standard of living would be raised. The conditions surveyed in Chapter V are so bad that a sympathetic citizen would accept a great deal of social dislocation in order to achieve such a result. So far as is known there are no purely social arguments. It cannot be doubted that a healthy and prosperous peasantry is far happier than an equally prosperous urban proletariat, in spite of the cinemas and the bright lights. One would not exchange a Denmark for a West Riding. If a Denmark could be produced in Ceylon the case against industrialization would be unanswerable. It is by no means certain that it could not be produced, though the prospects are distinctly unpromising.

The industrialization of Ceylon would require the transfer of large numbers of village labourers, accustomed to primitive sanitary conditions, to the towns. Modern industry does not necessarily presume the smoke and dirt of the West Riding because electric power can be used; and in Ceylon such power could probably be obtained from hydro-electric schemes. Nevertheless, large industrial units require vast public health services and the observance of a detailed code of sanitary conduct on the part of individuals if the towns are not to become centres of disease and destitution. No town outside Colombo has such services, and those of Colombo would be inadequate for a much enlarged industrial population. In this climate it would be unthinkable to have factory towns or suburbs without adequate piped water, main drainage and sewerage, compulsory water closets, efficient sewage disposal, efficient refuse disposal, metalled and paved roads, properly enforced building by-laws and housing standards, wide open spaces, and the other services which, in industrial countries, are in-

cluded under 'public health'. Nor are we concerned in Ceylon with sturdy yeomen. Our villagers are weak, inefficient and emaciated by malaria, hookworm and malnutrition. As we shall see, the standards of health, as evidenced by the general death-rate, the infant mortality rate and the maternal mortality rate, are extremely low. It is not pleasant to contemplate what would be the standards if large numbers of the present villagers were collected in tenement blocks, especially if the sanitary arrangements of the towns were as inadequate as they are at present.

Ceylon of course has the advantage of drawing on the experience of other countries. Great Britain and other countries have now learned how to avoid slums, and Ceylon can adapt the lesson. It could, at least in theory, establish its Welwyns and its Wythenshawes, its Bournvilles and its Port Sunlights. They would, however, require from the Government and the local authorities a very high capacity for intelligent anticipation. It would be necessary to plan and build the garden cities and garden suburbs as an act of faith, in the firm belief and even with a definite assurance that industries could successfully be established in them. It would, too, require the maintenance of a high standard of local administration with a complete apparatus of public health laws obeyed and enforced as no laws in Ceylon have yet been obeyed and enforced. Nor must the cost be forgotten. If slums are to be avoided the vast public health services already mentioned must be provided before any income is received from the industries themselves, before the standard of living has been raised, and in fact before the industries are started at all. In the new garden cities and garden suburbs, too, there must be established schools,

hospitals, transport facilities, gas, water and electricity, and all the paraphernalia of modern government. Further, the new urban population would lose the cushion which at present protects it from complete destitution. There is much under-employment, but there is rarely unemployment, because the villager has land or some share in the produce of land; and if the rains come and the floods do not the villager does not starve. The industrial worker, on the other hand, has to rely on his wage; and if he has no wage owing to trade depression or sickness he must starve unless the Government provides a vast and expensive system of social services.

We may surely assume that the foresight, the administrative efficiency, and the expenditure required for the establishment of garden cities and garden suburbs will not be forthcoming in Ceylon at this stage, and that industrialization, if it comes, will produce foul and disease-ridden slums of the kind that exist in India. It follows that the case for industrialization is by no means complete. On the other hand, the depressing diagnosis of rural Ceylon in Chapter V, the difficulty of finding remedies, and the doubt whether any remedies will be sufficiently well applied to alter the situation, suggest that the case against industrialization is not complete. It must be remembered, too, that the question is not whether agricultural Ceylon should be converted into industrial Ceylon, but whether efforts should not be made to develop industries in addition to agriculture. The present wealth of the country lies in its plantations: it is impossible to foresee, and almost impossible to imagine, the development of conditions in which this situation would be altered. Nor would the most enthusiastic prophet of

industrialization suggest that the jungle should be allowed to creep back into the wet zone. Industry would come not to destroy agriculture but to fulfil it. The aim would be not to convert a mainly agricultural population into a mainly industrial population, as in England, but to build secondary industries, as in Australia and New Zealand. In principle this would be very desirable, for it would not only provide employment for the expanding population of the Island, which wet-zone agriculture shows no signs of doing, but would also diversify the economy of the Island and reduce its dependence on fluctuating world markets in primary products and, at the same time, provide an internal market for the produce of its farms and compounds. Probably the conclusion to be drawn is that the development of some types of industry is desirable, that the choice should be made carefully, bearing social as well as economic factors in mind, and that care should be taken to effect the transition sufficiently slowly and cautiously to prevent the worst types of slum from developing. In particular, public health and housing facilities and restrictions should keep pace with industries.

All this assumes, of course, that industrialization is economically possible. This, too, is no easy problem. We may summarize the need as labour, capital, power, and markets. There is certainly labour, though not much skilled labour. Whether power can be produced economically can be decided only by an expert. There is normally plenty of water in the hills, and offhand it would seem that power could be provided reasonably cheaply if the demand for it were sufficiently great to carry the high overhead charges of hydro-electric schemes. Even here, however, an act of faith

is required, for the present power requirements are very small.

Something has already been said on the subject of capital. It can be obtained in one of two ways only. Either it must be borrowed from overseas or it must be raised by saving. The Government of Ceylon has some balances overseas which could be repatriated by purchasing equipment, but the sums are small and few Ceylonese, apparently, have invested funds abroad which could be used for capital development in the Island. The war provided a marvellous opportunity for accumulating sterling balances, on private as well as on Government account, but there is no evidence that it has been seized. Capital can be obtained from overseas in one of two ways. One way is to permit overseas capitalists to develop industries in the Island. Since according to the Ceylon tradition this is 'exploitation' even when it results in creating the industries which, again according to the tradition, the Island requires, it may perhaps be excluded from consideration. The other way is by borrowing by the Ceylon Government—for it is reasonably certain that not even the super-optimists of the New York Stock Exchange (if they survive) will be prepared to lend money to inexperienced Ceylonese entrepreneurs. It would probably not be difficult to raise loans on Government account, for the foreign investor would not bother about local theories of 'exploitation' and 'sending money out of the country' unless he thought they implied a serious possibility of default. It must of course be realized that, if the foreign investor 'sends money' out of his country, it will be because he expects it to be sent back with interest: and, since nobody ever sends any money anywhere, what this really means is that

Ceylon must have an export surplus at least sufficient to keep up the interest. This surplus cannot yet be provided by non-existent industries, and it must at present come from the good old milch cows—tea, rubber and coconuts. Overseas borrowings would thus be justified if it were reasonably certain that the cows would increase the supply of milk or the Government were convinced that the industries to be established would very soon produce a dividend in the shape of increased exports or decreased imports of manufactured articles.

The better way is for Ceylon to acquire its own capital by saving. This method has been used by all the capitalist countries, including the Soviet Union. One difference between Ceylon and the Soviet Union is that the dictatorship of the proletariat enabled the proletariat to be dictated to, so that it had to tighten its belt in order to provide capital for Soviet industry. The process, as the war has shown, has been a great success, because it was an intelligent policy, intelligently applied. Since, however, it required a very strict limitation of personal consumption and the maintenance of a low standard of living, it is unlikely that the bourgeoisie which dominates Ceylon could or would apply the same policy. Moreover, there is a second difference which is fundamental. The Soviet method was to restrict internal production of consumption goods in order to produce capital goods. In Ceylon it would be necessary to restrict *imports* of consumption goods in order to increase imports of capital goods, while maintaining *exports* in order to pay for the capital goods. It cannot be done by ordinary taxation, for that would reduce the competitive power of tea, rubber and coconuts and so tend to re-

strict exports. The great volume of imports, however, consists of the poor man's food and clothing—rice, sugar, textiles, etc.—and to restrict these would be to increase the cost of living for the workers engaged in the export trade, and for workers generally. Something might be done by judicious manipulation of the taxes—e.g. income-tax, entertainment tax and taxes on imported luxuries—but the process would be slow because the essential condition is that the value of exports should be maintained and if possible increased. Accordingly, if Ceylon is to accumulate its own capital, the greater part of it must come from voluntary savings. This, too, will be a long process among a population more accustomed to borrowing than to saving, and having, on the average, a low standard of living. Except in favourable conditions like those of today, the great mass of the people cannot save because their incomes are insufficient for ordinary sustenance. The middle classes, who can normally save quite substantial sums, have a pathetic faith in the virtues of mother earth which, however, they often ultimately hand over to Chettiars and others owing to inability to meet their mortgages. Until the lesson is learned that investment in land is speculation, there is little chance of a substantial volume of capital. The conclusion seems to be that for the time being Ceylon must rely mainly on money borrowed from overseas.

There remains one other requirement, a market. Where and what can Ceylon industries sell? The use of the phrase 'Industrial Revolution' obscures the fact that the industrial development of Great Britain, the first of the industrialized countries, was very slow. The British were a nation of traders before they were an industrial nation, and long before the 'Industrial Re-

volution' there were British—or indeed English—ships carrying English goods over the seven seas. The wool trade in the fifteenth and sixteenth centuries caused an agricultural revolution such as has not yet occurred in Ceylon. The handloom industry was creating wealth before the spinning-jenny was invented and steam power developed. When Lancashire and Yorkshire and the Black Country began using steam power they found markets readily available for their products, not only because there was a comparatively large and comparatively wealthy internal market, but also because there were other markets overseas where British trade had been established and British ships were calling. Great Britain supplies no precedent for Ceylon.

The United States began as a collection of colonies with an assured market for their agricultural produce in Great Britain. Though the Mercantilist System prevented the growth of industries which would have competed with those of Great Britain, there were others which Great Britain encouraged. So, while the agriculture of the United States was rapidly developing—especially when the abolition of the Mercantilist System threw the British market wide open—industries were developing in a small way and, as they grew, found an internal market which was constantly and rapidly expanding. The United States forms no precedent.

The experience of Japan is more relevant: but Japan in 1868 had a population of 30 millions and an efficient system of agriculture which made an internal market for manufactured goods possible. With extremely low costs of production and lower transport costs, Japanese industry was able to capture overseas markets

where Great Britain had had a monopoly. There was, above all, the huge potential market of China close at hand. Japan is usually quoted as the precedent for Ceylon, but it really is not. There is very little similarity between the Japan of 1868 and the Ceylon of 1947. Also, there has been hardly any improvement in the standard of living in Japan. The profits of industry went to the new industrial middle class while the young men were conscripted and the young women packed off into industrial slavery until they married. Ceylon could no doubt produce cheap textiles if its parents would permit its youth to be sold into factory colonies like those of Japan. Otherwise, Japan provides no precedent.

Let us first examine the internal market. Ceylon has 6½ million people of whom some 4 million are villagers. We have seen in Chapter V that the villager neither does nor can buy very much. Apart from food he buys textiles, kerosene, soap, matches, an occasional mamoty or a plough, and an occasional chatty. The estate workers make much the same purchases, though one must also include gold and silver ornaments and, on the tea estates, cumblies. The Indian labourers have a preference for Indian goods, but this, like all consumers' preferences which are merely traditional, can be swept away if a good local substitute is produced. The middle classes spend much more money, but they are few in number—say, 100,000 families—and the breadth of their demand militates against the creation of much of an internal market. So far as the villager or the estate or urban labourer is concerned, the question is almost entirely one of cost. If the cost is equal, he naturally prefers the better quality: but where he has to choose between cost and quality he

necessarily chooses the former. Cost does not always depend on the size of the unit of production, but there are many kinds of goods where mass production enables costs to be lowered because, if the output is sufficiently large, expensive machinery can be installed to turn out in millions and with great rapidity articles which could be produced only slowly and in thousands by manual labour and simple machinery. Where mass production is cheaper, the small producer necessarily goes out of business when he comes into competition with the large producer.

Another element in cost is labour, including not only unskilled labour but also skilled, clerical and managerial labour. Where rates of wages and salaries are high, and the goods produced by that labour are in competition with goods produced by cheap labour, the former necessarily are driven off any market where cost is the primary consideration. The rates paid are not, however, conclusive, because expensive but efficient labour may be cheaper than less expensive and less efficient labour. The notion that 'European' staff is employed in Colombo by 'European' companies because of colour preference or Imperialist motives is, to a 'European' who knows the ways of business executives, slightly amusing. Sentimental preferences and patriotism are no doubt among their qualities, but both are rigidly excluded from business. The hard-headed business men who control the 'European' firms may be wrong, and their judgement may be warped by prejudices, but they employ 'European' staff at considerable expense because they believe it to be cheaper in the long run.

A third element, that of power, may be excluded because we have assumed that when the hydro-elec-

tric scheme is completed there will be cheap power available. A fourth element is the cost of transport, which is often far greater than the cost of production. The advantage of an internal market is that the transport costs are generally low. Since sea transport is cheaper than transport by rail or road, however, the cost of transporting imported goods is not necessarily lower than the cost of transporting home-produced goods. There are other elements—rent, taxation (both central and local), heat, light and water. Moreover, all these elements enter into the cost of capital goods and the cost of transport, and therefore into the cost of the manufactured article to the consumer. For instance, the Bombay and the Colombo millowners would get their machinery from the same source, but if it cost more to get it to Colombo than to Bombay, the capital costs of the Colombo millowner would be higher. Again, the cost of railway transport in Ceylon must be affected by the fact that locomotives, rails, and other equipment must be imported. Similarly, the cost of road transport is affected by the fact that engines (if not chassis) must be imported, and so must petrol and oil. The cost of transport also depends a great deal on the cost of labour.

The combined effect of all these elements is so complicated that it is quite impossible to say, in general, whether industries could be established to supply the local market in Ceylon. A costing expert could say whether, and in what circumstances, a particular local industry could be established economically. When our politicians, professional or amateur, say that Ceylon could be industrialized, they are talking aspirations and not economics, or even politics. Certain general conditions may, however, be pointed out.

(1) The internal market for all types of goods is small. Table XVI gives the main imports of manufactured goods in 1938.

TABLE XVI : CHIEF MANUFACTURED IMPORTS IN 1938 <sup>53</sup>

MANUFACTURES	QUANTITY	VALUE (Rs.)
Tiles	291,178 cwt.	403,067
Glass and glassware	54,603 cwt.	759,280
Cement	1,583,420 cwt.	1,795,815
Ferrous metals and metalware	735,709 cwt.	8,978,644
Non-ferrous metals and metalware	55,351 cwt.	2,403,971
Agricultural implements	22,253 doz.	503,809
Electrical goods	..	3,449,618
Machinery	54,914 cwt.	4,620,383
Cotton piece-goods	63,573,623 yds.	15,300,485
Woollen manufactures	..	680,174
Textiles (mixed materials)	..	1,255,266
Silks and satins	..	2,273,839
Artificial silk	3,405,389 yds.	1,829,226
Boots and shoes (canvas, rubber-soled)	21,288 doz. pairs	124,132
Other boots and shoes	22,129 doz. pairs	517,608
Paints and colours	28,617 cwt.	802,733
Kerosene oil	8,940,634 gals.	3,695,832
Motor spirits	12,046,098 gals	6,204,775
Soap, laundry	46,817 cwt.	1,039,928
Soap, toilet	9,212 cwt.	698,652
Paper, writing and printing	102,512 cwt.	1,543,566
Paper, packing & wrapping	135,778 cwt.	692,140
Motor cars	1,624	3,124,463
Motor lorries	378	725,078
Cycles	12,700	573,514
Tyres	106,273	1,699,819
Tubes	77,682	125,298
Haberdashery	..	489,565
Matches	6,801 gross	3,320
Tea chests	3,413,840	4,380,003
Umbrellas	29,085	398,917

The use of a classification is often misleading because of the variety of goods included under the same

head. For instance, 'Ferrous metals and metalware' must include a huge variety of different articles. This applies to the whole range of textile articles. It is not a question of supplying 60 million yards of cotton piece-goods, but of supplying 60 million yards in all the varieties that are sold in Ceylon, or a much smaller quantity of some of the varieties sold in Ceylon. Further, it is not a question of one factory in Ceylon competing with one factory elsewhere: it is a question of one factory competing with all the factories whose goods of that type are sold in the Island. Examined in this way, the quantities imported are almost uniformly small.

On the other hand, industry itself creates a local market. Persons employed in industry produce little or nothing for themselves, unlike persons engaged in agriculture. They demand manufactured goods for their clothing, housing, entertainment and even feeding. Thus industries create industries, for the persons employed in them take in each other's washing. It is of course true that an industrial population also demands more imports, which require more exports: but the fact that it might be difficult to sell exports would tend to restrict imports and thus encourage local industry. Further, the industrial population would demand more agricultural produce, some of which at least would be produced in Ceylon. Not only would agriculture thus be stimulated, but also the agricultural population would demand more manufactured articles than at present and would thus increase the local market. Accordingly, industrialization has a snowball effect: it gets larger as it rolls on. The difficulty is to find the snow, to produce people prepared to do the rolling, and to induce them to roll downhill and not

up. The present home market is very small, and it may be that it could be expanded much more rapidly and more surely by assistance to agriculture than by assistance to industry; for six million people dependent upon agriculture is already a substantial potential market.

(2) Ceylon has some of the raw materials used in manufacture, such as rubber, vegetable oils, cinchona, iron, plumbago, mica, kaolin, etc. This is not, however, a very important factor. Lancashire gets its cotton from the United States and Yorkshire its wool from Australia. The newer, and more successful, industries in Great Britain have been established mainly in the south, where there are no raw materials, and often most of the materials are imported. The cost of transport is always an important factor, but it is often cheaper to transport the raw material (e.g. rubber) than the manufactured article (e.g. tyres).

(3) The rates of wages paid in Ceylon are generally higher than those in India and Japan.

(4) India has a very large internal market so it can produce goods by mass production very cheaply. In many cases this cheapness will offset the cost of transport to Ceylon, especially as the wage rates are lower.

(5) Except in Colombo, a factory would have to provide its own water supply and drainage.

These considerations do not necessarily produce the conclusion that industries in Ceylon could not supply the internal market in competition with India and other countries. Only a costing expert could decide in each case. Fortunately, a good deal of experience of costs has been obtained during the war, when imported goods have been scarce. Nor is the absence of a large internal market necessarily conclusive. In cer-

tain industries, small units can produce as cheaply as large units. Moreover it may be possible to develop an export trade. Here the main difficulty is that there is hardly anything which Ceylon could produce that India could not produce more cheaply. India, too, has other advantages. Among them is the possession of large overseas colonies of traders who maintain their connexions with India and who acquire a knowledge of the local markets. They are thus able to develop extensive markets for Indian goods by ordering the things that they know they can sell and, if necessary, getting them manufactured. For instance, the greater part of the trade of British East Africa, Burma and Mauritius is in Indian hands. This would apply even in Great Britain, though it would be more difficult to establish a market for Indian goods in Great Britain because there the standard of living is high enough not to make cheapness the only consideration. Ceylon has no such colonies\* and appears unlikely to get them unless the Jaffna Tamils in Malaya turn to trade. Industry and trade are facets of the same thing; and if the Sinhalese and the Ceylon Tamils are not interested in trade their interest in industry will remain academic. Since very little of the internal trade of this Island is in Ceylonese hands, it is difficult to imagine the development of an export trade in manufactured goods—unless of course, it is in Indian hands. Actually, all these questions will probably answer themselves; for if industry in Ceylon proves to be profitable, all the enterprising people of the world will be here to 'exploit' it.

