



## **GOVERNMENT WELFARE STRATEGIES FOR REDUCING POVERTY IN SRI LANKA: PRE LIBERALIZATION PERIOD**

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### **ABSTRACT**

Poverty has been identified as a serious socio-economics issue during a long period in Sri Lanka. Sri Lanka used different strategies to alleviating poverty in different time frames. There was no specific strategy for poverty alleviation in the British colonial period. The article intends to identify the government welfare strategies for alleviating poverty during pre-liberalization period in Sri Lanka. The study utilized the historical review method to analyze the different welfare strategies. The findings revealed that the government used welfare strategies to reduce the poverty and income distribution disparities in the early decades of the 1900 century. After gaining independence in 1948, the government of Sri Lanka decided to continue with the social welfare service for alleviating poverty and reduce the income distribution disparities. The main welfare strategies were conducted through government social welfare expenditure. Food Subsidiary programs, rice programs, health, and education programs were the main welfare strategies of pre liberalization period of the country.

**Keywords:** Welfare strategies; poverty; Pre Liberalization period; Food subsidy program; health; education.

### **1. INTRODUCTION**

The British took complete control of Sri Lankans in 1815 after occupying the maritime regions of the country for more than 19 years. Before the arrival of the English, their regions were controlled successively by the Portuguese and the Dutch. However, the occupation of the maritime regions by these powers or conquering of the Kandyan Kingdom by the British in 1815 had not any significant effect on the country's peasant economy. Sri Lanka had a village economy of peasant cultivators growing for themselves their requirements such as foodstuffs and clothes [1]. This subsistence economy was organized in a feudal system under which all the lands have belonged to the king. Farmers provided various services to the king in return for holding the lands from the king. Other than the inter-village exchanges of non-food requirements.

The system that prevailed during this period was a self-sustained one. All exchanges were on the batter. This rural subsistence economy existed right up to the beginning of plantation agriculture during the British period.

The transition from a rural subsistence economy to an export-oriented modern economy during 1830 resulted in a reduction of the importance of the rice-producing economy prevailing in the country for more than 1800 years. Coffee, tea, rubber, and coconut were introduced on plantation crops. This new economic sector, plantation industry depended entirely on foreign entrepreneurship, foreign capital, and foreign labor. It utilized extensively the country's land suitable for the cultivating economic sector [2]. The colonial government in Sri Lanka made available land for the plantation industry by enacting various

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ordinances and legislation. This resulted in grabbing the lands used by a peasant for agriculture and barring the native right to land, particularly the forest and pasture. The colonial state sold vast tracts of forest, and pastures in the central ligands to planters.

The Colonial state in Sri Lanka introduced some new policies to create a Sinhala labor force in the country for the plantation [3]. It abolished the compulsory labor system, acquired the land belonging to the farmers, and introduced new taxes in order to include farmers to work in the plantation. However expected results from these policies were not achieved and the government failed to raise a labor force from the Sinhala people, they did not want to work under foreign plantations as slaves. The consciousness of customary and legal rights of the Kandyan people and underlying antipathy on the part of the Kandyans towards the colonial authority prevented Sinhalese from working in the plantation [4]. The ultimate result of this situation was turning the plantation industry into a longer, cheaper, and docile labor force in South India. Thousands of labor were imported from South India to employ in the plantation sector from 1830 to the 1920s.

A newly established plantation economy created instability in the livelihood of the rural community, but all the changes failed to benefit the peasants. As time went on their institutions were submerged by the new forces at work and their condition deteriorated [5]. The colonial government in Sri Lanka expected a miracle from the development of plantations and devolved all its efforts to provide facilities for plantations neglecting peasant agriculture and irrigation. For example population of the rice-producing Anuradhapura district was rapidly decreasing owing to disease and drought and that the state of the peasants had no money to attend to their needs, but it took no steps to relieve them even when its finance improved [5]. Uwa was one of the prosperous farming provinces in the country before the plantation started. Mendis, [5] has described the condition of that province "droughts and the destruction of tanks had reduced the population and the peasants who survived were poor, sickly, apathetic and too listless even to repair small village tanks". Food and other requirements of the newly formed plantation sector were imported from the other countries and spread effects of the new sector had not any impact on the peasants' agriculture.

The self-sustained village economic system of Sri Lanka was carefully designed the system to provide all the necessities for the peasants and ensure a healthy livelihood for them. The village consisted of paddy fields for all securing staple foods, Chena for

additional foods and other requirements a culled providing nutrition and fertilizer a home garden providing fruits, ingredients, medicine. This system completely changed due to the establishment of plantations and lack of land, restriction on raising the cattle, and destruction to the irrigation caused less production in village agriculture. Sri Lanka experienced poverty for the first time in its peasant agriculture sector as a permanent feature.

Transition from a peasant agriculture economy to a modern export economy added another feature to the economy creating poverty as a prolonged problem of the country. As discussed earlier, policies adopted by the colonial government in Sri Lanka to build a local labor force for the plantation sector have miserably failed. However, the government solved the problem by importing labor from South India. According to Ferguson (1887), there were about sixteen million people in Southern India whose annual earnings, taking grain, etc. At its total value, do not average per family pf five more than £ 3.125. During the 45 years ending 1884, nearly three million came to Sri Lanka. According to the 1881 census 200, 000 South Indian people were residing on the plantation in that year [6].

The migrant labors faced a deplorable condition of travel, living, and health. Among the 14, 47000 emigrants to Sri Lanka from 1843-1867, 350,000 were unaccounted for and presumed dead [7]. Emigrant laborers were forced to live huddle together four or five people to an eight by ten feet room. They worked ten continuous hours for a day on the plantation. [4]. Plants disparagingly refined to them as coolies. Imputation of labor from South India resulted in importing poverty also to Sri Lanka.

Reforms were introduced in the labor legislation, working conditions, workers' compensation, and union rights. The colonial government of Sri Lanka enacted the minimum wage legislation ordinance in 1927 [8]. But it was only applicable to Indian estate laborers. But in 1941, this ordinance was extended to 35 trades. Trade union ordinance was enacted in 1935 permitting wage earners from labor unions. The workmen's compensation ordinance of 1934, the shop ordinance 1938, and other related legal provisions enabled the improving worker's job environment working condition and job security.

The economic depression of Sri Lanka experienced from 1930 to 1933 was the worst economic downturn by Sri Lanka since the collapse of the coffee industry in the 1870s. The colonial government in Sri Lanka recognized unemployment, poverty, and destitution as serious problems during that period. This arises was aggravated by the malaria epidemic of 1934-1935 [9].

The government intervened and adopted some relief measures to control the situation. It implemented an unemployment relief scheme during the 1930-42 period under the public work programs. In 1940, the government enacted a poor law ordinance to provide a relief package for poor people in Colombo, Kandy, and cull municipality areas.

The outbreak of the world war two helped Sri Lanka to formulate new strategies for poor relief and income distribution. A scheme was introduced to maintain the minimum consumption level during this period. A free midday meal and a glass of milk were provided to school children. The department of food supply was established in 1942 to ensure minimum food supply to the people. This department purchased rice from local and foreign markets and distributed them to the whole population on a scheme of rationing [9]. This marks the beginning of a very important redistributing and poverty alleviation program rationing system Sri Lanka maintained from this year till 1977. During this war period, other commodities such as sugar, curry stuff, and milk food which were essential but short of supply brought under the rationing scheme.

There are two important which will help researchers to analyze the colonial period poverty alleviation policies. In 1932 a one-man committee was appointed by the government. The main objectives of this committee were

1. To examine the system of poor relief in general
2. To assessing whether systematic or statutory, provisions for poor life is necessary for Ceylon
3. To make a recommendation based on the result of the inquiry under 2 concerning a system of poor relief suitable to Ceylon.

Its report was submitted on August 15, 1934 (sessional paper XX, 1934). The government-appointed the social service commission in 1944 to inquire into

- 1) The adequacy of the existing social assistance and allied service and the methods of improving extending and coordinating these services
- 2) The questions of introducing social insurance schemes.

The first report "the report on the proposal to introduce a statutory provision for poor relief in Ceylon" bring a comprehensive analysis of poverty in Sri Lanka. It gives details of unemployment, urban poverty, rural poverty, disabled people, aged people, and health situations. As mentioned earlier, the government enacted a poor law ordinance based on

the recommendation of this committee. The report of the second commission was submitted in 1947 (sessional paper vii of 1947) after analyzing the poverty status in Sri Lanka, recommended the extension of the free health service throughout the country [10]. A scheme of social security for wage earners covering ill health and orphans, the person of old age, the blind unemployment assistance, persons of old age, the blind and unemployed. However, on the eve of independence, this report was not implemented because of the power change that was taking place at the time.