The purchaser of an article, however, is not interested only in the price: an expensive article may be cheap at the price, and of two articles the purchaser

may prefer the more costly because its quality is better. The middle-class Ceylonese bears witness to the truth of this observation when he chooses expensive English cloth in preference to cheaper Indian cloth. Partly, the difference in quality is due to the difference in home demand. The people of Great Britain having generally a higher standard of living than the people of India, they are able to purchase cloth of a better quality. Consequently, the British textile factories are accustomed to producing cloth which is better in quality but at the same time more expensive than that produced by most Indian factories. This in turn produces a difference in skill: the British worker is better able to produce the more expensive cloth and the Indian worker to produce a cheaper cloth. There are, however, other causes. The British manufacturer employs workers who are better fed, of better physique, and are better educated. The machinery employed may be better, for much the same reasons. Whatever be the causes, the consequence is clear. The British manufacturer cannot compete with the Indian manufacturer in the sale of the cheaper varieties of cloth, but he can compete successfully in the sale of the more expensive varieties. This is in fact a general tendency in British industry. It is losing its markets for cheap goods of low quality, but is maintaining and even extending its markets for more expensive goods of high quality. It is producing for quality rather than for cheapness.

It may be that Ceylon can do the same. Having a very small internal market, it is unlikely to be able to compete with India (or Japan) in the mass production of low-grade articles. It could, however, capitalize the skill and comparatively high standard of educa-

tion of its people by specializing in the production of a limited range of 'quality' goods in comparatively small quantities. 'Ceylonese' would then mean quality as 'English' generally means quality. There is a substantial market available in Europe, America and India for oriental goods of good quality. Jewellery, carpets, silks, furniture, crockery, glassware, brassware, etc., are in constant demand. Arrack would be drunk at the Savoy if it were good arrack. Canned mangoes, pineapple jam, guava jellies and chutneys (without chillies) are rare delicacies for which high prices would be paid if the quality were good and uniform.

This, probably, is the line of development. Ceylonese workers are (or were) noted for their technical skill. The Island imports 'experts', business men and labourers, but few skilled workers. There is, too, a tradition of high artistic sensibility; but unfortunately it has disappeared in the rush for the Senior School Certificates and Government jobs. In producing matriculates the schools have succeeded in producing philistines. The average parent hopes that his child will become a good examinee: there are no jobs for geniuses. We return once more, therefore, to the twin problems of social tradition and education, which arise over the whole field of industrialization. Ceylon can supply the unskilled labour and the clerks, the research assistants and the research workers. It cannot, at present, supply much of the skilled labour, the technical experience, or the general business ability. There is no reason to suppose that these qualities cannot be acquired. The difficulty is not that there is no adequate human material, but that social tradition and the educational emphasis prevent it from being utilized.

Nor can it be utilized by the popular process of

selecting a person for 'training'. A skilled worker cannot be made by taking a matriculate and giving him six months in a 'shop'. An artist or designer is not created by means of a scholarship awarded by the Executive Committee of Education, even with the assistance of the Vice-Chancellor of the University. A University graduate, with a background of Bambalapitiya and the 'educational triangle', cannot acquire the peculiar type of low cunning (as it seems from the Olympian Heights of a University)—which, combined with an equally peculiar but quite definite principle of commercial probity, seems to be necessary for success in business—by spending two years with clean hands and a series of lecture notes on 'commercial subjects' in the sanctity of a managing-director's ante-room in the City of London. He could run a Government office with satisfaction to himself and no great dissatisfaction to anybody else, but he could not compete in a cruel world with an Indian whose mother-tongue was business or a Briton who graduated from Shrewsbury to the indignity of an office-boy's stool and worked his way down to a swivel chair. The education is certainly defective; but in a formal academic sense it is not much worse than that given at Eton. It is the social tradition, the pressure of parents, the requirements of prestige, the sneers of prospective fathers-in-law, and the lack of the most elementary knowledge of why two and two make five, which keep so many out of 'business'. For this reason, it is hopeless to look for a rapid expansion. There are successful Ceylonese businessmen, and success breeds success. If there were a rapid development of industry in Ceylon at present, it would be due to another Indian invasion. But as all the Government jobs get filled and

the professions overcrowded, more and more will perforce turn to trade and industry; and the effect of the fall of the Mexican dollar will become as interesting a subject for discussion at sundown as the right of a non-new-entrant to railway warrants.

Meanwhile, perhaps, the goldsmiths, silversmiths, coppersmiths, locksmiths, metalworkers and carpenters will regain their cunning if two things happen. The first is a reorientation of the educational system—which is in any case necessary for purely educational reasons—along more practical lines. This includes the establishment of one or more technical colleges which do not merely ape the Technological Faculty of a University and produce more candidates for more examinations, but concern themselves seriously with arts and crafts. The second is the development of cottage industries or local crafts producing articles of high intrinsic quality and good design. At the present stage of development three good designers would be worth more than all the engineering equipment east of Suez. There is a local market for local pottery, textiles, furniture, etc. There is a strong international demand, which would be stimulated locally by the valuable tourist industry, for local hand-made articles of high artistic merit. By these means the supply of skilled workers would be restored and a marketing organization set up, both of which would be extremely useful if and when it became possible to establish 'quality' industries on a larger scale.

Many would like to go more quickly and to establish an artificial scarcity by means of import restrictions. There is no doubt that industries can be built up in the shelter of tariff walls, though at a price. There has to be a sufficient local demand, however,

to justify the establishment of the industry, and in many cases there must be doubt whether there is such a demand in Ceylon. Further, the industry is normally developed by the industrialists who already hold the market. It would be easier for the foreign capitalist to establish a branch factory than for local capitalists to start new industries. His costs would be lower; he would have the technical skill available; he would have a marketing organization already in existence; and some of his overhead charges (e.g. for finance, insurance, transport, etc.) would be lower. In fact, a tariff wall is often erected for the purpose of attracting foreign capital, a result which is apparently not desired in Ceylon. Indigenous capital will no doubt be available in Ceylon once restriction schemes and low prices prove to the Ceylonese the meretricious attraction of land. With foreign management and, in most cases, imported skilled labour, locally-owned industries might possibly be established under 'protection'. If, however, protection affected the cost of production of tea, rubber and coconuts, serious economic dislocation might result. Even if the costs of production were not affected, a restriction of imports would require a restriction of exports owing to exchange difficulties, unless the export surplus was retained abroad for investment (thereby producing in due course an increase of imports) or the demand for imports was shifted to other types of goods (e.g. capital goods). In any event, a restriction of imports reduces somebody's standard of living and the consequences cannot always be traced. If the price of cement goes up, for instance, the costs of building go up, and rents have to be raised. If rents are raised the internal market for goods is diminished; and so almost *ad infinitum*. Though most

nations have gone protectionist, nobody has yet answered the case for free trade, except on grounds of security and other non-economic grounds.

This chapter does not seek to prove that industrialization is not practicable. What it does prove is that there is more in the problem than is dreamed of in the sacred purlieus where undergraduates sleep. In the long run some industrialization is not only possible but probable. The considerations which, if they were fully understood, would prevent angels from rushing in where hard-boiled business men fear to tread, are not permanent in their nature, though they may change but slowly. It is possible that even now careful inquiry by a costing accountant, such as a careful man would insist upon before investing his own money, would disclose that there were industries not dependent upon a large home market which could be established in present conditions. If so, they would in due course create a market for other industries and the snowball would thus be set rolling. It may be, on the other hand, that a further development of agriculture, whether by an extension of estate production, an improvement in wet-zone cultivation, or extensive settlement in the dry zone, would provide a rise in the standard of living sufficient to make the creation of small industries profitable. There is no answer to the question: 'Can Ceylon be industrialized?' There is an answer to the question whether or not a particular industry could be established in present conditions: but the only person who could give the answer would be an expert in the costs of production of that industry, and then only after an exhaustive analysis of local conditions and a detailed exposition of future Government policy in relation to taxation, currency, immigration,

and various other matters affecting the cost of production and the availability of capital, equipment, power, labour and transport. There is, too, one essential preliminary to the establishment of industries in the Island: it is that the sources from which the wealth of the country is at present derived—mainly tea, rubber and coconuts—should not be diminished. It may be that in course of time they will become less important, relatively if not absolutely; but it is not wise to begin an attempt to enrich the country by impoverishing it.

This chapter has of course assumed a capitalist economy. If industry were to be placed under public control a somewhat different series of considerations would apply, though the principles would be the same. It has already been mentioned that, like most countries which have developed somewhat late from a peasant or agricultural economy, Ceylon has tended to place a somewhat greater responsibility upon the State than was formerly the practice in more developed countries. On the other hand, it has so far failed to develop to the required degree the corporate spirit, either in its public service or in the people at large, which is necessary for the really efficient running of public services.

## CHAPTER VII

# NATIONAL FINANCE

### 1. THE NATIONAL BALANCE SHEET

Governments, unlike private persons, do not determine their expenditure according to their incomes. On the contrary, they determine their incomes according to their expenditure. A Government first decides how much it will spend, ascertains how much revenue it will obtain from capital and other resources, and then decides what taxation shall be imposed to produce the remainder. Usually an attempt is made to 'balance the budget': that is, just so much taxation is levied as will be necessary to cover the expenditure. Sometimes, however, a Government 'budgets for a deficit' in the hope that improving economic conditions will enable the deficit to be met out of future revenues. Sometimes, too, it meets part of its expenditure by raising a loan, a process which is perfectly justified where the expenditure is on capital which is intended to be productive, or where it is considered to be for the benefit of future generations as well as for the present taxpayers.

Usually, therefore, a Government does not accumulate reserves, but it may do so either by 'budgeting for a surplus' which it keeps in reserve instead of using it for expenditure in the following year. It may also do so by overestimating its expenditure or underestimating its revenue and crediting the surplus to reserve. Thus, on 1 October 1942, the Ceylon Government had accumulated reserves of about Rs. 25,325,000.

In 1942-3 it had a surplus of revenue over expenditure of about Rs. 15 million. Consequently, on 30 September 1943, it had a surplus of about Rs. 40,325,000.<sup>59</sup> This statement must be taken with the necessary qualifications. In particular it must be mentioned that a sum of over Rs. 26 million was met out of loan funds and is not included under 'expenditure'. If this had been included there would have been not a surplus of Rs. 15 million in the year but a deficit of Rs. 11 million.

In this way and by creating various funds a Government may accumulate what may be called spendable assets in addition to assets like roads, schools, hospitals, post offices, police stations, office buildings, and the like. This is made clear by Table XVII (p. 124), which is a sort of balance sheet for the Government of Ceylon on 30 September 1944.

It must not be thought that Table XVII gives a wholly accurate picture of the financial status of the Island on 30 September 1944. The item 'Loan Funds' does not mean the total liabilities of the Government in respect of loans. It means the unspent balances of such loans. The total debt of the Island on that date (i.e. the gross debt less sinking funds) was Rs. 250,954,737.24.<sup>60</sup> Also, the small liability to the Electrical Department and the Railway are merely the 'current accounts' of these two Departments. Their finances are kept quite distinct but they do not keep more than a small sum on current account at the bank. The larger sums one keeps with the Treasury, drawing on them

<sup>59</sup> The surplus of revenue in 1943-4 was nearly Rs. 40 million, bringing the surplus on 30 September 1944 to Rs. 80 million.

<sup>60</sup> *Accounts of the Island of Ceylon for the Financial Years 1943-44*, Pt. I (S.P. IX of 1945), p. 35. It owes another Rs. 77½ million to investors but this will be repaid by the United Kingdom Government.

TABLE XVII : ASSETS AND LIABILITIES ON 30 SEPTEMBER 1944 61

LIABILITIES	Rs. Cts.	ASSETS	Rs. Cts.
Widows' and Orphans' Pension Fund	11,727,684.46	Cash, Bank Balances and Investments	173,065,733.54
Ceylon University Building and Equipment Fund	4,671,895.98	Investments (Ceylon University Building and Equipment Fund)	4,581,554.89
Loan Funds	60,755,531.60	Imprests to Government Departments	47,689,894.78
Treasury Bills	9,982,938.00	Other Governments and Agencies	48,879.56
General Reserve Fund	10,000,000.00	Loans to Local Bodies	200,000.00
National Development Reserve Fund	70,000,000.00	Remittances in transit	4,488,047.14
War Risks (Goods) Insurance Fund	9,058,700.34	Loans to Local Bodies (Sinking Fund investments)	312,367.00
War Damages (Business & Personal Movables) Insurance Fund	1,347,413.54	Security Deposits in Banks	1,948,204.07
War Damages (Immovable Property) Insurance Fund	670,068.83	Loans to Public Officers	171,402.97
Unpaid drafts	1,112,447.08	Unissued Stores & Materials	4,320,101.90
Loans to Local Bodies (Sinking Fund)	312,384.99	Advances from Revenue for Loan Works	1,835,710.57
Security Deposits	1,948,204.07	Sundry advances	1,310,191.90
Suitors' Deposits	501,806.49	Suspense Account	588,767.78
Other Deposits	45,884,898.35		
Other Governments and Agencies	1,141,151.33		
Electrical Department Account	273,646.57		
Ceylon Govt. Railway Account	10,962,113.82		
Surplus	209,950.65		
	240,560,856.10		240,560,856.10

61 ibid., p.3 (shortened).

when necessary. They are, therefore, a liability of the Treasury. In actual fact the Railway (treated as a separate entity) owes the Government over Rs. 46 million.<sup>62</sup>

## 2. EXPENDITURE

Since revenue depends upon expenditure, and not vice versa, it is wise to reverse the usual practice and to consider expenditure first. The procedure is for the Head of a Department to submit draft estimates to his Minister after consulting the Treasury in certain cases. They are considered by his Executive Committee in his presence and, after approval, are forwarded to the Treasury. After negotiations between the Executive Committees and the Finance Secretary, all the estimates are submitted to the Board of Ministers, by whom they are examined and, after examination, submitted to the State Council as a draft Appropriation Ordinance. The legal authority for the expenditure is the Appropriation Ordinance, when passed. The State Council may not increase an estimate, but may reduce it or refer it back to the Board. The expenditure for the year is thus determined by the Board of Ministers and the State Council. The Financial Secretary controls financial administration through the heads of the Treasury Departments, and he is responsible to the Governor: but neither in the Board of Ministers nor in the State Council has he a vote. The Governor can authorize expenditure by a Governor's Ordinance in the circumstances set out in the Constitution. This no doubt has some restrictive effect upon the Board and the Council; but the occasions for its use have been rare and unimportant.

Supplementary estimates may be approved by an

<sup>62</sup> *ibid.*, p. 38.

Executive Committee, the Board of Ministers and the State Council to increase the authorized expenditure during the currency of a financial year, and this is done with a frequency which astonishes those who are familiar with British financial procedure. Partly, however, the cause is that the State Council approves not only the heads of expenditure (i.e. the total expenditure for each Department) but also the sub-heads (i.e. the amount for each division of expenditure). This is not done in Great Britain, where only the head (or vote) is approved. Thus, the House of Commons might vote £50 million for Education, whereas the State Council votes, say Rs. 71 million for Personal Emoluments, Rs. 10 million for Grants to Schools, Rs. 1,000 for the Board of Education, and so on. It follows that in Ceylon, unlike Great Britain, a supplementary estimate has to be submitted for increased expenditure on a sub-head even if the Department will not spend the total amount authorized under the head. Thus, if the Department spends Rs. 1,001 in the Board of Education it has to get a supplementary estimate for Re. 1 even if it has saved Rs. 1 million on other items. Apart from this, however, a supplementary estimate is far more common in Ceylon than in Great Britain. The result is that the 'budget', the balance of expenditure and revenue which the Leader of the State Council presents to the Council, gives but a partial picture of the finances of the year. This is however offset by another characteristic due to formal voting of sub-heads, namely that the Departments almost invariably over-estimate, so that actual expenditure is very often less than estimated expenditure. This is so because, instead of having a global vote for Education with the possibility of transferring from sub-head to sub-head, there are

separate votes for the 26 sub-heads. In the British system, the estimating officer knows that what he loses on the swings he will probably make up on the roundabouts, so that his £ 50 million is a close estimate. The Director of Education, however, knows that if he loses on the swings he cannot count what he gains on the roundabouts but must ask for a supplementary estimate for swings. The Ceylon system is a bad one, but it is due to suspicion of the Treasury. In Great Britain the Treasury authorizes transfers between sub-heads, whereas the State Council will not give such a power to an Officer of State.

The actual expenditure for 1942-3 and 1943-4 compared with the estimated expenditure for these years, is given in Table XVIII.

TABLE XVIII :  
ESTIMATED AND ACTUAL EXPENDITURE, 1942-3 & 1943-4

ESTIMATED		ACTUAL		VARIATION %	
1942-3 Rs.	1943-4 Rs.	1942-3 Rs.	1943-4 Rs.	1942-3	1943-4
187,443,220	195,835,416	185,006,506.65	210,680,627.41	- 1.3	+ 7.6

The under-expenditure in 1942-3 and the over-expenditure in 1943-4 were, however, the net results. The estimates were made under the very large number (according to British practice) of 96 heads, each of which had its surplus and deficit. Further, each head might have a large number of sub-heads. Thus, in 1942-3 head 22 had 29 sub-heads; head 51 had 23; head 66 had 30; head 71 had 112; head 92 had 37; head 103 had 42; head 111 had 26; head 121 had 52; head 123 had 26; head 125 had 43; head 126 had 145; and head 129 had 26. There was one sub-head for Rs. 80! The

figure in each sub-head bound not only the Department but also the Treasury, so that any excess even on a sub-head required a supplementary vote of the State Council. It is surprising not that the State Council spends so much time on supplementary estimates, but that it has time for anything else.

The expenditure may be classified as in Table XIX which gives round figures only.

TABLE XIX : CLASSIFICATION OF EXPENDITURE

TYPE	AMOUNT (RS.)		PERCENTAGE	
	1942-3	1943-4	1942-3	1943-4
General Administration	6,300,000	6,100,000	3.4	2.9
Financial Administration	45,800,000	54,500,000	24.8	25.9
Law, Police, etc.	11,200,000	13,200,000	6.1	6.2
Trade, Agriculture, Communications and Works	48,100,000	57,300,000	26.1	27.2
Social Services (including Local Govt.)	45,200,000	53,000,000	24.4	25.1
Defence & Emergency	28,300,000	26,600,000	15.3	12.7
<b>TOTAL</b>	<b>184,900,000</b>	<b>210,700,000</b>		

The cost of Financial Administration seems large, but it is made up in large measure by various miscellaneous services which have been put under the Financial Secretary for convenience, the cost of pensions (which is very high in this Island owing to the high salaries paid and to the favourable terms given to officers who wished to retire under the Donoughmore Constitution), and the cost of the National Debt (interest, payments to sinking funds, and management). The head dealing with Trade, Agriculture, Communi-

cations and Works by no means cover all the expenditure which might be brought under that head because:

(1) The Ceylon Government Railway and the Government Electrical Undertakings have separate self-balancing accounts. In 1942-3 the Railway had revenue of nearly Rs. 40 million and expenditure of nearly Rs. 29 million, thus showing a gross profit (from which payments for interest and repayments of capital have to be deducted) of nearly Rs. 11 million. The Electrical Undertakings had revenue of just over Rs. 4 million and expenditure of nearly Rs. 3 million, showing a gross profit of just over Rs. 1 million. In both cases the net profit was placed in reserve.

(2) There was expenditure on the subjects covered by this head which was met out of loans. The amount in 1942-3 was just under Rs. 12½ million.

(3) There were advances from revenue by way of loan, amounting to rather more than Rs. 1 million.

(4) In the case of Government trading, for instance in respect of factories established by the Department of Commerce and Industry and the work of the Marketing Department, the total expenditure of the Government is not always shown. For instance, in 1942-3, the cost of the working of three rice mills is shown as a 'token vote' of Rs. 100 (in order that the State Council may debate the matter on the estimates). The Anuradhapura Mill (to take one only) made a gross profit of over Rs. 47,000. On the other hand, there was expenditure included under this head which ought to be allocated to other heads, because it consisted of works for General Administration, Social Services, etc. For instance, the maintenance of the buildings of Government schools, the Technical College, etc., appears under this head and not under Social Services.