## 2. RESEARCH METHODOLOGY

The research intends to identify the government welfare strategies for alleviating poverty during pre-liberalization period in Sri Lanka. The study was used the historical review method using relevant secondary data and resources. Central bank reports, commissioner reports , and statistics were used to analyze the welfare strategies for poverty alleviation in Sri Lanka.

## 3. POVERTY AFTER THE INDEPENDENCE

After gaining independence in 1948, the government of Sri Lanka decided to continue with the social welfare service and the pattern of social service providers has not been experienced any significant change during this period. However, it had far-reaching consequences on the economic development of the country. In the growth sense, welfare expenditure had put a heavy burden on the government budget, investment, and balance of payments. However, attempt to cut welfare expenditure especially to curtail the food subsidies were met with anti-government demonstrations. Therefore two major political parties had not any alternative other than the continuation of the welfare program without any interruption.

Table 1 gives the details of total expenditure on welfare services for the period from 1949 to 1974. Total expenditure on welfare service increased annually it represented nearly 40 percent of the total current expenditure of the country. On the other hand, total welfare expenditure exceeded the total capital expenditure.

Table 2 shows the impact of the total welfare expenditure on the government budget deficit. During this period, expenditure on welfare services increased annually. The budget deficits have increased as a

**Table 1. Total Expenditure on welfare service 1949-1974**

Year	(Rs. million)							
	Subsidy on Rice	Recurrent Expenditure on Education	Recurrent Expenditure on Health	Total expenditure on welfare services	Total current Expenditure	Welfare Expenditure as % of total current Expenditure	Total capital Expenditure	Welfare Expenditure as % of capital Expenditure
1949/50	39.0	85	50.2	174.2	537.2	32.43	258.5	67.39
1951/52	199.2	104.4	78.1	381.7	861.8	34.92	379.9	100.4
1953/54	10.4	118.8	79.3	208.8	728.0	28.69	293.0	71.20
1955/56	71.9	155.4	97.8	325.1	891.8	36.45	366.6	88.64
1957/58	109.6	189.3	118.3	417.2	1045.8	39.55	447.5	93.28
1959/60	187.0	270.4	139.2	598.6	1366.7	43.80	454.6	131.61
1961/62	228.6	279.5	143.2	653.3	1512.7	43.06	563.9	115.55
1963/64	367.6	305.7	144.3	826.3	1737.5	47.56	483.2	171.01
1965/66	275.3	324.5	156.4	756.2	2019.5	37.54	589.7	128.23
1967/68	285.0	377.1	196.1	858.2	2363.2	36.32	789.2	108.74
1969/70	307.5	472.4	235.7	1,015.6	3032.0	33.50	883.1	115.0
1970/71	524.4	483.4	238.1	1,245.9	3174.2	39.25	799.6	155.82
1973	570.4	563.4	261.8	1,395.6	3876.8	36.30	1160.8	120.22
1974	776.3	579.3	288.9	1641.5	3990.3	41.21	1465.5	112.21

Source: Central Bank Annual Reports

result of the high welfare expenditure. Subsidy on rice represented a maximum of 76.1 percent of the capital expenditure of the country. In the 1963-64 and 1971-1976 periods, an annual average of the rice

subsidy as a percentage of total capital expenditure exceeds 50%. These data reveal the heavy price paid by the Sri Lankan government to maintain its welfare system during the period from 1949 to 1976.

**Table 2. Welfare Expenditure and the Budget Deficit 1949- 1976**

Year	Deficit-Surplus(+) (Rs. Million)	Total welfare Expenditure (Rs Million)	Deficit as % of Welfare Expenditure
1949/50	-178	174.2	102.1
1950/51	-65	271.2	23.9
1951/52	-255	275.9	72.4
1952/53	+11	208.8	-
1953/54	+83	262.4	-
1954/55	-40	325.1	-
1955/56	-228	368.0	61.9
1956/57	-249	417.2	59.7
1957/58	-446	511.4	87.2
1958/59	-488	598.6	81.6
1959/60	-509	651.2	76.8
1960/61	-501	651.3	76.9
1962/63	-439	666.3	65.9
1963/64	-519	826.3	62.8
1964/65	-520	736.4	70.6
1965/66	-682	756.2	90.2
1966/67	-723	702.5	102.2
1967/68	-850	858.2	99.0
1968/69	-947	926.2	102.2
1969/70	-1150	1015.6	113.3
1970/71	-1327	1245.9	106.5
1971/72	-1707	1565.2	109.0
1973	-1414	1395.6	104.2
1974	-1982	1644.5	120.5
1975	-2060	2383.7	86.4
1976	-2375	3884.7	60.9

Source: Central Bank of Sri Lanka

**Table 3. Cost of Subsidy on Rice**

Year	Subsidy on Rice (Gross)	Profit from sale of food stuffs	Subsidy on rice (net)	Capital Expenditure	Rice subsidy as percentage of capital expenditure
1949/50	85.8	46.8	39.0	256.5	15.09
1950/51	132.3	20.9	111.4	259.3	42.96
1951/52	217.3	17.8	199.2	379.9	52.43
1952/53	166.3	80.7	85.6	358.3	23.89
1953/54	96.9	86.2	10.7	293.0	3.65
1954/55	122.9	89.4	33.5	357.3	9.38
1955/56	165.2	93.6	71.9	366.6	19.91
1956/57	164.7	61.4	103.3	346.9	29.78
1957/58	198.9	89.3	109.6	447.5	24.49
1958/59	246.4	103.0	143.4	463.6	30.93
1959/60	309.8	122.8	187.0	454.6	41.14
1960/61	379.2	133.2	246.0	490.9	50.11
1961/62	420.2	191.6	228.6	563.9	40.54
1962/63	434.9	203.2	231.7	465.0	49.83
1963/64	452.5	85.2	367.3	483.2	76.01

Year	Subsidy on Rice (Gross)	Profit from sale of food stuffs	Subsidy on rice (net)	Capital Expenditure	Rice subsidy as percentage of capital expenditure
1964/65	451.5	187.1	264.4	535.4	49.38
1965/66	483.1	206.8	275.3	589.7	46.68
1966/67	459.2	263.6	195.6	695.4	28.13
1967/68	567.4	282.4	285.0	789.2	36.11
1968/69	593.1	291.6	305.5	909.8	33.58
1969/70	554.1	246.6	307.5	883.1	34.82
1970/71	602.3	77.9	524.4	799.6	65.58
1971/72	666.1	61.4	598.7	1140.2	52.51
1973	603.2	32.8	570.4	1160.8	49.14
1974	781.8	5.5	776.3	1465.5	52.97
1975	1086.7	17.7	1069.0	2556.7	41.83
1976	937.6	128.7	1066.2	2786.6	38.26

Source: Central bank of Sri Lanka

#### 4. IMPACT OF WELFARE SERVICES

Karunathilaka [11], summarized the benefits of the welfare service implemented by the Sri Lankan government during the post-independence period. "In Sri Lanka subject poverty and starvation have been unknown due to the distribution of free or heavily subsidized essential food which has ensured a minimum basket of basic food item for everyone. This has reduced mortality and morbidity and enabled the most destitute section of the population of surviving. Malnutrition and epidemics, which are quite common in many Asia and African countries, have not affected Sri Lanka since the country attained independence". Sri Lanka's achievements of its welfare system have been attracted from economist sociologists and international institutions since the 1970s.

Some economists stated that Sri Lanka's welfare policies were determined by political motivation. "Sri Lanka until recently occupied a unique position in the field of social welfare. A significant feature is that all their benefits were obtained without any effort on the part of the people. They were virtually thrust on them by political benevolence. Karunathilake (1988), Alailima, (1997) accept the political motivation behind the subsidized food rationing system and welfare service of Sri Lanka. It is true that efforts to

reduce the expenditure by some elected governments met with heavy pressure from the people and some major political parties lost the election due to their attempt to cut subsidies on foodstuff. However, two major political parties who ruled the country alternatively believed that the government should provide welfare services increase the living stand of the people. The finance minister expressed welfare services in the first budget speech of independent Sri Lanka (1959). The government justified the maintaining of welfare services by stating "Ceylon relative to many other Asian countries, has so far enjoyed a favorable economic position. It was their economic strategy to build up economic development rather than political benevolence. During this period, most of the socialist countries provided all their basic requirement free of charge. The difference between these countries and Sri Lanka, Sri Lanka had a mixed economy. But socialist countries had planned economics.