The classification is in fact rough-and-ready because it is effected by a separation of heads only. The Social Services Commission has taken the analysis a little further by taking the sub-heads to find out expenditure on the social services. In the estimates for 1944-5 a sum of nearly Rs. 63 million is regarded as intended for social services (including education). This also is rough-and-ready, for it does not include some items which, on a really accurate analysis, should be put down to social services. For instance, the provision made for agricultural and industrial schools (which in Table XIX are included under Trade, Agriculture, Communications and Works) is included; but these cost more than the sums in the sub-heads because the salaries of the teachers appear under the sub-head 'Personal Emoluments'. Also, where a Department spends some money on social services, part of its administrative expenses ought to be included. For instance, the Minister of Agriculture and Lands, the Director of Agriculture, and many subordinate officials spend part of their time on agricultural schools so that, strictly speaking, part of their salaries should be regarded as expenditure on social service. This is not done except in the Government trading accounts, where salaries and other administrative costs are charged against gross profit to produce net profit. Thus, though the gross profit of the Anuradhapura Rice Mill is shown as Rs. 47,000, the net profit is shown as Rs. 34,000. Further, the gross expenditure on general services should include expenditure on buildings and other works for social services; but this is not included in the figure given by the Social Services Commission. Again, most of the expenditure on Local Government might be included as it has been in Table XIX, because the local

authorities are concerned primarily with social services, though they are also concerned with things like minor roads and rest houses. Because the proportion devoted to social services cannot be determined, however, this expenditure has been excluded from the estimate made by the Social Services Commission. The total would probably approach Rs. 70 million if everything were included.

### 3. REVENUE

The revenue is designed to meet that part of the expenditure which is not chargeable to loan funds. The estimate of revenue is, however, made in June or July (say 1944) of revenue expected to accrue in the following financial year (say October 1944 to September 1945) and is therefore never very accurate. What in fact happens is that while a boom is on its way the revenue is underestimated, and surplus balances result even where they are not budgeted for. When the boom reaches its peak, however, and the descent into the ensuing depression occurs, the revenue is generally overestimated and a deficit is produced. It is then possible to call up from reserve. At the bottom of a depression, in fact, a contribution from reserve is often provided in the budget in order to avoid increased taxation which would tend to deepen the depression. Also, the trading activities of the Government often accumulate balances during a boom, and sometimes they are diverted to general revenue in a depression. The two operations are not equally desirable. The Government ought to budget for reserve in a boom because the bigger the boom the more disastrous the depression. Though everybody feels very cheerful as his income rises and the money comes rolling in, a boom is not a desirable phenome-

non because it is in large measure artificial. Because everybody is cheerful, nearly everybody spends money in a rising market, which rises still further, and gives the impression of a permanent rise in the national income and the standard of living. In fact, however, it is built on inflated values, not on real wealth. If an acre of land costs Rs. 200 at the top of the boom and Rs. 50 at the bottom of the depression, it is still the same land and produces exactly the same amount of paddy or coconuts. The real value, expressed in terms of income, is probably Rs. 100. What is wanted is not a series of ups and downs but a steady rise in the standard of living. Accordingly, anything that the Government can do to prevent booms and depressions should be done: and the chief method is to increase taxation and save money during a boom and to reduce taxation and spend money in a depression. Psychologically, this is most difficult to do, especially with a democratic legislature. What is more, a reserve is a great temptation to politicians, particularly where, as in Ceylon, the middle class (i.e. the persons who pay the direct taxation) dominate politics. It is tempting to use reserves for keeping down taxation even when all the canons of conservative finance make increased taxation desirable. This is particularly so when an election is to take place soon and members have to go round canvassing their middle-class supporters. We have seen the misuse of reserves in this way by local authorities in Ceylon.

The use of the reserves of trading activities in aid of revenue is generally reprehensible. Where a trading concern is making a regular profit, there is no objection to that profit being used for general revenue. Thus the British Post Office makes a fixed contribution

to revenue. But reserves are accumulated as a private corporation accumulates reserves, for the purpose of meeting capital expenditure when required, or for covering deficits in times of bad trade. The 'raiding' of such reserves to help out general revenue prevents their being used for their rightful purpose and enables politicians to create services without immediately paying for them. A nation, like a private person, should live on its income and not touch capital, for it is capital that produces the income.

The revenue, estimated and actual, for the year 1942-3 is set out in Table XX.

TABLE XX:  
ESTIMATED AND ACTUAL REVENUE FOR 1942-3<sup>63</sup>

HEAD	ESTIMATED (Rs.)	ACTUAL (Rs. Cts.)
I Customs	59,380,000	77,925,046.92
II Port, Harbour, Wharf, Warehouse and other dues	5,260,000	6,484,288.83
III Excise and Salt	13,752,000	16,748,901.04
IV Income-tax, Estate Duty, Stamps and Excess Profits Duty, etc.	58,055,000	59,227,070.66
V Licences and Internal Revenues not otherwise classified	1,545,000	1,675,368.30
VI Fees of Court or Office, and Payment for Specific Services	2,294,000	2,805,415.52
VII Medical Services	3,178,000	3,098,113.94
VIII Reimbursements	6,982,000	4,636,086.42
IX Postal and Telecommunication Services	6,860,000	10,831,066.28
X Interest, Annuities, etc.	2,126,000	6,109,659.61
XI Miscellaneous receipts	4,673,000	7,028,486.66
XII Land Revenue	1,357,000	1,765,723.02
XIII Land Sales	139,000	173,981.19
XIV Colonial Development Fund	5,000	..
XV War Loan Interest	1,564,000	1,497,537.00
	167,170,000	200,006,745.39

<sup>63</sup> Summarized from *Accounts of the Island of Ceylon for the Financial Year 1942-43 (Sessional Paper VIII of 1944)*, pp.5-8.

The corresponding figures for 1943-4 were:—

TABLE XX A:  
ESTIMATED AND ACTUAL REVENUE 1943-4

HEAD	ESTIMATED (Rs.)	ACTUAL (Rs. Cts.)
I Customs	85,185,000	95,242,307.61
II Port, Harbour, Wharf, Warehouse and other dues	5,784,500	6,371,911.94
III Excise and Salt	18,778,000	27,481,728.56
IV Income-tax, Estate Duty, Stamps and Excess Profits Duty, etc.	68,280,000	68,594,174.50
V Licences and Internal Revenues not otherwise classified	1,510,000	2,071,585.45
VI Fees of Court or Office, and Payment for Specific Services	2,450,000	3,129,899.98
VII Medical Services	3,503,000	3,150,515.28
VIII Reimbursements	9,228,000	9,746,013.97
IX Postal and Telecommunication Services	9,325,000	11,949,828.83
X Interest, Annuities, etc.	14,113,000	9,497,023.21
XI Miscellaneous receipts	5,739,000	7,662,630.44
XII Land Revenue	1,457,000	2,546,434.94
XIII Land Sales	140,000	187,847.58
XIV Colonial Development Fund	..	..
XV War Loan Interest	1,544,000	1,703,985.08
XVI Surplus in Sinking Fund	1,000,000	1,228,504.18
	228,036,500	250,564,391.55
Net Surplus		22,527,891.55

The revenue was 'buoyant'. Ceylon was on the upward slope of the war boom. Accordingly, the actual revenue in 1943-4 exceeded the estimate by Rs. 22,527,891.55. Taking the various sub-heads, there were shortfalls of Rs. 4,968,461.51. These were far more than offset, however, by the surpluses, which totalled Rs. 27,496,353.06.

The characteristic of the Ceylon system of taxation is the heavy reliance on indirect taxation. We must exclude from consideration Heads VI to XV, which

are almost entirely repayments for services rendered and other incidental revenues. Head IV contains all the direct taxation, that is, taxation which is intended to be borne by the person paying it (whether or not he does in fact succeed in passing it on to somebody else, for instance by an increase of rent). The total direct taxation in 1942-3 was Rs. 59 million, but of this Rs. 19 million was Excess Profits Duty, a temporary tax designed to limit war-profits. There has however been a notable increase in direct taxation since 1937-8,<sup>64</sup> an increase due mainly to the wartime prosperity of tea, rubber, coconuts and plumbago. There was no fundamental change in rates, yet the total (excluding Excess Profits Duty) rose from Rs. 17½ million to Rs. 40 million. The indirect taxation (i.e. the taxation intended to be passed on) in 1942-3 (Heads I, II, III, V) was nearly Rs. 103 million, or 2½ times the direct taxation. The comparable figure in 1937-8 was Rs. 75 million. The indirect taxation, other than export duties, falls ultimately on the consumer, whereas direct taxation (in Ceylon) falls mainly on the producer, since his price is determined by world markets and not by his cost of production. Export duties, therefore, are generally objectionable. By raising the cost of production they hinder the producer from competing in the world market, and the least efficient producers (chiefly the smallholders) are put out of business. The large and efficient producer of tea, generally a European company, will be able to compete so long as the taxation is not so high as to raise his costs above the market level. The Ceylonese producers are usually small producers since, as the Banking Commission explained, the Ceylonese do not take readily to joint-stock

<sup>64</sup> See Table X, p.49.

enterprise. In other words, export duties favour European capital.

The advantages of indirect taxation are that it is hidden, so that it is less unpopular, and that it reaches sections of the population which cannot be directly taxed. Thus, the consumer of rice generally does not know that he has paid tax to the Government as part of the price which he paid in the boutique. If he knew, he would probably raise objections, just as British electors since 1846 have consistently voted against any Government which proposed, or might be suspected of intending, to put a tax on imported wheat. Other indirect taxes also raise the price of the poor man's rice and curry. For instance, rice is generally distributed by lorry, and the cost of such distribution is raised by the import duties on lorries, petrol, oil, etc. It is for this reason that countries (like Great Britain and Ceylon) which depend in large measure on imports for their primary needs, tend to support 'free trade'. Import duties raise the cost of living, and in this respect Ceylon is perhaps worse off than Great Britain, since it imports finished textiles as well as food, whereas Great Britain imports the raw materials and converts them into textiles.

The burden of most import duties is passed on from importer to wholesaler, wholesaler to retailer, and retailer to consumer. Similarly the burden of toddy rents, arrack licences, and so on, is passed on to the consumer. It is, however, difficult, for instance, to find out who ultimately pays the import duty on machinery intended for production. If a newspaper imports a new printing machine, who pays the import duty in the long run? The price of the newspaper will remain unaltered, but production may be more rapid so that more

copies of that newspaper are sold and it puts up its advertisement rates: but these increased rates may be passed on by the advertisers. Thus, the person who changes his name from Smith to Jones pays part of the tax, but the advertiser of patent medicines passes it on to the sufferers from indigestion who are induced to buy the medicines. Making certain large assumptions, however, Professor B. B. Das Gupta has estimated that in 1938 the burden of taxation, local as well as national, was borne on the average by persons of various income-levels as indicated in Table XXI.

TABLE XXI:  
TAXATION AS A PERCENTAGE OF INCOME<sup>65</sup>

INCOME PER MONTH (Rs.)	PERCENTAGE OF TAXATION
25 rural	7.63
50 rural	6.01
50 urban	11.54
100 urban	10.52
100 rural	5.39
200 urban	10.27
200 rural	7.04
300 rural	5.59
300 urban	7.81
500 rural	9.97
500 urban	13.48
750 urban	11.84
1000 urban (fully earned Ceylonese)	12.42
1000 urban (fully earned European <sup>66</sup> )	15.04
2000 urban (earned)	16.34
2000 urban (half earned)	19.46
3000 urban (earned)	18.14
3000 urban (half earned)	20.88

It should be emphasized that a higher income is not necessarily evidence of ability to pay taxation. If we take an income of Rs. 200 a month as marking the

<sup>65</sup> *Report on Incidence of Taxation (Sessional Paper VII of 1942)*, p.44.

<sup>66</sup> The racial distinction is drawn because the Ceylonese and the Europeans spend their money differently at this level.

boundary between the working class and the middle class,<sup>67</sup> we shall find a great difference in the 'necessary expenses' of the successful cultivator—whose income is Rs. 200 a month but who still wears the same kind of clothes, eats the same kind of food and lives in the same kind of house (though larger) than the less successful villagers, sends his children to vernacular schools and withdraws them at the age of 12 or 14—and the Colombo clerk who is striving to keep up appearances on the same income. Nevertheless, it is considered that the percentage of taxation should rise with income. It will be noticed that, according to the estimate, the lowest percentage is paid not by those with the lowest income, but by those in the lower middle class—Rs. 100 (rural) and Rs. 300 (rural). This is the experience in Great Britain also, where the lowest proportion of tax is paid by those in the £250-£500 a year group.<sup>68</sup> The explanation is that in the lowest brackets taxation is indirect and, after a certain level, does not rise proportionately to income: on the other hand, these incomes are too low to be reached by much of the direct taxation.

#### 4. BORROWING

Nations, like individuals, can be tempted to live on borrowed money. Indeed, the potential resources of States being considerable, their credit is usually high, and they can in consequence borrow too easily. Newfoundland had to ask for a suspension of its self-government on account of the ease with which its politicians had been able to borrow in New York before the depression. Also the loans of

<sup>67</sup> In Great Britain it is put at £20 per annum or Rs. 260 per mensem, but it should be somewhat lower in Ceylon.

<sup>68</sup> *Sessional Paper VII of 1942*, p.55.

States, unlike those of private persons, cannot be called in. Since politicians can have the credit and the patronage which follows from the expenditure of Rs. 10 million merely by asking the taxpayer to pay Rs. 3½ lakhs a year, there is a great temptation to them to keep themselves in political power by doing so.

According to the strict principles of public finance, money should not be borrowed except for productive purposes. That is, the national debt should be increased only so as to increase the national income. Thus, borrowing for a hydro-electric scheme would be perfectly proper if the result were to increase the productivity of the Island and so raise the standard of living. Precisely what is a productive purpose is, however, often a matter of dispute. For instance, the education of the citizens can raise the productivity of the Island, so that it is arguable that it would be profitable to build a University with borrowed money. This kind of argument easily leads to political 'eye-wash', however. Thus, the building of a new post office will result in increased productivity if it improves the communications system sufficiently. In such a case building on borrowed money would be justified. In fact, however, there are countries, even within the British Commonwealth, where the argument is used to justify the provision of works and the spending of money in order to create a fictitious and purely temporary local prosperity. If the member for Bandycoot is uncertain of re-election, he may be tempted (and his political leaders may equally be tempted) to suggest the building of a big post office, hospital, or school. The people of Bandycoot will be pleased to have the improved facilities. What is more, while the building is going on there will be fat con-

tracts, plenty of jobs, plenty of money spent in the shops, and generally an air of prosperity in Bandycoot which will no doubt carry the member triumphantly at the top of the poll. This will not happen, though, if the people of Bandycoot have to pay increased taxes, so the solution is the use of borrowed money in such a way that not the constituents of the member for Bandycoot but that beloved entity posterity pays the price.

In actual fact posterity does not pay unless the money is borrowed from overseas, when posterity pays by sending tea, rubber, coconuts and other produce out of the country. If the money is borrowed internally, it is not posterity but the present generation that pays. If a new post office or hospital is built in Bandycoot, those who lend their money go without consumption goods in order to provide money for contractors, materials and labour. The money merely goes from Peter to Paul. The repayment is a transfer of money from Paul the taxpayer to Peter the borrower. What the State does in borrowing money is to get the lender and not the taxpayer to pay the price by forgoing some of his luxuries. Politicians prefer that, of course, because the taxpayer votes against them while the lender does not. Let it not be thought, however, that 'post-war development' or any other scheme for spending borrowed money can be carried out without reducing in some measure the standard of living of some at least of the present generation. The present generation pays and posterity gets the benefit, if any. To effect this may, of course, be the highest art of statesmanship. On the other hand, it is the height of folly if posterity gets a white elephant with a remarkable appetite.

Actually, the finances of Ceylon have been managed

with great conservatism, in the traditions of the British Treasury. The result is that, though Ceylon may not have the public works (other than roads), schools, hospitals, etc., that it needs, it has a very small national debt. Of course, where the national debt is held internally (as most of it is in Great Britain) repayment does not involve any reduction in the standard of living, but it does require a very large annual demand from the taxpayer. It is not possible to determine what proportion of the national debt is owed externally, because sterling loans may be held by Ceylonese and rupee loans by non-resident non-Ceylonese. A large part of the Home Defence and National Loans are held by overseas companies and European individuals. Only recently have the Ceylonese taken any great interest in the loans, since they preferred to waste the gifts from Mars in buying land from canny Englishmen (and cannier Scots) at inflated prices and in buying luxury goods from equally canny Indians. So long as loans are held in the country, it makes no difference what is the 'race' of the lender: but if he goes overseas, he has to be repaid in tea, rubber and coconuts. Against the external debt, too, must be placed the external investments, which are fortunately large in spite of the tradition against 'sending money out of the country'. The balances are shown in Tables XXII and XXII A.

It will be seen that there was a remarkable change from 30 September 1943 to 30 September 1944, due no doubt to the vast Imperial expenditure in the Island. It is certain that the development continued to 1945, for which no figures were available at the time of writing.

The internal debt is of recent creation, and most of it was raised during the war. The particulars are given in Table XXIII.

TABLE XXII :  
OVERSEAS LOANS AND INVESTMENTS, 1943 <sup>69</sup>

	Rs.	Rs.	Rs.
Sterling Loans (gross)		125,450,333.33	
Less Sinking Funds		24,709,164.50	
Net External Debt			100,741,168.83
Sterling Invest- ments—			
Cash Balances	34,654,834.84		
Ceylon University	3,080,562.94		
Sinking Fund	314,556.61		
		38,049,954.39	
Indian Rupee In- vestments		3,099,483.17	
War Loans <sup>70</sup>		59,859,025.00	101,008,462.56
Excess of investments			267,293.73 <sup>71</sup>

TABLE XXII A :  
OVERSEAS LOANS AND INVESTMENTS, 1944 <sup>72</sup>

	Rs.	Rs.	Rs.
Sterling Loans (gross)		125,450,333.33	
Less Sinking Funds		28,397,788.24	
Net External Debt			97,052,545.09
Sterling Invest- ments—			
Cash Balances	92,805,674.17		
Ceylon University	3,163,397.39		
Sinking Fund	312,367.00		
		96,281,438.56	
Indian Rupee In- vestments		48,729,776.11	
War Loans		77,413,615.00	222,424,829.67
Excess of investments			125,372,284.58

The net debt on 30 September 1943, as calculated

<sup>69</sup> Calculated from *Sessional Paper VIII* of 1944.

<sup>70</sup> These loans are raised internally and lent to the Government of the United Kingdom, by whom they are repayable. They are therefore investments by the Government of Ceylon.

<sup>71</sup> This excludes securities held by the Currency Commissioners.

<sup>72</sup> Calculated from *Sessional Paper XI* of 1945.

by the Treasury, was Rs. 188,902,823.59 <sup>73</sup> excluding the War Loans which are repayable by the Government of the United Kingdom. To distinguish internal and external debt, however, it is necessary to set off the investments. On that basis the net debt was Rs. 136,420,983.51 less Rs. 267,293.73 or Rs. 136,153,689.78. This was roughly Rs. 21 per head of population, an extraordinarily low rate of debt which bears evidence of careful financial management.

TABLE XXIII :  
INTERNAL LOANS AND INVESTMENTS, 1943 <sup>74</sup>

	Rs.	Rs.
Rupee Loans (gross)	93,270,000.00	
Less Sinking Funds	15,108,345.24	
		78,161,654.76
War Loans		59,859,025.00
		138,020,679.76
Rupee Investments—		
Cash Balances	87,420.00	
Ceylon University Fund	1,512,276.25	1,599,696.25
Net Internal Debt		136,420,983.51

TABLE XXIII A :  
INTERNAL LOANS AND INVESTMENTS, 1944 <sup>75</sup>

	Rs.	Rs.
Rupee Loans (gross)	294,645,633.33	
Less Sinking Fund.	15,293,107.85	
		279,352,525.48
War Loans		77,413,615.00
		201,938,910.48
Rupee Investments—		
Ceylon University Fund	1,418,157.50	
Electrical Undertakings	1,588,125.00	3,006,282.50
Net Internal Debt		198,932,627.98

<sup>73</sup> Calculated from *Sessional Paper VIII* of 1944, p. 33.

<sup>74</sup> *ibid.*

<sup>75</sup> Calculated from *Sessional Paper XI* of 1945.

The net debt on 30 September 1944, as calculated by the Treasury,<sup>76</sup> was Rs. 250,954, 737.24, again excluding the War Loans. Calculating the net debt as before, however, by setting off the investments, we find it to be: Rs.198,932,627.98 less Rs.125,372,284.58 or Rs.73,560,343.4. This is about Rs. 11 per head of population. The change since 1943 is of course due to the accumulation of cash balances in London and Bombay.

In recent years, however, there has been a substantial increase in expenditure from loan funds. Table XXIV gives a complete picture of income and expenditure over a number of years.

TABLE XXIV :  
REVENUE AND EXPENDITURE, 1933 TO 1944 <sup>77</sup>

YEAR	REVENUE	CURRENT EXPENDITURE	LOAN EXPENDITURE
	Rs. Cts.	Rs. Cts.	Rs. Cts.
1933-4	99,761,299.97	93,299,497.58	1,106,622.84
1934-5	98,993,551.55	107,012,221.77	1,882,808.58
1935-6	102,770,506.64	109,463,460.90	2,167,871.41
1936-7	105,349,724.65	108,757,051.12	2,854,721.79
1937-8	113,322,554.39	115,337,075.47	5,142,252.24
1938-9	116,923,463.16	127,050,757.04	7,610,167.36
1939-40	123,130,498.93	122,356,249.03	6,476,524.87
1940-1	132,427,034.81	127,345,109.14	5,442,590.03
1941-2	156,545,572.55	153,289,233.01	23,691,360.80
1942-3	200,006,747.39	185,006,506.65	26,142,941.92
1943-4	249,336,887.37	210,680,627.41	27,687,616.21

This shows that, though theory proclaims that the reverse should be done, Government expenditure rises on a boom and falls on a depression. This is almost inevitable under a democratic political system. Members of the legislature demand expenditure when the boom gives them a feeling of confidence and economy when the ensuing depression writes gloom in their hearts. It used to be said in Great Britain that the spirits of mem-

<sup>76</sup> *Sessional Paper XI of 1945*, p.35.

<sup>77</sup> *ibid.*, p.19.

bers of Parliament rose and fell with those of the London Stock Exchange. In a boom they are bulls and in a depression they are bears. So the spirits of members of the State Council rise and fall with the price of rubber, though it is quite possible that they do not know it.

## CHAPTER VIII

# EMPLOYMENT & UNEMPLOYMENT

There is considerable economic significance in the fact that the annual compilation of Ceylon statistics, the *Ceylon Blue Book*, contains no reference to employment or unemployment. This is partly due to weakness in the pre-war statistical service, because figures of estate employment could easily be published and figures of urban employment in selected trades and industries could be collected without much effort. Employment figures are adequate, however, only when all workers and other employees are insured under a social insurance scheme, though actually it is difficult to devise a social insurance scheme until one has figures of employment and unemployment. The significance of the absence of any reference to unemployment is, however, that there is hardly any. In industrialized countries, nearly all youths and men and many women have jobs from which they receive wages or salaries. In Ceylon the great mass of the population has no job. Its occupation is agriculture. It gets paddy, vegetables, fruits, coconuts and chena crops, but no wages or salaries. It is true that many of them are employed on estates and by contractors and that this employment is the margin that subsists between a reasonable, though low, standard of living and abject poverty. But when the price of rubber and coconuts falls and the estates no longer employ village labour the villager is not unemployed; he is under-employed.

In fact, observation suggests that this is the chronic condition of the Ceylon villager. The visitor to the Island, like the late Commander-in-Chief, cannot understand why there is a collection of idlers in every village. He is accustomed to an agricultural system in which every villager works from dawn to dusk, unlike the industrial worker who 'clocks in' and 'clocks out' when the factory siren sounds at fixed times. The explanation is that the Ceylon villager relies mainly on paddy and coconuts. Since he does not use modern methods for paddy cultivation, the fields are usually unoccupied; while coconuts, like Topsy, just grow, though (like Topsy) they grow better if they are fed. Accordingly, though there are seasons when the villager is busy, there are others which he passes in quiet contemplation of the mysteries of life. Farmers elsewhere have a variety of farming occupations. If they grow wheat they also do many other things—prune and spray the fruit trees and bushes, hoe the vegetable plot, milk the cows, shear the sheep, feed the poultry, water the horses, grease the tractors, clean the cowsheds, pigsties, hen-coops and stables, tend the manure heaps, and generally do the thousand and one daily jobs of efficient farming. Farming in Ceylon is fundamentally inefficient: and in the off-seasons the villager is either employed on the estates or not employed at all. (All this, of course, does not apply to Jaffna.)

When we talk about employment and unemployment in Ceylon, therefore, we omit ordinary agriculture from consideration. We are really concerned with the estate workers and the urban employees.

The estate population is in a peculiar position because a substantial section of it, particularly on the tea estates, is immigrant labour. In round figures we may

say that of 564,000 estate employees some 433,000 are Indian, and that of these perhaps 150,000 are migrants who intend to return to India.<sup>78</sup> One of the few advantages of a migrant labour force is that it is elastic. It expands in a boom without giving rise to a competition for labour and contracts in a depression. Expansion is, however, now prevented, at least temporarily, by the Government of India; and it will probably follow that in the next depression there will be little emigration, except of labourers and their families who do not intend to return. Between 1930 and 1933, on the other hand, over 100,000 Indian labourers left the Island.<sup>79</sup> Thus Ceylon got rid of the largest section of its unemployed by the process of returning them to India. If, as seems probable, this experience is not repeated, Ceylon will have a considerable unemployment problem on its hands. Probably, however, the first effect on estate labour would be the non-employment of non-resident labour, which would thus have to depend solely on village cultivation and chenas (where available). The dismissal of resident labour would be a more serious problem, since presumably they would leave the lines and thus become homeless. Moreover, depression affects the estate staffs as well as the labour force. In 1932 it was estimated that the following were unemployed:<sup>80</sup>

Superintendents and Assistant Superintendents	434
Conductors .. .. .	550
Clerks .. .. .	334
Dispensers .. .. .	159
	<hr/>
Total ..	1,477

The effects of the trade cycle are, however, most noticeable in the towns. There being little industry, the

<sup>78</sup> See Table IX, and pp. 45-6.

<sup>79</sup> *Unemployment in Ceylon (Sessional Paper VII of 1937)*, p. 5.

<sup>80</sup> *ibid.*

towns are essentially trading centres, and trade depends on tea, rubber and coconuts. When their prices rise, the towns prosper; when they fall, the towns are depressed. Precisely what happens has never been investigated, because the examination of the depression of 1930-3 was partial and cursory. It appears that, outside Colombo, the effects were not very considerable. The evidence given to the Commissioner in 1934 was that unemployment had not resulted in destitution so great as to drive any appreciable number of persons to accept hard and uncongenial work as an alternative to starvation.<sup>81</sup> The evidence suggested that it was not so much the working classes who had suffered from unemployment as the more 'respectable' classes, such as clerks, conductors, tea-makers, etc. This is the kind of evidence which is suspect, however, for it was apparently not based on any survey but was an 'impression' obtained by the members of the middle classes who gave evidence.

However, it is agreed that Colombo was the serious problem. Normally there is in Colombo a great deal of casual labour which is able to obtain employment but not full employment when trade is slack. After 1930 there was actual unemployment. It is not at all clear which way the population moves in such conditions. The evidence suggests that when tappers are not needed and work is stopped on coconut estates and in coconut mills, the workers move to Colombo in search of work. Logic suggests, on the other hand, that people with relatives in the villages will move out because they can get food. Probably there is two-way traffic, movement into Colombo in search of work and out of

<sup>81</sup> *Report on the Proposal to Introduce Statutory Provision for Poor Relief in Ceylon (Sessional Paper XX of 1934)*, p. 87.

Colombo in search of food. In any case, the problem in Colombo, judged by the standards of an industrialized country, is small. Great Britain, at the bottom of the depression, had three million unemployed and, since an industrial population (unlike an agricultural population) has no resources other than its labour and its savings, there would have been widespread destitution had it not been for the unemployment insurance system. This is part of the price of industrialization. Comparable figures for Ceylon are not available because, in the absence of any unemployment insurance or poor relief system, there are no means of collecting them. In August 1931, there were 510 individuals in receipt of relief from the Mayor's Fund. When, in the following month, the able-bodied were offered relief work at wages instead of a dole, 31 men reported that they had found other work, and only 303 turned up for relief work. This consisted of levelling and filling and was of course unsuitable for skilled men and clerks: but starving men do not pick and choose. In addition to the 303 able-bodied men, there were 91 persons who received relief without work. That same month, however, the Irrigation Department offered employment in the Colombo Flood Protection Scheme, and from November until January 1932, some 2,000 workers were employed, the maximum number being 2,055. The Department estimates that, if the work had been done in normal conditions, it would have cost Rs. 53,500. In fact it cost Rs. 58,500. Other relief works were started and continued almost to the outbreak of war, though by that time it had ceased to be relief work. The Municipality also began relief works under conditions carefully framed by the Charity Commissioner. By April 1932, some 1,500 persons were employed. The expenditure

of the Council was Rs. 40,620 in 1931; Rs. 286,202 in 1932; and Rs. 287,206 in 1933.

In such employment conditions as those of Colombo, however, it is not easy to define 'unemployment'. The Charity Commissioner considers that some of those who went on relief did so because it offered regular work, though at low rates, instead of the casual work to which they were accustomed. There were other cases: 'Men such as cooks, dressing boys, chauffeurs, etc., who have lost their jobs, but might probably find work at reduced wages in their respective occupations, prefer to work for three or four hours in the mornings and earn Rs. 13 a month rather than tie themselves down to regular jobs at which they could earn a similar amount, but at which they are required to be on duty for much longer hours.' There was suspicion, too, that persons were doing relief work in the mornings and pulling rickshaws in the evening. The Charity Commissioner estimated, however, that there were 7,500 genuine unemployed in the city.<sup>82</sup>

So far, relief works had been organized by the Colombo Municipality with the aid of a Government subsidy. In 1936, however, the Council declined the responsibility, which was taken over by the Department of Labour. At the end of 1937 there were over 900 registered unemployed given work on relief schemes. The number was increased to 1,200 in 1938 because the Executive Committee of Labour, Industry and Commerce decided that men who had been discontinued for such reason as continued absence without leave should be re-employed. The cost of the works in 1937-8 was Rs. 228,000.<sup>83</sup> A census of unemployed

<sup>82</sup> *ibid.*, pp. 72-4.

<sup>83</sup> *Administration Report of the Controller of Labour for 1938*, pp.14-15.

was taken in 1938, and 13,166 persons were listed, or less than 0.4 per cent. of the population.<sup>84</sup> The unemployed were classified as follows:<sup>85</sup>

Professional and technical	..	..	95
Clerical	..	..	1,231
Skilled	..	..	4,562
Semi-skilled	..	..	2,656
Unskilled	..	..	4,622
			<hr/>
Total	..	..	13,166

Of the total, 82 per cent were Ceylonese.

These figures, and particularly the classification, must be regarded with suspicion. What a man says about himself is of even less value as evidence than what the soldier said, as every employer of 'cooks' is aware. A person in employment may register himself as unemployed in case anything is to be made out of it. An unemployed person may refrain from registering because he distrusts the Government and all its works, especially its relief works. No accurate figures are possible except under an employment registration scheme or an unemployment insurance scheme (which is, of course, the same thing). All that one can conclude from the census is that the problem of unemployment, as distinct from under-employment, is not of very great magnitude.

Unemployment is a necessary evil in industrialized countries. Even on the upward swing of the trade cycle, when there is actually a demand for labour, there is unemployment. The weather, for instance, may create temporary unemployment in building and other outdoor work. A shift of demand will create unemployment because the men are dismissed from one factory and some time elapses before they are

<sup>84</sup> *ibid.*, p. 16.

<sup>85</sup> *ibid.*, p. 17.

absorbed into others. Nor must it be forgotten that employees are of varying qualities. Some are excellent workmen, the great majority are just competent, others are inferior, and some are almost completely unemployable. Persons are often classed as 'able-bodied' and therefore employable when in fact they are almost mentally deficient. They are taken on only *in extremis*, when shortage of labour is so acute that anybody with two hands and two legs can get a job, but they are dismissed as soon as possible. Also, not every man can take any job. There may be a shortage of skilled labour of various grades and yet a surplus of skilled labour generally; or there may be a shortage of skilled labour and a surplus of unskilled labour. In Ceylon, the prestige attached to clerical and other 'white-collar' work often produces a surplus of clerks while there is a dearth of skilled and even unskilled labour. Accordingly, the unemployed are always with us and always will be. Such statements as the assertion that 'there is no unemployment in the Soviet Union' are nonsense. It is a matter of classification or mere words. In a capitalist country like Great Britain, a person who has to leave his employment takes his insurance benefit until he is re-employed. In the Soviet Union he continues to receive wages, though often on a lower level because he goes off piece-work, until he is given another job. Since the British unemployment insurance benefit gives him a higher standard of living than Soviet wages, the difference is simply one of nomenclature due to the difference of economic organization. In a capitalist system he is paid first by the employer, then by the State, and then by the employer. In the socialist system he is always paid by the State, unless indeed he is dismissed for

incompetence, obstreperousness, or refusal to work, in which case he is simply ignored or appears as a member of a compulsory labour gang. In Ceylon there is no unemployment insurance, and the only provision for him is relief. An efficiently run socialist system is of course more efficient than an efficiently run capitalist system because there is central direction and it is possible to 'take in the slack' and make extensions elsewhere: the problem of unemployment can therefore be minimized, though unemployment cannot be prevented.

Apart from the ordinary effects of the trade cycle, there are indirect effects, as there were in 1930-3. As we have seen, the financial resources of the Island are derived mainly from tea, rubber and coconuts. Consequently it becomes, and became during the last depression, difficult to balance the budget. Since the Island had not built up credit balances during the boom, the inevitable action was a heavy reduction of national expenditure. The number of persons directly employed by Government was reduced from 69,282 in 1930 to 60,553 in 1933. Even more important was the fall in the expenditure of the Public Works Department from Rs. 24,111,295 in 1928-9 to Rs. 4,919,643 in 1933-4.<sup>86</sup> The absurdity of the policy was thus made manifest. On the one hand the State was creating unemployment and stopping public works. On the other hand it was undertaking relief works in order to diminish unemployment. If its right hand knew what its left hand was doing, there was singular lack of unanimity. The orthodox financier will not approve of budgeting for a deficit, and no doubt he is right: but

<sup>86</sup> *Unemployment in Ceylon (Sessional Paper VII of 1937)*, p. 5.

this implies that during a boom he must save in order to spend during a depression. Ceylon has a perfect barometer: when the price of rubber is rising, the prospect is fair; when it is falling, the prospect is stormy. What the Government did was to take its umbrella while the sun was shining and to leave it at home as soon as the rain threatened to fall.

It is true that the problem of unemployment was not very considerable. The normal figure of unemployment in Great Britain is 1,000,000. Ceylon has at least avoided that by remaining agricultural. Even so, the effect of the fall in the prices of tea, rubber and coconuts was to lower the standard of living of the villagers and to make them an easy prey to the drought and malaria which came in 1934 and 1935. A large part of the expenditure of the Public Works Department goes to the villages, whence contract labour is usually obtained. So, the villagers having been deprived of employment on the estates, were promptly deprived by the Government of the other subsidiary employment. Nevertheless, it must be emphasized that budgeting for a deficit is undesirable unless it is either preceded or followed by budgeting for a surplus. Make hay while the sun shines and eat it during the winter.

The experience of other countries suggests that the policy of relief works must be regarded with grave suspicion. If work needs to be done, it should be organized properly and efficiently and not done in order to justify a dole. Very often it consists in digging a hole and filling it. Moreover, the men should appreciate that they are doing a real job, not passing the time until they get another. It is, too, a most expensive way of relieving unemployment, for on most works only a small proportion of the expenditure is

required for wages, and the people who profit most are the contractors and those who supply materials. The policy of 'pump-priming' has been well accepted, but one does not prime a pump by scraping off the rust and repainting it: one must inject expenditure where it will cause the machine to be restarted, and this can be done only where one has a very close appreciation of the working of the economic system. In fact what the Government ought to do, if the metaphor may be changed, is to stand on the brake during the boom and tread on the accelerator during the depression, but keep the car going in the same direction. In other words, it needs a policy of economic development, a policy which is difficult enough to frame under any Constitution but was impossible under the Donoughmore Constitution.

The problem of employment is also the problem of wages, for few men work except for what they get out of it. Wages in Ceylon are low, but the fact that, in normal times, it is easy to get immigrant labour shows that they are attractive to the Indian villagers. Wages of course include all the services rendered by the employer, and on the tea and rubber estates they are considerable—free housing, free medical attention, free schools, free meals for children and often free land. There is, however, a limit beyond which wages cannot be pushed up on an estate without putting the estate out of production. The price of rubber is not fixed by the Government of Ceylon, but by the operation of supply and demand in the market. An estate may for a time operate at a loss, but only in anticipation of a profit. If that anticipation is not realized, the estate will go out of production. A rise in wages involves a considerable increase in the cost of

production, and if that increase destroys the profit, it also destroys the source of employment, deprives the country of an export which helps to pay for the imports, reduces the purchasing power of the people, and diminishes the revenues of Government. An increase of wages which caused a great many estates to go out of production would be an economic catastrophe. On the other hand, not all estates go out of production at the same level because their costs of production are not equal. For instance, if rubber could be produced at the same price in the Kelani Valley and Wellawaya, the estates in Wellawaya would go out of production before those of the Kelani Valley, because their transport costs are higher. Most Ceylonese estates would go out of production before most European estates because the latter are, generally, better capitalized and have not to pay mortgage interest, can bear a loss for a longer period without going into liquidation, and have better financing and marketing facilities.<sup>87</sup> The estates which go out of production are 'marginal' estates, those which, over a sufficiently long period, have just been able to pay their way but can no longer do so because of the increased wages.

The elimination of the marginal producers is not necessarily an economic crime. If there is over-production, their elimination may help to raise the price of the commodity (in which case, of course, the marginal estates, unless destroyed or prevented, would come back into production) though it would be wise to do this (as has been done) by international agreement. Further, if a labourers receive wages at  $x$  cents, the

<sup>87</sup> Lest this be thought to be racial prejudice, reference should be made to the *Report of the Ceylon Banking Commission* (Sessional Paper XXII of 1934), pp. 161-2.

total wage bill,  $ax$ , may be greater than the total wage bill received by  $b$  labourers at  $y$  cents, or  $by$ . This is not in itself conclusive, for in the former case the amount of rubber exported will be less, fewer people will be paid for transporting it and handling it, less taxation will be obtained, the bonuses of superintendents will be less and they will spend less, and so on. The task of assessing losses and gains is so complicated and difficult that many economists say that it cannot be done, particularly by politicians who know little or nothing about it and who may have axes to grind.

In most countries, however, the task of fixing the margin is done neither by the politicians nor by the market, but by collective agreements between employers' federations and trade unions. The essential function of a trade union is to protect the worker against himself. He is utterly dependent on his wages, for without them he and his family will starve. Usually (though in many cases this is no longer true of Great Britain owing to the spread of the savings habit) he cannot withhold his labour because he has no reserves. On the other hand, the employer is usually well capitalized and has reserves which enable him (or usually it, for it is generally a joint-stock company) to carry a loss for a substantial period. Unless there is a shortage of labour, the employer can thus force down wages to a level which is barely sufficient to maintain the worker as an efficient producer. There is no equality of bargaining power in such circumstances. The purpose of a trade union is to redress the balance. If all the workers in an industry, say the rubber-tappers, band themselves together and agree to refuse to accept a wage below an agreed figure, there is some chance of getting it. Of course, it may mean a trial of strength,

which means a strike. Unless the trade union has substantial funds to pay 'strike pay', the strike will be effective only so long as the workers are prepared to starve for the sake of victory. In practice, if the employers are strongly organized and well capitalized, they can usually win, because the weaker trade unionists prefer low wages to starvation and the number of 'blacklegs' increases until the strike is broken. This has happened even with strong trade unions. On the other hand, the employers do not want a strike in which they will lose a great deal of money, and they do want a contented labour force. Accordingly, if the workers' demands are not extravagant it is usually possible to reach agreement, and indeed a strong trade union considers that it has failed if it has to use the strike weapon. There are trade unions, particularly those in public and utility services, which have no power to call a strike, because either their rules or general legislation forbids it. The essential task is to reach agreement.