Table 4 shows the details of the welfare expenditure of some selected Asian countries and per capita income. Despite Sri Lanka's low income, it has the highest welfare expenditure/ GDP among these Asian countries. Table 5 gives some selected social indicators of Sri Lanka average for low-income countries and middle income countries.

Table 4. Comparison of welfare Expenditure

Country	Welfare Expenditure/GDP 1975-1978	Per Capita(US\$) 1979
India	1.1	190
South Korea	3.9	1480
Malaysia	8.3	1370
Pakistan	1.6	260
Philippines	3.1	600
Thailand	6.4	590
Sri Lanka	9.5	230

Source: IMF Annual Report 1981 [12]

**Table 5. Selected social indicators**

	1953	1963	1973	1983	Average for developing countries (1983)	
					low	middle
Per Capita income (US\$)	118	144	240	330	260	1,310
Adult literacy (%)	65	29	81	86	50	65
School Enrolment						
primary	-	83	88	103	85	102
Secondary	-	31	48	51	30	42
Life Expendancy(years)	56	63	66	69	50	61
Infant mortality per 1,000	71	56	46	37	75	75
Death rate Per 1.000	11	09	08	06	11	10
Birth rate per 1000	39	34	28	27	30	34

Source: World Development Reports [13]

As indicates by Table 05, the overall government welfare has provided for basic foodstuff, education, health, and other subsidized production. Welfare expenditure programs have harmed the growth of government savings. It reduces the effective incentives to save for precautionary purposes, and the reduction of private savings [14,15]. Per capita growth, for the period 1951-1977 fell below 1.5 percent indicating Sri Lanka has achieved a very slow growth over these 30 years. What Sri Lanka achieved was excellent social indicators with a poor growth rate. Some economists have seen this phenomenon as a trade-off between growth and equity of poverty. "As a strategy, Sri Lanka selected social development in preference to growth in the redistribution of wealth and alleviating poverty of masses. Thus, over the years, little attention has been made to strong growth-oriented strategies to alleviate poverty [18]. Sri Lanka has achieved a higher level of human development with a relatively low per capita income level. Ravallion & Sen [17]; Ravallion & Jayasuriya [18], Pyatt [19], UNDP (1990) analysis about the Sri Lanka achievement in growth with redistributive justice and impact of these policies on income distribution and poverty alleviation.

## 5. ECONOMIC POLICIES AND WELFARE

New economic policies were introduced by the government of Sri Lanka in 1977. It was based on a market-oriented and outward-looking strategy and shift of resources from consumption and welfare-oriented programs towards production and employment-oriented investment activities. The central bank of Sri Lanka described new policies as a sweeping depart are from a high inward-looking welfare-oriented economic strategy to a more liberalized outward-looking and growth-oriented one " (1978.1 ). The main features of the new policies were, a shift from social welfare and social security to accelerated growth, a package of incentives to foreign and domestic capital liberalization of international

trade policy designed to encourage export-oriented economic growth, public work such as accelerated Mahaweli development scheme aimed at the development of irrigation, hybrid electric generation having development programs and creation of free trade zones.

The most significant change in social welfare policy consequent to the introduction of the new economic policy comes into effect in 1979. Under this new program, the food ration system has been abolished and food stamps were issued to the familiar whose income fell below a cutoff point of Rs 3600 per year. The food stamp scheme aimed to achieve two targets, streamlining the welfare program to serve only the needy people and supplementing the welfare programs with employment and income-generating development program. The Rice ration system was implemented on a universal basis. However, the food stamps scheme reduced the receiving person to half of the population.