Moreover, the trade union must not kill the goose that lays the golden eggs. A rise in wages by trade union action has precisely the same effect as a rise in wages by legislative action. It puts the marginal producer out of production. There are complications where production is for an internal market, but as there is no internal market in Ceylon we need not consider them. If estate labourers were to attempt by common action to raise wages to an uneconomic level, they would not only ruin the country but also lose their jobs. The capitalists would cut their losses and buy estates in Malaya, where labour, as they would put it, is more sensible. A well-organized trade union is run by men who know the trade as well as the employers. What is more, the employers do their best to enlighten them. When

the negotiations take place the employers produce their evidence and try to convince the union leaders that their demands, if acceded to, would have a serious effect on the industry and would thus cause unemployment and serious loss to the men both as employees and as citizens. For all these reasons the collective agreement is the normal and the strike the abnormal.

There may also be a third party, the public. The effect of a strike on the general public may be immediate or it may be remote, but there is certainly an effect. If there is a strike in a bus service or on the railway, members of the public have to walk or to stay where they are. Unless they think that there is justification for this inconvenience, they soon make their views known, and these views have considerable effect on the contesting parties. Even where the effect is remote, there is usually a public opinion. A strike on an estate would cause loss of spending power locally: a strike on all the estates would cause not only loss of spending power in the estate country but also considerable unemployment among people like truck drivers and in Colombo. In Great Britain there is rarely a large strike without an appeal to the public on both sides; but, of course, such strikes are rare.

From the trade union point of view, Ceylon is very badly organized. There are trade unions, but they are small and inefficient. In 1938 the largest was the Ceylon Labour Union, with 3,724 members and an income of Rs. 12,272.20. Its balance in hand was Rs. 15.<sup>88</sup> There was no other with a membership of more than 1,000, and there were only 23 employees' unions. In 1943, the Ceylon Labour Union had 9,075 members and a deficit

<sup>88</sup> *Administration Report of the Controller of Labour for 1938*, p.64.

of Rs. 18,000, its income being Rs. 2,053 only. The Ceylon Indian Workers' Federation had 6,470 members, an income of Rs. 3,466, and a deficit of Rs. 3,846. The Ceylon Indian Congress Labour Union had 51,718 members, an income of Rs. 13,234 and a balance of Rs. 12,094.<sup>89</sup> Nor does it appear that the purpose of a trade union is well understood. It may almost be said that the purpose in Ceylon is to supply an advocate for a person who is disputing with an employer, whether the person has a case or not. A trade union must, of course, prevent injustice to individual members; but where both sides are reasonable and trade unionism is the general practice it is easy enough for agreement to be reached between the shop steward and the manager without creating a fuss of any kind. If the employee has a bad case, the shop steward drops the matter; if he has a good case, the manager gives way. There have been strikes over individual injustices, but they are rare, and they show stupidity on somebody's part. In Ceylon few, whether employers or employees, recognize that a trade union is primarily a negotiating machinery, an apparatus for ensuring that reasonable conditions are established by agreement, that complaints can be immediately examined and defects rectified and generally that relations between employers and employees are happy. After all, they are all interested in the success of the business.

There are, of course, other functions. In Great Britain most trade unions began as friendly societies providing benefits for their members. Unemployment insurance began as a trade union activity and was later taken over by the State. Membership of a trade union was a form of health and even of life insurance, and in some measure it still is. Moreover, the unions are inter-

<sup>89</sup> *ibid.*, 1943, pp. 38-40.

ested in industrial legislation and its administration. The trade unions are consulted about changes in the law, and they themselves make representations about defects in the law and its administration. They take up workmen's compensation claims, appeal to courts of referees or the Minister about national insurance, and so on. In short, they are the representatives of the workers, anxious to improve their lot. The General Secretary of a trade union has a status almost equivalent to that of a Cabinet Minister.

Many of the trade unions in Great Britain have in fact gone further. They have examined fundamental problems relating to the organization of industry and its relation to the State. Considering that their views could not be furthered without political action, they have through the Trade Union Congress associated themselves with the policy of the Labour Party. Some of the Ceylon trade unions have done the same, but they have tried to run before they have learned to walk. The political influence of the British trade unions has been substantial precisely because they are highly organized on the industrial side and can be said to be truly representative of the workers in their respective industries.

## CHAPTER IX

# EDUCATION

The importance of education has emerged from several of the preceding chapters. Capital, raw materials, even machinery, are useless without the men and the women capable of making intelligent application of them. Water and fire were known long before James Watt discovered the uses of steam. The difference between Great Britain and Ceylon is not due primarily to a greater abundance of raw materials, or a greater population. It is due to the fact that for centuries past Great Britain has in each generation produced at least a small minority of citizens with intelligence, energy and initiative. While Ceylon was in its 'dark ages', a slow but definite development was taking place in England and Scotland. It burst into a brilliant constellation while the Portuguese were extending their sway over the low country and Jaffna. England in the sixteenth and seventeenth centuries produced poets and scientists, intrepid adventurers, men of imagination and initiative, men who fought the Spaniards in their little ships and girdled the world, men who could write prose and verse that echo down the corridors of time. Such a generation produced others almost as brilliant. England in 1600 had a population no greater than Ceylon had in 1921, and even in 1750 there were no more Englishmen than there are Ceylonese today. Their influence on the world has, however, been profound, and it was due rather to their own qualities than

to the qualities of the soil from which they had sprung. It is, perhaps, an accident of history that the descendants of the Kings of Scotland and England have succeeded to the thrones of the Sinhalese kings, and not vice versa; and that a British Governor resides in Colombo instead of a Sinhalese Governor in London. So far as sociology can tell us, there is nothing inherently superior in any 'race'; it is just that some people discover their souls and some do not. We who are concerned with Ceylon have somehow to find the spark which will set the Island alight, not perhaps to conquer the world or any part of it, but to spread virtue and enlightenment to its remotest corners.

The preceding chapters will also have made clear that the education that is required does not consist only in the acquisition of knowledge through textbooks and the passing of examinations. Just as one cannot make a poet by teaching him 'English' (or 'Sinhalese' or 'Tamil'), so one cannot make a successful businessman or industrialist by teaching him 'Commerce'. The knowledge that he acquires is not to be despised, but success in business as in poetry requires qualities that can be learned but not taught. To describe them is not easy, though they are as easily recognizable as an elephant. They include energy and initiative, intelligence and imagination, enterprise and judgement. A child is not born with these qualities, though his heredity may predispose him to them; he acquires them in the home, in the school, in the University, and in his social relations. The Government cannot directly affect the education derived in the home and in daily life. Universities have rich and varied traditions which they have developed through the ages and, provided that they are given funds and independence—for a University under

political control cannot hope to fulfil its task—they can be left to adapt themselves to their environment and to adapt their environment to themselves. It is through the schools that the Government can make its influence felt. Here, too, there must be a large measure of independence, for a school must have a personality which it impresses upon its pupils, and it cannot have a personality if it is cut to a pattern by a Minister, an Executive Committee, or a Director of Education. Above all the influence of politicians must be kept to a minimum; for, though politicians are excellent in their own sphere, which is politics, the politics of education are concerned with the provision of schools and the administration of the educational organization, not with the content of education.

Nations have their own methods of achieving the ends of education and must adapt them to their environment. The differences are not fundamental, however, and the social environment in Ceylon is so impregnated with ideas imported from Great Britain that British educational practices must obviously form the basis for development and adaptation. The qualities which go to make up a complete education are sought to be instilled in British schools by what is called the public-school tradition. Those whose ideas of the British educational system are antiquated tend to deride this tradition because it was, in its origin, limited to the private schools, miscalled public, which provided for the education of the middle classes. It has, however, been extended with the necessary adaptations to schools of all kinds, including the public elementary schools; and indeed it has been refined and improved in the best of the secondary schools. As introduced by Arnold in Rugby, it had a strong Christian bias, but it was rather

Christian morality than Christian dogma, and Christian morality is not fundamentally different from the morality taught elsewhere, with or without association with a religion. Nor is it wholly occidental in its origin and content; for though it was much influenced by Greek and Roman philosophy, its basis was in some measure oriental.

Its foundation is discipline and leadership, which are of course facets of the same thing. The school governs itself, not in the democratic manner, which is impossible among boys and girls of all ages, but through the forceful leadership of the older students in games, in schools societies, in literary production, and above all in the ordinary life of the school. This leadership need not be, and is not in its modern development, founded on punishment, 'fagging' or bullying. It is done essentially by 'character', the qualities which, in a man or a woman, determine success in enterprise. The Captain of the School (or Head Prefect) owes his exalted position—and in a sense no position is more exalted—to his capacity for leadership. He can, usually, quell a riot in that riotous body, the Shell or the Fourth Form, by walking in. If he has to dispense punishment (and the more successful he is the less he needs to use it), he does it coolly, impartially, and justly. He learns to lead, in other words, by the force of his personality. The rest learn to follow, an accomplishment at least as difficult to acquire and far more difficult to maintain. What is more, those who lead in one sphere follow in another. The Captain of the School plays under the instructions of the Captain of Football though the Captain of Football accepts the leadership of the Captain of the School in ordinary school life.

This is not a treatise on education, but it is neces-

sary to emphasize that the leadership and self-discipline which are to be found in schools, universities, political parties, trade unions, and the rest, are deliberately fomented by the educational system. The management and public spirit of the British are of quite recent creation and are no accident. There are, no doubt, other methods of achieving the same ends; but Ceylon has not yet found one.

The foundation of any modern educational system is universal compulsory education for at least nine school years. Theoretically, Ceylon has compulsory education from 6 to 14 years, but there are so many exceptions and the law is so laxly enforced that 'compulsory education is in substantial measure not compulsory'.<sup>90</sup> The figures are unfortunately defective. Table XXV gives such figures as are available on the assumptions that the number of children aged 5 to 13 years is 23 per cent

TABLE XXV :  
CHILDREN OF SCHOOL AGE ON THE ROLLS <sup>91</sup>

YEAR	POPULATION	CHILDREN 5—14	NUMBER AT SCHOOL	PERCENTAGE AT SCHOOL
1932	5,386,106	1,239,000	510,459	41.2
1933	5,415,576	1,246,000	529,935	42.5
1934	5,551,623	1,277,000	557,212	43.7
1935	5,598,467	1,288,000	573,314	44.5
1936	5,631,000	1,295,000	609,702	47.1
1937	5,712,000	1,314,000	668,113	50.8
1938	5,810,000	1,336,000	681,925	51.0
1939	5,897,000	1,356,000	709,461	52.3
1940	5,951,000	1,369,000	(not available)	—
1941	6,020,000	1,385,000	728,419	52.6
1942	6,021,000	1,385,000	715,203	51.7
1943	6,134,000	1,411,000	752,142	53.3

<sup>90</sup> Report of the Special Committee on Education (Sessional Paper XXIV of 1943), p. 24

<sup>91</sup> Administration Reports of the Registrar-General and of the Director of Education.

of the population and that the number of children over 14 at school is 60,000.

These figures must be considered in the light of the further fact that, of those on the rolls, only about 75 per cent are normally in attendance.

It appears probable that the gap between those who ought to be at school and those who are at school is due primarily not to any large number of children who do not go to school at all, but to a very large number who go to school for a few years only. The only figures available are those given in Table XXVI.

TABLE XXVI : WASTAGE AT SCHOOL <sup>92</sup>

STANDARD	AVERAGE ATTENDANCE 1936-7	AVERAGE ATTENDANCE 1937-8	WASTAGE	PER-CENTAGE
II	90,250	91,487	—	—
III	85,200	84,107	6,143	6.8
IV	58,600	54,737	30,463	33.8
V	38,950	37,441	21,159	36.1
VI	22,250	21,350	17,600	45.2
VII	16,400	15,119	7,131	32.0
VIII	20,750	18,783	- 2,383	- 14.5

It will be seen that, of some 120,000 children (allowing an average attendance of 75 per cent) who reached the second standard, only 20,000 survived to the seventh standard. Standard II is in general the age-group 7-8, while Standard VII is the age-group 12-13. In other words, at least five-sixths of the students who ought to be at school for nine years do not complete six years.

In a memorandum which he submitted to the Minister for Education in 1944, the Director of Education made the following estimates:—

<sup>92</sup> *Administration Report of the Director of Education for 1938*, p. 13. (The increase in Standard VIII was due to stagnation of pupils at the Junior School Certificate stage.)

Number at school	810,000
Number who had been to school but had left early	550,000
Number who had not been to school	100,000
	<hr/>
Number of children of school age	1,460,000

The assumptions necessary to obtain such figures were, however, so considerable that not much reliance can be placed upon them. If they are correct, the following propositions are correct.

(1) Of the 160,000 children who reach the age of 5 each year, 10,000 will receive no education at all.

(2) Of the 150,000 children who receive some education, 30,000 will leave school before reaching the age of 10.

(3) Of the 120,000 children who remain at school at the age of 10, 60,000 will leave before the age of 12.

(4) Of the 160,000 children who ought to do *nine* years' schooling, only 30,000 or 19 per cent, will complete *six* years.

It must be remembered, too, that the great majority of those in attendance at school study in Sinhalese and Tamil schools. Educational experts are now firmly of opinion that primary education ought to be given through the medium of the child's home language. The difficulty is, however, that neither Sinhalese nor (apparently) Tamil has yet been adapted for modern educational purposes. Both languages, too, are difficult to read and write. Accordingly, more and not less instruction is necessary to reach a reasonable standard of literacy than is the case with a European language. On the other hand, research among bilingual students suggests that, in the early years, there is a slight retardation, though this is more than made up in the later

years of school life. The development of bilingualism in Ceylon and the use of English for purposes of instruction in all schools would not, therefore, improve the position unless education for the minimum of nine years were made genuinely compulsory. There cannot be any doubt, however, that if the people became completely bilingual, if English were used (at least after a couple of years) as the medium of instruction, and if at least nine years of education were compulsory, the capacity of Ceylonese workers would be improved and their standard of living raised. Though spurious educational reasons are given against this course (as in the *Report of the Majority of the Special Committee on Education*<sup>93</sup>), the genuine reasons appear to be sentimental, and may perhaps be summarized as an anxiety to create a somewhat exclusive nationalism in the Island. This book being concerned with economic questions only, it is not necessary to balance the economic advantages of English against the nationalistic advantages of Sinhalese and Tamil. It may be mentioned, however, that 'English, more English, and better English' does not necessarily imply the disappearance of Sinhalese as a language. If bilingual people use both languages, the economically less useful language does not die out; for it is usually better suited for purely social purposes. However, this is not a matter with which we are concerned: the economic advantages of English are certainly considerable.

Compulsory education for nine years does nothing more than provide a foundation on which knowledge can be built. The more advanced countries regard even nine years as insufficient. In Great Britain it was decided to raise the minimum to ten years, and the neces-

<sup>93</sup> *Sessional Paper XXIV of 1943*, p. 23.

sary steps were taken to provide the schools and teachers. Under the Education Act, 1944, the school-leaving age will be raised to 16 as soon as schools and teachers have been provided. Nine years' elementary education is, however, the irreducible minimum, since an intelligent worker and citizen cannot be made in less. To meet the economic needs of the country, further education must be provided for many. This further education may be roughly classified as follows:

*University education* : Teachers, ministers of religion, lawyers, medical and dental practitioners, engineers, research workers, administrators of the highest grade (e.g. civil servants in the Ceylon sense), and the learned professions generally.

*Secondary education*: (i) Up to 18 or 19: administrators of the executive grades, the professions other than the learned professions.

(ii) Up to 16: the remaining white-collar workers, especially clerks.

*Technical education*: All skilled workers and many, if not most, of the semi-skilled.

These classes are not mutually exclusive. For instance, a stenographer requires secondary education and some technical education in shorthand and type-writing. Again, the manager of a printing works ought to have some technical knowledge of printing, even though his main function is supervisory. Nor need the technical education necessarily be given in a school. Until very recently it was nearly all obtained through apprenticeship in Great Britain, though in countries like the United States, Germany and the Soviet Union the main instrument is the Technical school. Also, the technical education does not necessarily demand full-time study. It can also be obtained in works schools,

night schools, week-end schools, summer schools, etc. Finally, it must be remembered that the educational requirements of nearly all grades other than the unskilled workers and the clerks are increasing owing to the use of machinery, large-scale commercial and industrial organizations, and the use of more complicated methods of production (e.g. scientific farming).

In Great Britain before the war of 1939-45 the combination of social conditions and educational opportunities met economic needs fairly well. That is to say, there was neither an excess nor a dearth of people with the right type of education. In the United States, India, and most countries of Europe, on the other hand, there was a lot of unemployment among the educated classes. The British figures therefore give a fair picture of what is economically necessary in a highly industrialized country. Roughly, the number of children in Secondary schools was one-tenth of the number in Elementary schools, and the number of undergraduates was one-twelfth of the number of children in Secondary schools.

From the educationist's point of view, however, the proportions should depend not on economic opportunity but on ability. He is producing citizens and not merely producers of wealth, and each citizen should receive the fullest training of which he is capable. Since the experience of the United States of America and other countries has shown that a much higher proportion of students is capable of University education than obtains it under the British system, the corollary to this proposition is that many must have higher educational qualifications than are required for the work that they do. Manual workers, dhobies, rickshaw-pullers, tea-pluckers, toddy-tappers, bungalow servants, etc., may be University graduates.

The Ceylon figures are as usual defective. The figures for 1944 are, however, given in Table XXVII.

TABLE XXVII :  
PUPILS CLASSIFIED ACCORDING TO SCHOOLS <sup>94</sup>

TYPE OF SCHOOL	MALE	FEMALE	TOTAL
English Secondary	55,253	27,571	82,824
English Primary	7,928	2,329	10,257
Bilingual	10,423	4,771	15,194
Sinhalese and Tamil	409,799	312,324	722,123
Estate	29,408	19,812	49,220
Industrial	1,329	1,384	2,713
Special	548	85	633
Totals	514,688	368,276	882,964
Pirivenas	4,794	—	4,794
Training College	568	422	990
Technical College	193	—	193
University			996

Assuming that all the Bilingual, Sinhalese, Tamil, Estate, Industrial and Special schools were of the elementary type, the Table shows that the number of children receiving secondary education is one-eleventh of the number receiving elementary education, while the number of undergraduates is one-seventieth of the number in Secondary schools. It must be remembered, however, that only one-half of the children of school age are at school and on the other hand that, with a more rapidly increasing population, the proportions would be lower in Ceylon than in Great Britain even if Ceylon was equally industrialized. In fact, there was before the war a higher proportion of secondary-school

<sup>94</sup> The figures are taken mainly from the *Soulbury Report* (Cmd. 6677), p. 150, but those who appear to be part-time pupils have been omitted. The figures do not include unaided schools except Estate schools, whose figures are drawn from the *Administration Report of the Commissioner of Labour for 1944*, p. 31. The University figures were taken from the *Third Annual Report of the Council*, p. 2.

pupils than economic conditions warranted; and as those who had had secondary education were not prepared to become agricultural or estate workers, dhobies, rickshaw-pullers, etc., there was unemployment among such persons.

Nevertheless, the Special Committee on Education proposed to increase the number by allocating pupils at the fifth-standard test to Secondary, Senior and Practical schools in the proportions of five, fifteen and eighty. Assuming an annual intake of 160,000 pupils and no wastage, the school population would then be as follows:

Primary	..	7 × 160,000	=	1,120,000
Practical	..	3 × 128,000	=	384,000
Senior	..	5 × 24,000	=	120,000
Secondary	..	7 × 8,000	=	56,000

The school population would thus be as follows:—

Primary and Practical (Elementary)	1,504,000
Senior and Secondary	176,000
	<hr/>
	1,680,000

This clearly bears no relation to present economic conditions. In view of the fact that it requires an addition of one million, or about 125 per cent, to the present school population, the building of some 6,000 new schools, and the employment of some 40,000 more teachers, of whom 2,500 will be graduates, it may for the present be regarded as an aspiration rather than as a proposal. In fact, the Special Committee itself considered that the average attendance would be only 600,000,<sup>95</sup> or fewer than are at present in attendance according to the Director of Education.

The Special Committee, by assuming that 15 per cent of those at school in each year will require 'commer-

<sup>95</sup> *Sessional Paper XXIV* of 1943, p. 158.

cial and technical' training in Senior schools, postulates an economic change for which at present there is no justification. The essential problem is not to train the employees but to find the employment. If by some change in the economic system which cannot yet be anticipated the nation required some 24,000 persons every year with commercial and technical training, it would not be difficult to give such training if every person who left school had had at least ten years' elementary education. The first task, therefore, is to make compulsory education compulsory, a task which requires only a small change in the present law and its adequate enforcement. This would not be heroic, but it would be both practical politics and good economics.

Apart from the absence of genuine compulsory education, the great defect at present is that the school system does not meet the economic needs of the country. Every year it requires, in addition to unskilled, semi-skilled and skilled workers, a number of persons in the clerical, executive, administrative, professional and technical grades of employment. These are all drawn from the 'English' Secondary schools and the University: but they are selected not according to the child's ability but according to the parents' ability to pay. The working classes produce the manual workers and the middle classes produce the middle class. This is so to some degree in all countries, but in most there are means for ensuring that at least the ablest children of each generation will make their way to the top of the educational system. In Great Britain, for instance, this is done by a good scholarship system which enables the able students to proceed from Elementary school to University without expense to his

parents. In Wales, which has been most successful in this respect, 92 per cent of the University students started in the Elementary schools. In Ceylon, on the other hand, there are hardly any scholarships, except in the University itself, so that very few of those who enter the more highly-paid posts started their education in the Sinhalese and Tamil schools. Part of the success of the Jaffna Tamil, as compared with the Sinhalese, lies in the fact that it is easier in Jaffna than in the rest of Ceylon for the poor boy to get education, so that there is among the Tamils better selection of the human material. The Special Committee, following the usual tendency of Ceylon politics, looked at the problem from the point of view of the middle-class parent. It proposed to free him from the payment of fees. Since the cost of maintenance is much higher than the fees, 'free education' does not help the poor parent at all. Instead of providing the scholarships which would enable the poor boy to obtain English education, the scheme enables the richer boy to have his English education at less cost to his parents. While there will be marginal cases in which 'free education' will produce more education, they will be only those cases where the parents can afford maintenance but not fees in addition.

The cost of education is a considerable drain upon the national production. The total cost of school education in 1937-8 was Rs. 21,805,169, of which the Government provided Rs. 17,474,089, or 80.14 per cent.<sup>96</sup> In 1941-2 the cost to the Government was Rs. 22,394,433,<sup>97</sup> but this was an abnormal year. The division of the cost in 1937-8 is shown in Table XXVIII.

<sup>96</sup> *Administration Report of the Director of Education for 1938*, p. 8.

<sup>97</sup> *ibid.*, 1942, p. 26.

TABLE XXVIII: COST OF EDUCATION, 1937-8<sup>98</sup>

	GOVT. FUNDS	FEEs	OTHER SOURCES	TOTAL
	Rs.	Rs.	Rs.	Rs.
Administration	601,955	—	—	601,955
Inspection	512,425	—	—	512,425
Primary and Secondary:				
Government	6,021,817	208,400	—	6,230,217
Assisted	8,764,239	3,042,923	808,920	12,616,082
Training of Teachers:				
Government	135,821	24,145	—	159,966
Assisted	132,140	22,137	7,870	162,147
Technical (Government)	113,538	22,774	—	136,312
Industrial:				
Government	93,823	—	—	93,823
Assisted	33,265	—	37,016	70,281
District Committees (Capital expenditure)	427,568	—	—	427,568
Miscellaneous (Grants and School Feeding)	637,497	156,895	—	794,392
	17,474,088	3,477,274	853,806	21,805,168

The cost per pupil rose from about Rs. 8 in 1923-4 to Rs. 12 in 1927-8 and Rs. 19 in 1937-8. It happens that in all three years the cost in Government schools and in Assisted schools was about the same. Generally speaking, however, the cost in Government schools is higher owing to the higher qualifications and somewhat better employment conditions of teachers and to the better equipment. It will be seen from Table XXVIII that contributions from managers and other private sources make up only a small proportion of the income in Assisted schools. In 1937-8 the percentage of

<sup>98</sup> Administration Report of the Director of Education for 1938, p. 64.

expenditure from Government funds as compared with the gross cost (exclusive of capital expenditure) was:<sup>99</sup>

- (a) Government English schools: 50.4 per cent.
- (b) Assisted English schools: 41.6 per cent.
- (c) Government Bilingual and Vernacular schools: 98.9 per cent.
- (d) Assisted Bilingual and Vernacular schools: 97.7 per cent.

From the financial angle, therefore, there is nothing to justify the existence of Assisted schools, though here other factors, such as the need for religious instruction, the need for independence of political control, etc., are perhaps more important. Another characteristic of Ceylon education, which may also be used as an argument for Assisted schools, is that the whole system is administered centrally, whereas in most countries school education is regarded as a local service requiring only a partial central subsidy. The local system provides for greater diversity and closer adaptation to local needs, besides keeping education out of national politics; on the other hand, unless a good grant system is devised, it means that poor areas have inferior schools.

Table XXVIII does not bring out certain characteristics of education expenditure because it does not distinguish the categories of schools. Table XXIX omits income from sources other than grants.

This table brings out very clearly the class basis of the educational system. The estate child had Rs. 9 a year spent on his education, of which Government provided Rs. 6.62, the rest coming from estate proprietors. The child in a Sinhalese or Tamil school had Rs. 19 a year spent on his education, the Government

<sup>99</sup> *ibid*, p. 9.

TABLE XXIX: COST OF PRIMARY AND SECONDARY EDUCATION, 1937-8 100

TYPE OF SCHOOL	No. OF PUPILS	FEES	GRANTS	EXPENDITURE	GROSS COST PER PUPIL	COST TO GOVT. PER PUPIL
		(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
1. <i>English</i>						
(a) Collegiate Government Assisted	594 5,747	67,912 454,722	— 251,226	120,943 756,939	203.61 131.71	89.28 43.71
(b) Senior Secondary Government Assisted	624 33,673	21,086 1,746,173	— 1,304,330	36,435 3,290,852	58.39 97.73	24.60 38.74
(c) Junior Secondary Government Assisted	1,286 22,098	36,015 551,779	— 659,276	94,815 1,315,381	73.81 59.52	45.72 29.83
(d) Primary Government Assisted	485 7,597	21,465 267,349	— 192,110	43,465 465,433	89.62 61.27	45.36 25.29
2. <i>Bilingual</i>						
Government Assisted	11,131 7,474	49,016 18,380	— 211,000	297,315 251,742	26.71 33.68	22.31 28.23
3. <i>Sinhalese and Tamil</i>						
Government Assisted	296,584 307,462	12,906 577	— 5,745,905	5,622,359 5,842,821	18.96 19.00	18.91 18.69
4. <i>Estate</i>	40,033	—	265,162	364,014	9.09	6.62

100 *ibid.*, p. 65.

providing almost the whole. The child in an English Primary school had Rs. 61 to Rs. 90 spent on his education, of which the Government found Rs. 25 to Rs. 45. Eligibility for 'English education' was determined by capacity to pay fees. In the Assisted schools, especially the Christian schools, poor students were often accepted without fees, and there were also a few scholarships provided by the Government: but the condition precedent to the establishment of an English school was the presence in the neighbourhood of a sufficient number of comparatively wealthy people who could afford to pay the fees. When the schools had been established, however, the Government subsidized each pupil to an amount varying from Rs. 25 to Rs. 45, whereas the whole annual cost of the education of a child in a Vernacular school was Rs. 19 and in an estate school Rs. 9.<sup>101</sup>

Those who go to Secondary schools are, with few exceptions, those who have been to English Primary schools. Though free schooling is often provided by Assisted schools, there are few scholarships carrying maintenance grants. The cost of maintenance becomes increasingly heavy as the child grows older and the incentive to enter employment becomes greater. Accordingly, it may be said with close approximation to the truth that secondary and higher education is available only to the children of the middle classes. Indeed, we have already seen that most of the children of the working classes leave school before reaching the age of twelve. The Special Committee recommended the complete abolition of fees, but it will be seen that this

<sup>101</sup> In the absence of published statistics it is impossible to bring these paragraphs up to date.

(a) will not benefit the great mass of the children, who already receive free education in Vernacular schools and who leave school before the age of 12; and

(b) will bring no additional children into the Secondary Schools except those whose parents can afford maintenance but not fees.

In fact, the remission of fees is a further subsidy to the middle classes. In the University it is estimated (on the basis of information supplied by students to the Scholarships Board) that of 100 students only 89 can afford both fees and maintenance, 6 can afford maintenance but not fees, and 5 cannot afford either maintenance or fees. Thus, the immediate effect of 'free education' in the University would be to subsidize parents who can afford to pay, including some of the wealthiest persons in the Island. At the other end of the scale there are children of equal or greater ability who finish their education at the age of 10 or 12 in spite of 'free education'. From the educationist's point of view the ideal is to provide free education and maintenance for all: but if there are only limited funds they should first be used to subsidize those who need subsidies, not those who do not. The popularity of the slogan 'free education from Nursery school to University', combined with the lack of interest taken in the wastage in the Primary schools, seem to show that, in spite of the adult franchise, the middle class continues to dominate Ceylon politics.

The fundamental aspect of the Ceylon system of public education, from the economic angle, is the enormous wastage of good human material in a system which does not provide even the minimum of education for the great majority of the children, which does not enable even the cream of the ability to be skimmed,

and which actually subsidizes inferior material because it derives from the middle classes. All experience suggests that natural ability is spread evenly throughout the social classes. If this is so, the greater part of the human material is completely wasted, especially as there are few other means by which the poor man can develop his capacities.

## CHAPTER X

# THE PUBLIC HEALTH

Provision for the public health is one of the most essential public services. The individual can do a great deal to protect himself by means of the appropriate prophylactic measures and appropriate dieting, but a diseased person is often a danger to other people, and the community has in such a case to be protected against the spread of his disease. The problem is as important from the economic as from the social angle. Of our 6½ million population, only about 3½ million are producers, and this number is always substantially reduced by illness. There is indeed a considerable volume of evidence that the breakdown of the Sinhalese civilization based on Anuradhapura was due in substantial measure to the spread of malaria throughout the dry zone. Certainly the problem of making the dry zone productive again is primarily a problem of public health. The low productive capacity of other parts of the Island is also due in part to weakness caused by disease and malnutrition. The weakness of much of our educational system, too, is due to the same causes. A healthy mind cannot be developed adequately in an unhealthy body, and the low average attendance among those who are supposed to be at school—one quarter of those on the rolls are usually absent—is due in part only to lack of enforcement, for frequent illness in another cause.

The simplest protective device is the exclusion of those immigrants who appear likely to be suffering

from infectious or contagious diseases. This applies particularly to smallpox and cholera, neither of which is endemic in Ceylon, though both are widespread in India. A strict examination is made at Mandapam, and Thattaparai on the Indian side of the Palk Strait, and quarantine camps are maintained. All persons arriving from India are compelled either to enter quarantine or to have undergone recent vaccination and to report daily, or at intervals, for twelve days after arrival. These measures are not always successful, and epidemics of smallpox and cholera, traceable to immigrants, sometimes break out. They are expensive and difficult to deal with, since it is necessary to isolate all the contacts and to vaccinate or inoculate widely in the infected area. The number of cases accruing in recent years is indicated by Table XXX.

TABLE XXX: SMALLPOX AND CHOLERA, 1936-44 <sup>102</sup>

	1936	1937	1938	1939	1940	1941	1942	1943	1944
<i>Smallpox :</i>									
Cases	3	2	—	—	—	167	*	*	124
Deaths	3	—	—	—	—	25	2	25	21
<i>Cholera :</i>									
Cases	49	—	—	—	1	5	*	*	14
Deaths	44	2	—	5	1	3	42	47	12
				* Unknown					

Another problem for the Quarantine Department is plague, which was first introduced into Ceylon in 1913 and came from Rangoon in the large shipments of rice which reached Colombo in December of that year. The disease is carried by fleas from infected rats, and the first cases occurred in Sea Street, Colombo, where the rice was stored. The prophylactic method chiefly

<sup>102</sup> Administration Report of the Director, Quarantine Department.

used since 1936 is the fumigation of cargoes suspected of being plague-infected. There have been no epidemics of plague since that date, and the number of cases in the Island has been reduced from 77 in 1932, 57 in 1933, 35 in 1934, 60 in 1935, and 57 in 1936 to 29 in 1937, 9 in 1938 and only one (in 1943) since 1938.<sup>103</sup>

The incidence of the diseases which the Medical Department is especially concerned to prevent may be judged from Table XXXI (p.186), which gives the number of deaths ascribed to particular diseases of special interest to the Island. It must be remembered, however, that in the rural areas the causes of death are usually not certified by medical practitioners, so that the figures may be very inaccurate.

It will be seen that the effect of the drought and the malaria epidemic of 1934-5 was to put up the number of deaths due to nearly all causes, a factor which is no doubt to be explained by the debility caused by shortage of food and malaria.

Some of these diseases, including dysentery and enteric, may be waterborne. As the population becomes more urban, a pure water supply becomes more and more important. With it must go adequate sewerage systems, for water is often contaminated by drainage from night-soil. In an uncrowded rural area pit latrines and well water may not be particularly dangerous if adequate precautions are taken, though most progressive countries try to extend piped water supplies even in the rural areas. In Ceylon only 39 out of 130 towns have pipe-borne water, and in many of these, including Colombo and Kandy, the supply is inadequate. In Kandy in time of drought water has to be pumped from the lake. Rural water supplies were

TABLE XXXI: DEATHS DUE TO DISEASES OF SPECIAL INTEREST 104

	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
Dysentery	2,279	6,175	2,217	1,937	2,228	2,105	2,870	2,546	2,275	2,217	1,925
Pulmonary tuberculosis	3,094	3,387	3,167	3,145	3,228	3,230	3,299	3,843	3,157	3,174	3,141
Infantile convulsions	12,939	16,501	11,323	12,015	12,430	13,803	12,216	10,168	10,100	11,287	11,800
Diarrhoea	8,047	11,146	7,123	6,978	7,322	7,002	6,761	6,603	6,313	7,094	7,354
Pneumonia	8,398	11,431	9,668	11,008	10,208	9,419	9,007	11,849	6,689	8,119	8,588
Ankylostomiasis	2,118	2,644	1,839	1,708	1,808	1,739	1,606	1,456	1,696	1,461	1,568
Dropsy	2,020	2,381	2,216	1,701	1,510	1,702	1,740	1,759	2,136	2,369	2,326
Anaemia	2,244	2,645	1,905	1,988	2,126	2,153	1,972	1,993	2,240	12,429	2,712
Intestinal parasites	4,372	4,832	3,077	3,502	3,409	n. a.	n. a.	n. a.	n. a.	n. a.	4,389
Puerperal septicaemia	1,461	1,647	1,527	1,453	1,406	1,218	996	1,377	n. a.	n. a.	n. a.
Malaria	2,333	47,317	7,620	4,405	4,771	10,039	9,169	7,113	5,143	6,765	5,606
Enteric fever	715	690	773	880	920	975	989	1,112	982	1,150	1,566
Rickets	4,878	5,133	3,590	3,850	3,519	3,427	3,305	3,436	3,854	6,414	n. a.
Tetanus	266	286	285	289	302	278	199	290	292	341	299
Rabies	58	85	64	54	36	48	69	84	100	85	76
Cholera	—	22	24	2	—	5	1	3	42	47	9
Influenza	2,305	1,917	1,583	2,087	1,888	1,702	1,898	1,807	1,645	2,153	2,228
Leprosy	104	98	69	89	76	127	100	83	93	141	118
Plague	32	57	44	34	12	—	—	—	—	—	—
Scarlet fever	—	—	—	—	—	—	—	—	—	—	—
Anthrax	1	1	4	3	3	3	—	—	1	1	—
Smallpox	10	20	4	—	—	—	—	25	2	25	8
Diphtheria	32	41	33	34	39	43	55	39	59	26	87
Parangi	8	9	14	9	12	7	1	8	1	2	2
Pyrexia 105	15,467	22,507	14,520	13,918	12,038	12,089	11,234	10,181	10,914	13,207	13,783

104 *ibid.* For certain of the war years complete figures are not available and are marked 'n.a.'.  
 105 Malaria is often classed, as 'fever' and so is put down as Pyrexia.

surveyed in 1937-8, and it was then found that 8,322 villages obtained their drinking water from wells (3,366 public wells and 127,089 private wells); 524 villages took supplies from 1,964 springs; 517 villages took water from rivers and streams and 645 from tanks; while only 73 villages, mostly up-country, had pipe-borne supplies. Of the public wells, only 1,707 out of 3,366 were protected; and of the private wells only 22,742 out of 127,089 were protected. It was estimated that the cost of protecting all the wells would be Rs. 2 million.

The position as to the disposal of excreta is even worse. Only Colombo has public sewers, and outside Colombo the water-carriage system is in operation only in individual houses in Nuwara Eliya and on estates. Elsewhere the bucket system is general, the night-soil being disposed of not by septic tanks but by trenching. In a few urban areas disposal by composting is favoured, and two places use incineration. In some urban areas and in most rural areas there is no sanitary organization at all, and most latrines are mere pits. Unless these are well constructed and in suitable places they are apt to pollute the water supply and so result in the carriage of disease. In short, Ceylon is, from a sanitary point of view, extremely backward. This is due primarily to the absence of an adequate system of local government. Only Colombo Municipality bears comparison with similar institutions elsewhere, and even Colombo has an excess of 'politics' in the worst sense. The characteristics of Colombo are carried to greater extremes in Kandy, Galle and many of the urban councils. The village committees suffer from the fact that in the rural areas the great mass of the electors is illiterate and men and

women of standing are few. It should be added that the Central Government is partly to blame, for it has not solved the essential problems upon whose solution depends the establishment of an adequate system of local government—such questions as those of sources of revenue, an effective balancing grant system, the relations between the local authorities and the Central Departments, and the like. However, the local government system is yet young, and these are among the kind of problems that no committee of politicians can solve by itself. The Donoughmore Constitution here as elsewhere encouraged bad administration. The control of the environment is essentially a local function to be performed, under general legislative powers, by efficient and properly staffed local authorities.

Another group of common diseases are the helminthic diseases, especially ankylostomiasis (hookworm) and ascariasis (roundworm), both of which are widespread and are responsible for a considerable portion of the lethargy and inefficient workmanship which are characteristic of the Island. The death-rates give no adequate picture of their prevalence. Over 2,000,000 cases of hookworm are treated every year, and the Medical Department has maintained a special staff for the Ankylostomiasis Campaign since 1916. The process consists in placing dispensers and apothecaries under the supervision of Medical Officers of Health and Field Medical Officers so that mass treatment may be given in different areas every year.

The greater enemy of economic development, however, is the mosquito, which is responsible for the spread of malaria, dengue, and filariasis. The importance of malaria is shown by Table XXXII.