As discussed earlier, up to 1977 Sri Lanka has given priorities to the welfare services in the government budgetary allocation. The government provided some other welfare services to the people rather than the main welfare program. All the government cooperation and institutions which supplied products and services operated as nonprofit making institutions. The objectives of these institutions were financed by the government as services providing institutions to the people. During the 1970-77 period the government established or brought under government control some production and service providing institutions. Cement, steel, fertilizer, granite, manufacturing industries and passenger transport, banking, insurance industries were under the government. However, under the free economic policy reforms in 1977, all the government institutions were instructed to formulate their production programs on the market-oriented strategies, furthermore, the government informed this

**Table 6. Gini Coefficient**

	<b>1953</b>	<b>1963</b>	<b>1973</b>	<b>1978/79</b>	<b>1981/86</b>	<b>1986/87</b>	<b>1996/97</b>
Income receivers	0.50	0.49	0.41	0.50	0.52	0.52	0.50
Spending units	0.46	0.45	0.35	0.44	0.45	0.46	0.45

*Source: Central bank annual reports*

cooperation not to depend on funds from the treasury. This resulted in cutting down supplementary welfare programs implemented by manufacturing and service-providing government institutions.

The major fiscal advantage of the food stamp scheme to the government was that the size of the entitlement was set in nominal currency terms. Unlike in the case of a commodity-specific subsidy where the quantum of the commodity is fixed. It was easier for the government to maintain a stable budget. The prevailing prices of the imported rice, sugar, and flour were permitted to reflect the actual import cost and the world market trends [1]. This eroded the benefits of the recipient families. It made the food stamp program ineffective as a safety net. As a result, in the period of sharp price increases, the per capita calorie consumption of the lowest decile fell to an unprecedented level

Market-oriented economic policies and reduction of welfare expenditure badly affected for the low-income group and income distribution pattern of the country. During the period before the introduction of liberalized economic policies, there was a market shift towards greater income equality. Table 6 shows the Gini coefficient for the period 1953- 1987. Sri Lanka towards the greater income equality is indicated by the decline in the Gini- coefficient during the 1963-1973 period. However, between 1973 and 1979 this trend towards greater equality reversed during this period the Gini coefficient increased from 0.41 to 0.50 for income receivers and from 0.33 to 0.44 for spending units. This pattern of the income distribution can be attributed largely as an outcome of economic reforms introduced in 1977(Central bank annual reports).. Following the economic reforms, the country experienced economic growth of 8.2 percent in 1978 and 6.5 percent in 1978. The economic benefit arising from this growth did not go to the lower-income groups and therefore the income distribution became more uneven since1978/79. Income inequality worsened between 1978/79 and 1981/82. The Gini coefficient for income receivers increased from 0.50 to 0.52 and for spending units from 0.44 to 0.45. This trend was renamed in income distribution between 1981/82 and 1986/87(Central bank annual reports). The Gini coefficient for income

receivers remained unchanged and the coefficient for spending units increased marginally.

The situation in the country paved the way for policy planners to rethink the redistribution policies and poverty alleviation policies. Presidential candidate Mr. R Premadasa in his election manifesto for the 1989 presidential election pledges to implement a comprehensive poverty alleviation program directly for getting the poor group of the country. He won the 1989 presidential election 1989 and implemented the poverty alleviation program called Janasaviya in 1989. This was the beginning of implementing a program directly aimed at the people suffering from poverty eradicating it during a period. Sri Lanka continued to run a poverty alleviation program along with liberalized economic policies from 1991 to date and was a special case where open economic policies and poverty alleviation policies were implemented successfully in reducing the poverty during this period. This is a special case where pen economic policies and poverty alleviation policies were implemented side by side to distribute the benefit of liberalized economic policies to the poor section of the country.

## 6. CONCLUSION

As Summarized of the benefits of the welfare service implemented by the Sri Lankan government during the post-independence period, subject poverty of Sri Lanka has not been identified as the distribution of free or high amount of subsidized essential food which has ensured a minimum basket of basic food item for low-income families. This welfare system decreased mortality and morbidity and enabled the most destitute section of the population of surviving. After gaining the independence in the 1960 decade, the government of Sri Lanka decided to continue with the social welfare service and the pattern of social service providers has not been experienced any significant change during this period. After 1970, the overall welfare policy in which government provides basic foodstuff, education, health, and other subsidized production and service has enabled Sri Lanka to immense progress in human resources development. Hence, the study identified that the government welfare policies have directly affected to reduction poverty level in Sri Lanka after independence period. Food Subsidiary programs, rice

programs, health, and education programs were the main welfare strategies of pre liberalization period of the country.

## COMPETING INTERESTS

Author has declared that no competing interests exist.

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