It will be seen that the effect of the great epidemic

of 1933-4 has by no means disappeared, the morbidity in 1942 being over twice as high as in 1933, though this may be due in part to better facilities for treatment.

TABLE XXXII : MALARIA MORBIDITY RATE <sup>106</sup>

YEAR	POPULATION	CASES TREATED	RATE PER 1,000
1931	5,325,354	1,447,521	272
1932	5,386,106	1,538,890	286
1933	5,415,516	1,222,176	226
1934	5,551,623	2,334,775	421
1935	5,598,467	5,454,781	974
1936	5,631,000	2,946,655	523
1937	5,712,000	2,308,976	404
1938	5,810,000	2,053,079	353
1939	5,897,000	3,210,795	544
1940	5,951,000	3,091,509	519
1941	6,020,000	2,922,752	485
1942	6,021,000	2,933,074	487

Malaria is carried by mosquitoes, mainly of the genus *Anopheles* of which there are eighteen species in the Island; but the only mosquito so far convicted of carrying malaria in Ceylon is *Anopheles culicifacies*, which flourishes mainly in the dry zone and does not thrive in the wet zone or in the hills above 2,500 feet. In the dry zone, therefore, malaria is endemic; in the wet zone the presence of anophelene mosquitoes makes an epidemic possible; and in between—the wetter parts of the dry zone or the drier parts of the wet zone—there is an intermediate zone which is very liable to epidemics. The part of the Island which is normally free extends from north of Colombo to Matara. The intermediate or epidemic zone extends from the hills to a few miles from the sea, and from the Maha-oya to Kurunegala. The habits of the anophelene mosquito have been well studied. It bites generally from dusk

<sup>106</sup> *Malaria Control in Ceylon, Sessional Paper XVII of 1945, p. 33.*

to 9 p.m. or 10 p.m., and from 5 a.m. to 6 a.m., but individual specimens have been known to make a night of it. After feeding, it remains in the house, secreting itself in a dark corner, hole, crevice or other secluded place. It is therefore very common in kadjan huts or huts with kadjan roofs. It breeds in all kinds of pools and slow-moving streams, but favours especially bodies of clear water open to the sun and without much vegetation. The favourite time for breeding in the dry zone, therefore, is from July to September, when the shallow sides of the rivers and streams provide excellent breeding-places. In years of exceptional drought the same conditions obtain in the rivers of the intermediate zone and the northern part of the wet zone.<sup>107</sup> Accordingly, one may expect an epidemic after a drought, and this was what happened in 1934. The drought started in April 1934, when the rains which normally precede the south-west monsoon were light. Between July and September there was deficient rainfall over the whole Island. Even the rains of October, closing the south-west monsoon, were below normal, and the December rains were deficient nearly everywhere. The result was to produce conditions favourable to anophelene breeding in the intermediate zone. It began, in fact, on the north bank of the Mahaoya in the Kurunegala District, and soon spread to the Deduru-oya, the Kelani-ganga, the Kalu-ganga, and the Mahaveli-ganga, and eventually reached Colombo, though the number of persons infected in Colombo itself was very small. It will be seen from Table XXXII that the number of cases treated increased in 1935 by nearly 150 per cent, from Table XXXI that

<sup>107</sup> On the above, see *The Ceylon Epidemic, 1934-5* (Sessional Paper XXII of 1935), pp. 10-11.

deaths ascribed to malaria and pyrexia increased from 18,000 to 70,000, and from Table XXXIII that the general death-rate rose from 22.9 per thousand population to 36.6 per thousand, the infant mortality-rate from 173 per thousand births to 238 per thousand, and the maternal mortality-rate from 20.1 per thousand to 26.5 per thousand. It is also noticeable from Table XXXIII that the birth-rate was lowered in 1935 and 1936.

The eradication of malaria could be effected only by stopping the breeding of anophelene mosquitoes, and the methods used at present are to oil breeding-places and to introduce small fish called 'millions'. The Medical Department has a substantial anti-malarial organization, but the freeing of the dry zone from the malarial parasite would be a herculean task. As soon as there is any threat of an epidemic developing in the intermediate zone, concentrated efforts are made to prevent breeding and destroy the larvae in the rivers, streams and water-holes. In such an epidemic as that of 1934-5, however, the task is too great to be tackled effectively. Conditions may alter with the agricultural development of the dry zone. The immediate effect of clearing jungle is to increase the spread of malaria, but if anti-malarial measures are taken at the same time as development occurs this should be prevented. It needs also to be emphasized that, though anti-malarial measures on a large scale are the concern of the Government, it is the business of the citizen not only to protect himself (in his own interest and also in the interest of the community) but also to clear his own neighbourhood. Wells, pools, drains and tanks in private land can easily become breeding-places. Unfortunately Ceylon has no adequate legislation for placing the responsibility squarely on the private indivi-

dual. Finally, the experience gained and the new devices used, in Burma, New Guinea and elsewhere during the war may provide the means for defeating malaria.

The success or otherwise of the medical services could effectively be judged only by the segregation of those causes of low productivity which are due to ill-health. It is, however, impossible to separate ill-health from the many other causes discussed in this book. The only tests are the death-rate, the infant mortality-rate, and the maternal mortality-rate. These are given in Table XXXIII.

TABLE XXXIII: VITAL STATISTICS<sup>108</sup>

YEARS	BIRTH-RATE <sup>109</sup>	DEATH-RATE <sup>109</sup>	INFANT MORTALITY-RATE <sup>109</sup>	MATERNAL MORTALITY-RATE <sup>109</sup>
1871-80	27.4	22.4	—	—
1881-90	28.9	24.0	158	—
1891-1900	34.1	27.2	169	—
1901-10	38.0	28.7	180	—
1911-20	38.2	30.8	196	—
1921-30	39.5	26.2	182	—
1931	37.4	22.1	158	20.8
1932	37.0	20.5	162	19.2
1933	38.6	21.2	157	18.6
1934	37.2	22.9	173	20.1
1935	34.4	36.6	238	26.5
1936	34.1	21.8	166	21.6
1937	37.8	21.7	158	19.9
1938	35.9	21.0	161	20.1
1939	36.0	21.8	166	18.2
1940	35.8	20.6	149	16.1
1941	36.5	18.8	129	15.3
1942	36.7	18.6	120	14.4
1943	40.6	21.4	132	13.3
1944	37.1	21.3	135	13.7

Comparisons may be drawn by taking the corresponding rates in different countries. Table XXXIV

<sup>108</sup> *Administration Report of the Director of Medical and Sanitary Services; Annual Reports on Vital Statistics.*

<sup>109</sup> Per 1000.

gives examples of death-rates and infant mortality-rates.

TABLE XXXIV: DEATH- AND INFANT MORTALITY-RATES IN CERTAIN COUNTRIES <sup>110</sup>

COUNTRY	PERIOD	AVERAGE DEATH-RATE	INFANT MORTALITY-RATE
New Zealand	1933-7	8.5	32
United States	1933-7	11.1	58
England & Wales	1933-7	12.1	59
France	1933-7	15.4	69
Japan	1932-6	17.6	118
Madras Province	1934-8	23.8	171 <sup>111</sup>
Ceylon	1934-8	24.8	184
Egypt	1932-6	27.5	—

The Ceylon rates are therefore high in comparison with those of other countries even when it is remembered that the period selected includes the great malaria epidemic of 1934-5. Part of the explanation is no doubt to be found in the prevalence of malaria and hookworm, which are debilitating diseases causing premature death from other causes and in particular produce a high rate of infantile mortality. It is clear that for many years to come the main effort of the Medical Department must be directed against the causes of these two diseases.

The infant mortality-rate, and the maternal mortality-rate also, can be reduced by an adequate service of ante-natal clinics, midwives, and post-natal care. Table XXXV gives an impression of the services provided for this purpose by the Medical Department.

These figures bear witness to a remarkable development, yet the fringe of the problem has barely been touched. In highly developed countries a medical practitioner as well as a fully qualified midwife are usually

<sup>110</sup> *Annual Report on Vital Statistics for 1938*, pp. 13 and 15.

<sup>111</sup> India.

present at a birth. In Ceylon in 1943, there were 248,820 births, but only 59,355 deliveries by field midwives and 3,457 deliveries in maternity homes. In other cases,

TABLE XXXV: MATERNITY AND CHILD WELFARE <sup>112</sup>

	1935	1937	1939	1941	1943
No. of Health Centres	86	297	408	434	444
No. of clinics	4,702	8,395	16,354	19,672	15,655
Visits to clinics					
(i) by expectant mothers	10,350	39,841	100,761	154,942	140,652
(ii) by infants	28,028	88,479	224,208	258,721	130,740
(iii) by pre-school children	16,753	39,637	98,343	87,938	51,012
Government maternity homes	—	—	—	13	27
Private maternity homes	—	—	5	5	15
Deliveries in maternity homes	—	—	562	2,582	3,457
Deliveries by field midwives	—	—	39,933	43,515	59,355

presumably, the deliveries were effected by amateurs, especially that most devastating person, the wise old woman. It is therefore not surprising that the infantile mortality-rate is high, or that the maternal mortality-rate in Ceylon is 21.7 as against 2.7 per 1,000 births in Japan, 4.2 in England and Wales, and 6.0 in the United States. It must, however, be mentioned that the birth-rate also is extremely high, showing that the women of the Island, who are often weakened by malaria and hookworm, are further weakened by excessive child-bearing. There are no official birth-control clinics, though there must be many thousands of cases where birth control could be justified on medical grounds.

A great deal of loss of productivity can be avoided

<sup>112</sup> Social Services Commission.

by proper care of children. A complete service for this purpose would consist of the following:

(1) Ante-natal clinics and clinics for pre-school children.

(2) A school medical and dental service.

(3) Milk and meals at school.

The first of these has already been mentioned, and it has been shown that there has been considerable development in recent years. The school medical service also has expanded, as Table XXXVI indicates.

TABLE XXXVI: SCHOOL MEDICAL SERVICE <sup>113</sup>

	1935	1937	1939	1941	1943
Schools inspected	1,209	2,649	1,255	1,435	1,416
Children examined	35,813	84,730	69,204	71,552	78,493
No. found defective	28,358	55,995	54,882	57,239	50,418
No. of defects	52,843	124,540	130,174	129,453	112,711
Defects corrected	15,541	44,807	46,148	63,322	46,312

These figures are truly remarkable. In 1941, to take only one year, 72,000 children were examined, and 57,000 of them were found to have 129,000 defects, of which only 63,000 were corrected. Moreover, though there are variations from year to year, there has been no consistent fall such as one would expect from the persistent (though clearly inadequate) attention of the school medical officers. The most common defects, covering 85 per cent of the defects, are made evident in the figures for 1938 given in Table XXXVII (p. 196).

The astonishingly high rate of hookworm infestation, a disease which heavily reduces productivity, is a challenge to the Medical Department. Defects of

teeth and gums are common in most countries where there is an inadequate dental service; and in Ceylon there is hardly any service at all, except for the very

TABLE XXXVII :  
COMMON DEFECTS AMONG SCHOOL CHILDREN <sup>114</sup>

DEFECT	PERCENTAGE TO SCHOLARS EXAMINED	PERCENTAGE TO TOTAL DEFECTS
Hookworm	39.8	21.7
Teeth and gums	23.0	12.6
Malnutrition	22.0	12.1
Pediculosis	17.7	9.1
Anaemia	14.5	7.9
Adenoids and tonsils	10.2	5.6
Uncleanliness	9.9	5.4
Malaria	7.8	4.3
Unvaccinated	6.3	3.5
Dental causes	5.0	2.8

small middle class. There is no simple solution to the problem of malnutrition, which is primarily an economic problem; but this question is further examined below. What the figures reveal is that the school medical service is grossly inadequate. Not more than one-third of the schools are examined every year, though annual inspection at least is normally required in most developed countries. It must also be remembered that the average attendance at school is only about 40 per cent of the children of school age. This, surely, is the fundamental problem of Ceylon. To find that only 40 per cent of the children are at school under 'compulsory education', that only 10 per cent of them receive medical examination annually, and that 80 per cent of those examined have physical defects, suggest that at this stage less attention might be paid to incidental questions like the medium of instruc-

<sup>114</sup> *Administration Report of the Director of Medical and Sanitary Services for 1938*, p. 53.

tion, the tripartite division of schools, denominational schools, 'free education', and the rest, than to things of more immediate importance to the mass of the people.

One line of development is the provision of a free midday meal, which would reduce malnutrition, fortify the children against deficiency diseases, and improve diets (especially through the consumption of vegetables). The figures in Table XXXVIII are encouraging, but would be more so if it were always certain that adequate arrangements were made for catering.

TABLE XXXVIII : SCHOOL FEEDING<sup>115</sup>

YEAR	AVERAGE NUMBER FED DAILY	COST OF FEEDING (Rs.)
1937	142,618	241,751
1938	164,822	622,511
1939	192,834	971,850
1940	224,610	1,256,913
1941	260,313	1,284,420
1942	198,751	1,506,175
1943	225,810	1,674,001
1944	310,000	2,272,084

In addition, the Food Departments have developed a scheme for the free distribution of milk through the schools. Milk has many of the constituents of a perfect diet and the spread of the milk-drinking habit would be a most valuable means of raising the general physical standard. This would in turn increase the productivity of the Island and so raise the standard of living of the peasantry. Few recent developments have had such potentialities, though it must also be accompanied by an increased production of cow's milk in the Island.

The problem of nutrition is in fact one of the major problems of Ceylon, though fortunately it is also one of the few problems which have been fully examined,

<sup>115</sup> Social Services Commission.

chiefly through the energy and initiative of Dr L. Nicholls, late Director of the Bacteriological Institute.<sup>116</sup>

'The three harpies of Ceylon are malaria, hookworm infestation, and malnutrition. Although the first is not dependent upon the last for its existence, yet much of the havoc wrought by malaria may be laid to the charge of malnutrition which increases the death-rate, prolongs convalescence, and probably augments the relapses and thus aids in the maintenance of a high endemicity. The anaemia and other signs of hookworm infestation are, however, to a great extent determined by malnutrition . . . The loss in the working hours, and the care of sick, whether it is borne by Government or privately, is a serious drain upon the economic resources of the country. But much of the economic loss is less apparent because malnutrition leads to inertia, a salient cause of idleness and want of initiative and these in turn curtail production and cause poverty, and where there is poverty there is malnutrition; thus a vicious circle arises, and if it is possible to break it improvement in economic conditions in Ceylon will follow.'<sup>117</sup>

The subject is too technical for discussion here, but in the latest *Report*<sup>118</sup> the authors conclude that 35 per cent of the rural population receive inadequate calories, 26 per cent are on the borderline, and the remaining 39 per cent consume diets low in calorie value. 55 per cent of the peasant families receive insufficient proteins (meat, fish, eggs and milk). Dietary calcium is low, 56 per cent having diets poor in this mineral. The diets are also very deficient in vitamins.

<sup>116</sup> See *Report on Nutrition in Ceylon (Sessional Paper II of 1937)*; *Further Report on Nutrition in Ceylon (Sessional Paper XXIX of 1937)*; and 'Rural Dietary Surveys in Ceylon by L. Nicholls and A. Nimalasuriya in *Ceylon Journal of Science*, Vol. V, Part 3 (Section I).

<sup>117</sup> *Sessional Paper II of 1937*, pp. 10-11.

<sup>118</sup> *Ceylon Journal of Science* (1941), loc. cit., p. 76.

## CHAPTER XI

### OTHER SOCIAL SERVICES

Social services other than Education and Health are generally lacking, and this chapter must pay attention to what Ceylon needs rather than to what is provided. It must of course be realized that social services do not directly create wealth. What they do mainly is to distribute it. The amount capable of distribution depends upon the total productivity of the nation and upon the extent to which the producers have a surplus above their needs. The main body of the inhabitants of this Island, the villagers, do not produce enough even for themselves and thus have no surplus to distribute. The remainder are essentially dependent upon tea, rubber and coconuts. Social services are a charge upon these industries, whether the actual charges take the form of income-tax, estate duties, stamps, export duties, import duties, land-tax, or local rates. These charges can be borne, and therefore social services can be provided, only to the extent that the charges do not diminish production or reduce the capacity of the industries to compete in the world market. Anything which reduces the value of Ceylon's exports results in a reduction of the standard of living of a large part of the population.

It is true that properly organized social services help indirectly to improve the productivity of the people. Education enables them to make more effective use of their abilities; an illiterate population will

always have a low standard of living. Services which reduce ill-health necessarily increase the number of potential producers and the value of their output. Social services for the unemployed enable them to enter into full production as soon as employment becomes available, whereas without them they tend to lose their productive capacity. In this sense social services are an investment, though an investment whose returns are largely speculative. Even so, the main result of social services is to redistribute the national income, and it can be redistributed only if there is a national income large enough to distribute.

It is useless to compare Ceylon and Western countries in this respect. The Western countries produce very largely the goods required for internal consumption and the social services merely distribute that consumption more equitably. Taxation on producers of motor cars for the home market raises the cost of production and therefore the price of motor cars. The demand for motor cars falls accordingly. If the money produced by this taxation is used for social services, there is increased demand for food, clothing, and other necessities, most of which are produced internally. In other words, social services tend to shift demand from luxuries to necessities. The demand is moved, so to speak, from the West End to the East End. In Ceylon the cost of social services must fall mainly on the exporting industries. If its effects were only to reduce the profits of overseas companies and the demand for Indian labour, the effects in Ceylon would be small. If, however, the rise in the price reduced the competitive power of the exporting industries, the marginal estates would go out of production, there would be unemployment and under-employment, reduced ex-

penditure on agricultural products, and generally a reduction of the standard of living. Somewhere a balance can be struck. Unfortunately the balance varies from year to year according to the competitive power of the Ceylon producer. In 1944 there was an ample national income available for distribution. It is by no means certain that by 1949 the Island may not have to reduce taxation on estates in order to keep them going. The essential problem for Ceylon is to raise the national income and keep it at a high level, and this can be done not by social services (though a judicious and conservative development of social services *pari passu* with economic development will itself assist national development) but by an improvement in agriculture and (possibly) the development of industry.

Sir William Beveridge was able to propose, and the British Government was able to accept, a substantial increase in social services because he was able to show that before the war 'the total resources of the community were sufficient to make want needless'.<sup>119</sup> The standard of living had risen progressively and there was no reason to suppose that the rise could not be maintained.<sup>120</sup> The plan assumed the continuance of a progressive increase in the national expenditure (and therefore in the national income), but 'this is an act of reasonable faith in the future of the British economic system and the proved efficiency of the British people'.<sup>121</sup>

No such assumptions can be made in Ceylon. We are insufficiently informed about the country's economic production to give figures comparable with those

<sup>119</sup> *Social Services and Allied Services Report* by Sir William Beveridge (Cmd. 6404, 1942), p. 165.

<sup>120</sup> *ibid.*, pp. 166-7.

<sup>121</sup> *ibid.*, p. 167.

of the *Beveridge Report*, but we do know that the great mass of the population is well below a reasonable subsistence level and has no surplus income to distribute. Any tax which falls upon the exporting industries threatens, in normal times, to reduce the national income. Additional taxation on imports would affect mainly food, clothing and the means of production. The income-tax is, in fact, the only large source of revenue which could certainly bear a substantial increase. It produced nearly Rs. 40 million in 1942-3, a very good year. At British rates it might produce as much as Rs. 100 million at the top of a boom. The cost of old-age pensions of Rs. 5 a month at age 65 might be put roughly at Rs. 10 million and the cost of an allowance of Rs. 3 month to each child of school age might be put roughly at Rs. 60 million. To enable both to be provided out of income-tax the present rates of taxation would need to be doubled.

Industrialized countries have been able to provide social services through social insurance, and this is economically a very desirable method. Social insurance requires the employec and the employer to contribute to a fund which can be used to cover the most important 'risks' to the individual worker, such as unemployment, sickness, death, marriage, industrial accident, maternity, widowhood, and the like. It is, however, very difficult to devise a scheme except for those who are in regular employment at regular wages, and comparatively few people in Ceylon are so employed. Also, the Ceylon statistics are so defective that little idea of the 'risks' involved can be obtained. We do not know how many people are employed or at what rates of wages, how many are employable but not employed, what is the sickness rate, the expectation of life of the

worker, whether he is married or single, and so on. Possibly a small scheme, started in a small way, will give us figures upon which later experiments can be based. Moreover, every scheme of social insurance needs to be subsidized out of taxation, and in Ceylon rates of wages are so low that the subsidies might have to be heavy. The cost of such subsidies would, however, fall mainly on tea, rubber and coconuts and would thus tend to depress the industries upon which the urban life and much of the rural life depend. All this does not suggest that social insurance cannot be established; it suggests only that easy optimism and Parliamentary resolutions will not establish it.

Apart from health and education, the only social services at present available in Ceylon are the poor law in the three municipalities and the assistance rendered through the Revenue Officers and the voluntary associations. The poor law is intended for destitute persons, though it does not cover destitution due to unemployment. In the year 1944, upto September, the Colombo Municipality granted relief to 1,999 persons, classified as in Table XXXIX (p. 204).

The amounts varied from Rs. 2½ a month to Rs. 20 a month and the cost, up to October, was rather more than Rs. 90,000. The Council also pays some Rs. 20,000 a year to charitable associations and maintains the City Refuge at a cost of Rs. 25,000 a year. In Kandy and Galle the poor law is neither so generous nor so efficient, and Galle has the peculiar practice of granting an equal sum to each ward irrespective of its wealth or poverty.

Outside the municipalities, allowances are paid by the Revenue Officers. A fundamental change occurred in 1944 when for the first time ample funds became

available and a minimum allowance of Rs. 5 a month was laid down. For 1942-3, the number of persons

TABLE XXXIX : POOR RELIEF IN COLOMBO, 1944 <sup>122</sup>

	BROUGHT FORWARD	CURRENT YEAR	TOTAL
Incurables	85	45	130
Blind	45	17	62
Deaf and dumb	3	1	4
Cripples	21	10	31
Aged	515	411	926
Mental defectives	8	2	10
Children of poor persons	6	5	11
Orphans	531	242	773
Consumptives	22	30	52
	1,236	763	1,999

assisted is given in Table XL, the cost being nearly Rs. 380,000.

TABLE XL :

ALLOWANCES GRANTED BY REVENUE OFFICERS, 1942-3

Aged	4,007
Sick	1,684
Widows, orphans and children	344
Disabled	2,616
Others	2,443
	11,094

There is no means of knowing how far these forms of assistance are adequate.

<sup>122</sup> Social Services Commission.

## CHAPTER XII

### POST-WAR CEYLON

The preceding chapters of this book were written late in 1944, revised in 1945, and revised again in 1946. They are concerned essentially with Ceylon's pre-war economy, though such wartime figures as were then available were included. This emphasis on pre-war conditions is no great defect; for though the war will have many permanent economic effects, the economy of 1947 is still dominated by wartime factors which will disappear. Free markets have been established in tea and rubber, but the effects of these decisions have not yet appeared. Our best customer for tea, the United Kingdom, is still buying in bulk, while production is limited in China and Indonesia owing to political troubles. Though there is much Indonesian rubber coming on the market through Singapore, and though the estates of Malaya are producing large quantities owing to the rest which most of the trees enjoyed under the Japanese occupation, the failure of the United States to lay down a definite policy for synthetic rubber, the shortage of shipping, and other types of economic dislocation brought about by the war render conditions essentially abnormal. Coconut products are still being sold in bulk to the United Kingdom. On the import side our economy is still dominated by shortage of supply and means of transport. Rice and wheat, in particular, are obtainable in limited quantities, and there is an acute shortage of cotton textiles.

In such circumstances it would be impossible to draw

a picture of our post-war economy that was more than a work of imagination. Moreover, in these days applied economics is an aspect of politics; for nations having learned to exercise some control over economic forces, an economy depends to a considerable degree upon the balance of political forces. Here Ceylon is undergoing fundamental change; the Constitution of 1931, which left financial administration in the hands of an Officer of State responsible to the Governor, financial policy in the hands of a Board of Ministers, and economic policy in the hands of seven Executive Committees, has been replaced by a new Constitution in which responsibility is placed upon a Cabinet. What policy that Cabinet will follow is as yet undetermined.

Some of the permanent consequences of the war are nevertheless beginning to emerge. Chief among them is a diminution of the real value of the rupee. Internationally it is still equated to the Indian rupee, and the pound sterling is still around Rs.13.50. In terms of goods and services, however, its value has substantially depreciated owing to rises in prices and wages. The cost of living index in 1947 is 252 if 1938-9 be taken as 100, and 138 if November 1942 be taken as 100. The index is by no means an accurate standard of measurement because, apart from its inherent defects, its composition was altered in November 1942. Nevertheless, it gives some indication of the rise in prices and, since it is the basis of the cost of living allowances given by the Government and other employers, it also gives some indication of the rise in wages. Wages have risen in other ways, however. In some cases free competition during the war, when the armed forces created a shortage of labour, compelled employers (e.g. of domestic servants) to increase

wages. In other cases organized trade union activity has forced up rates of pay. In yet others rates have been fixed by wage boards acting under statutory powers. Finally the Government, whose rates dominate large parts of the labour market, has increased all wages and nearly all salaries as a result of the *Report of the Salaries Committee*.<sup>123</sup> The Committee assumed a permanent increase of one-third in wages and salaries, though for the lower grades the increase was far more than one-third and in some cases exceeded one half. To these increases must be added those due to cost-of-living and other allowances. The estimated expenditure in the Estimates for 1946-7 was no less than Rs.349,633,900, an amount which must be compared with the Rs. 127,050,757 spent in 1938-9.

Parallel increases have necessarily been provided by other public authorities and by private employers who follow the Government rates. Private employers have not invariably followed the rates, however, because the increases coincided with an increase in the supply of labour due to the virtual cessation of service employment and the diminution of service contracts. There has not been as yet any large volume of unemployment. The demand for tea and coconuts remains greater than the supply, and so far few rubber estates have reduced production as a result of the lower prices. The export trades have therefore been able to absorb some of the surplus labour. The volume of imports, though higher, is still less than the demand, and more labour has probably been absorbed into the import trades. In spite of the higher imports, the demand for indigenous products, especially building materials, remains high. The demands of the services during the war were met

<sup>123</sup> *Sessional Paper VIII of 1946.*

in part by an increased volume of employment; but in part they were met by postponement of work on civilian account. There is in consequence a very considerable civilian demand in respect of building, furniture, renovation, and so on, which will take some years to satisfy. Nor are the means for payment lacking. Much of the wartime 'profit' was piled up in bank accounts or invested in savings and is now available for expenditure. Finally, there appears to have been a net increase in the number of persons employed by the Government, in spite of the closing of emergency offices.

The result of all these factors has been to keep both prices and wages high in spite of the heavy reduction of Imperial expenditure in the Island. Ceylon slid gracefully from the wartime boom into the post-war boom. It is therefore not irrelevant to consider the nature of the former. This can now be done by means of the estimate of national income prepared by Professor B. B. Das Gupta for the Social Services Commission.<sup>124</sup>

It should be made plain to what income Table XLI (p. 209) refers. It is the net output of goods and services which is available for distribution to residents in the Island in the form of profits (including rent) and wages. It does not include the Ceylon income of non-residents, but it does include the foreign income of Ceylon residents. The fact that in 1937 the net output of all goods and services exported (item 1) was Rs. 310,198,000 does not mean that this income was lost to Ceylon residents. On the contrary it is clear from item 19 that there was a net *inflow* of income from abroad in that year. In other words, the value of goods and services exported was more than offset by the value of goods and services imported. This was not so in 1944, when

<sup>124</sup> *Report of the Social Services Commission (Sessional Paper VII of 1947)*, p. 125.

TABLE XLI: NATIONAL INCOME (IN THOUSAND RUPEES)

	1937	1938	1942	1943	1944
<i>Output exported</i>					
1. Net output of all goods exported during the year	310,198	263,535	507,230	537,640	616,586
<i>Output retained</i>					
2. Rice	31,000	22,542	35,786	95,543	75,205
3. Coconuts and coconut oil	33,000	22,000	43,000	58,000	64,000
4. Tea	9,393	7,835	15,072	2,094	25,038
5. Other food crops	11,000	11,000	27,000	30,000	34,000
6. Tobacco (unmanufactured)	9,770	10,600	16,386	13,920	40,000
7. Livestock and livestock products	10,000	12,500	22,500	25,000	27,000
8. Fish and fish products	8,000	10,000	15,000	19,000	26,000
9. Output of craft and factory industries	53,000	55,000	115,000	150,000	160,000
10. Trade	74,000	74,000	100,000	150,000	160,000
11. Transport	10,000	10,000	12,000	19,000	23,000
12. Professions	13,000	13,000	13,022	14,184	18,791
13. Domestic service	12,000	12,000	13,000	20,000	24,000
14. Lands and buildings	31,550	32,192	33,964	35,468	36,490
15. Output of Central Government					
(a) Salaries and pensions	59,019	60,552	68,912	83,487	95,931
(b) Net trading profits	— 9,478	— 3,477	2,881	20,037	33,629
16. Output of (a) Local authorities	2,637	2,742	2,768	3,092	3,197
(b) Non-profit-making bodies	10,517	11,144	11,464	12,620	13,125
17. Military expenditure	—	—	130,000	264,000	400,000
18. Correction for indirect taxation & subsidies	— 74,000	— 70,003	— 81,820	— 97,948	— 125,560
19. Correction for net balance of payments on income accounts	16,000	27,000	— 11,900	— 32,000	— 49,000
<b>TOTAL</b>	<b>620,606</b>	<b>584,162</b>	<b>1,091,265</b>	<b>1,423,137</b>	<b>1,701,432</b>

there was a net outflow which was more than compensated by military expenditure.

The values are given in Ceylon rupees, and everybody knows that the value of a rupee, expressed in terms of what it would buy, was much less in 1944 than in 1937. In other words, a rise in the national income does not necessarily mean that the nation is richer; it means only that it is richer in rupees. In some measure, therefore, the rise in the national income is merely an aspect of the fall of the real value, or value in goods and services, of the rupee. Nevertheless it also represents a rise in real income due to fuller employment and higher real wages. In both respects the rise continued in 1945 and probably in 1946 also. Professor Das Gupta makes a forecast with some hesitation, but he assumes that in the course of the years 1946 to 1950 or 1951 the national income will fall to the region of Rs. 1,200 million 'and then begin to rise again as we reap the benefits of the new expansionist economic policy'.<sup>125</sup>

The largest single item is the first. If to it we add items 3 and 4 we obtain some measure of the importance of the export trade, which is mainly in tea, rubber and coconuts, to the Island's economy, a fact on which it has been necessary to insist in this book because of the political prejudice against the plantation industries. In 1937, these three items made up Rs. 352,600,000 (less a correction for items 18 and 19) out of Rs. 620,606,000, or more than half the national income. If in 1944 the military expenditure be excluded, the three items still made up about half the national income, in spite of controlled prices for tea, rubber and copra. Nor must it be forgotten that other items derive

in part from the plantation industries. Item 1 gives the net output; the difference between the gross output and the net output appears under other heads and would not be there were it not for the exporting industries.

Thus, the primary condition for maintaining or raising the national income is the maintenance or the raising of the income from the exporting industries. These, in present conditions, are mainly tea, rubber and coconuts. It is equally clear, however, that the income under other heads should be raised. For reasons which have already been given, the agricultural industries (which appear mainly in items 2, 5 and 6) are the most hopeful; and the Government's post-war development schemes<sup>126</sup> rightly give them priority. Some development of secondary industries (which appear under item 9) is also possible and proposals to that end appear in the post-war development schemes. In neither case, however, has any clear policy been formulated. The Ministry of Agriculture and Lands has a policy, some parts of which have passed beyond the stage of experiment and some parts of which are still in that stage; but that policy has not been formulated in such a comprehensive manner as to obtain formal sanction from the legislature, though each individual step has been so approved. The demands for expenditure from all Departments of Government are now so considerable that formal determination by Cabinet and Parliament of the proportion of the public revenue and loan funds which can properly be devoted to agricultural development would now seem desirable.

The industrial policy of the Ministries of Labour, Industry and Commerce is still wholly in the experimental stage. Most of the experiments, too, have been con-

<sup>126</sup> *Post-war Development Proposals* (1946).

ducted in the artificial conditions of wartime shortage. The economic doctrines sometimes supported by the late Department of Commerce and Industries have been highly controversial and appear not to have received the support of the Executive Committee and the Board of Ministers. They implied a restriction of imports by means of tariffs and quotas which might have reacted adversely on other spheres of development, particularly the plantation industries and general agriculture. There are circumstances in which it may be desirable to reduce the national income in order to increase it; but proposals to that end would necessarily be studied with suspicion.

A rising national income, too, does not necessarily imply that individual incomes are rising proportionately. Indeed, an annual increase in population of 80,000 demands a constant rise in national income in order merely to maintain individual incomes. In any event, the question of distribution of income is of some importance. The Social Services Commission has shown<sup>127</sup> that the national income is insufficient to provide for every person a reasonable level of subsistence. According to Professor Das Gupta's figures<sup>128</sup> the daily subsistence cost of a family consisting of husband, wife, two children and one aged person, at 1938 prices, would be Rs. 2.46. Assuming the national income to be equally divided, however, the income of that family unit in 1938 would be in the region of Rs. 1.65. It follows that in 1938—and the situation has not fundamentally altered by 1947—the national income was insufficient to give everybody a reasonable standard of life. The essential problem, therefore, is to increase the national income.

Social services, including those of education and

<sup>127</sup> *Report (S. P. VII of 1947)*, p. 14.    <sup>128</sup> *ibid.*, pp. 130-40.

health, are generally speaking means for distributing the national income. They do however help to increase it by increasing the productivity of the producer. Other things being equal, the educated planter, lawyer or dhoby is the better planter, lawyer or dhoby, assuming of course that the education is of the right type. Other things being equal, too, the healthy planter, lawyer or dhoby is the better planter, lawyer or dhoby.

The educational problem was surveyed by the Special Committee on Education, which reported in 1944.<sup>129</sup> It did not examine the problem of increased productivity, for its discussions were dominated by the political aims of securing what has been called a 'national' system of education. Neither by that Committee nor by the Select Committee on Official Languages,<sup>130</sup> which in this respect gave a broad interpretation to its terms of reference, was the economic aspect of language policy seriously examined. It might be urged that from the economic aspect the medium of instruction is not one of the most important problems, but that its economic aspect ought to have weight in effecting reforms. There are certainly more important problems of education, such as the provision of compulsory elementary education, its relation to the economic life of the country, and the provision of adequate technical education. These problems were examined by the Special Committee, though not deeply; and in particular the recommendations were not supported statistically. The proportions 5, 15 and 80 were adopted for Secondary, Senior and Practical schools without reference to the economic demands of the country.

<sup>129</sup> *Report of the Special Committee on Education (Sessional Paper XXIV of 1943).*

<sup>130</sup> *Report of the Select Committee on Sinhalese and Tamil as Official Languages (Sessional Paper XXII of 1946).*

The Committee's scheme was however modified by the Executive Committee of Education and again by the State Council. In the result, education was to be made compulsory up to 16; students were to be divided between Practical and Secondary schools; and education was to be free from kindergarten to the University. Funds were provided to make secondary and University education free, subject however to a power given to a school management to opt out of the free education scheme and yet to remain grant-aided for three years. Funds were also provided for fifty 'Central schools', one in each constituency, which are Government Secondary schools. No funds were provided for Practical schools, for making elementary education generally compulsory even up to 14, or for commercial or technical education outside the University and the Technical College. The Central schools provide 'scholarships' for the free maintenance of pupils drawn from outside a radius of three miles from the schools, and to this extent an educational ladder has been provided between the villages and secondary education. The free education which is being given in the Central schools, about one-half of the Assisted schools, and in the University, broadens slightly the range of secondary and higher education. In general, however, the changes have benefited the small middle-class group and have done little for the children of the working class. No *Administration Report* later than 1943 has been issued by the Director of Education, and in any case the results of the changes will not be fully evident for some years. It is clear, however, that little has been done to increase by education the productivity of the great mass of the population.

There has been no comprehensive examination of

the health services of the Island. The expenditure increased from Rs. 12 million in 1937-8 to Rs. 22 million in 1944-5, and the Estimates for 1946-7 were nearly Rs. 33 million. In the absence of a survey it would be impossible to draw conclusions about the results. In respect of other social services a full survey has been made by the Social Services Commission<sup>131</sup> and suggestions made for development, assuming finance to be forthcoming. This question of finance raises, however, the major issue, already discussed in preceding chapters. Governmental services must be financed either by taxation or by loans. There has been a considerable increase in savings during the past few years. The figures given by the Social Services Commission<sup>132</sup> show that the position as to 'small savings' in 1945 was as follows:—

Post Office Savings Bank	Rs.	64,684,890	
Ceylon Savings Bank	„	51,498,945	
Other Banks	„	15,303,329	
Savings Certificates	„	25,047,073	(face value)
		<hr/>	
		156,534,237	

To this sum must be added the balances of benevolent associations, the value of insurance policies, and the sums invested in co-operative societies. Also, up to April 1946 the sum of Rs. 264,952,745 was invested in the various War Loans and National Loans, including Rs. 45,587,545 lent to the United Kingdom.

Not all of this is available for capital expenditure in the Island, and indeed there is some duplication due to reinvestment: e.g. the funds of benevolent associations and savings banks may be invested in Government loans. On balance it does, however, represent a substantial increase in the capital resources of the Island. Even so, the sums available are comparatively

<sup>131</sup> *Sessional Paper VII of 1947.*

<sup>132</sup> *ibid.*, pp. 150-2.

small and for the most part developments must be financed by taxation. By reason partly of unexpected surpluses and partly of budgeted surpluses, the Government has built up a substantial Nation Development Fund. Funds are thus available for the financing of development projects, but it does not appear that any order of priority has been drawn up. Nor has any decision been announced on the division of annual expenditure between development services and social services.

These are problems to be solved by the Cabinet and the Parliament under the new Constitution. Cabinet responsibility will give the unified control which has been lacking under the Donoughmore Constitution and may enable a planned process of development to be carried out. Doubt arises, however, whether there is as yet adequate machinery below Ministerial level. The Social Services Commission has recommended<sup>133</sup> a permanent Commission—

(1) to conduct a continuous survey of the condition of the people in the light of prevailing social and economic conditions and to report on them annually;

(2) to study and report on the adequacy of the social services;

(3) to report on the financial stability of the various social service funds;

(4) to make recommendations for alteration in the law and administration of the social services, or for extensions of those services; and

(5) to collect, analyse and publish statistics relating to the condition of the people in general and the social services in particular.

The reasons are stated as follows:

'We lay particular stress on this recommendation for three reasons. Firstly, the social services recommended by us, if established by the Government and Parliament, will for the first time provide adequate information, statistical and otherwise, about the condition of the people or at least large parts of it. It is on the basis of such information that future Governmental action, not only in relation to the social services, but in relation to economic policy generally, will be based. It is very desirable that it should be fully analysed. Secondly, as we have already mentioned, the statistical material published in *Administration Reports* is inadequate, uncoordinated, and lacking in consistency. It is, too, published without any kind of analysis. We have already made some recommendations on this subject, but we are anxious that the statistical material on the social services, which touch the life of the people so closely, should be carefully collected, closely coordinated and fully analysed. Thirdly, we have been impressed by the prevailing ignorance of economic conditions. An annual report on the condition of the people will disclose the facts in so far as they can be ascertained and will relate them to world economic conditions. It will thus have a valuable educative influence which will be of material assistance in the development of an instructed democracy.'

It is believed that this body would prove valuable in the determination of policy, but it would need to be supplemented by an adequate economic organization, either inside or outside the Government machine. If this book proves anything it is the inadequacy of the material available for the formulation by the Government of its economic policies.

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