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SOCIAL DEVELOPMENT, ECONOMIC GROWTH AND THE LIBERALIZATION IN SRI LANKA*

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Abstract: Sri Lanka's achievement in social development front is remarkable in the developing world. However, by and large, this achievement did not help Sri Lanka achieve a rapid economic growth particularly during the pre-liberalization period. In the early years of the implementation of extensive welfare programmes, there was only a weak positive relationship between economic growth and expenditures on welfare programmes in Sri Lanka. The country continued to implement extensive welfare programmes even when it had low levels of per capita income and GDP growth rates. Though these measures helped Sri Lanka achieve an admirable position with regard to social development, the economic growth rate did not pick up until the introduction of liberalization. However, the improved economic growth rates materialized only after economy was liberalized. Apart from this growth performance, increased employment opportunities in the newly emerged garment industry and abroad, particularly in the Middle East, provided a chance to Sri Lanka to reduce unemployment significantly and to benefit from the welfare achievements.

Key words: Economic growth, Social development, Wefarism, Unemployment, Liberalization

1. INTRODUCTION

The small island nation of Sri Lanka, famous for its physical beauty, is quite unique in several ways. Sri Lanka achieved Universal Adult Franchise in 1931 and the country is one of the few functioning vibrant democracies in the Third World. Furthermore, the country is also unusual in the developing world in that it has achieved great success in the areas of education, health and nutrition, despite a low level of per capita income. An important question that does arise here is why this remarkable achievement in social indicators did not help Sri Lanka to achieve a rapid economic growth particularly during the pre liberalization regimes? This article makes a modest attempt to answer this question. The remaining sections

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of the article are organized as follows. Section 2 looks at the policy errors and the missed opportunity during the early years of independence. Section 3 provides some theoretical aspects on the relationship between social development and economic growth and analyses the Sri Lankan context. Section 4 draws the relevant conclusion.

2. POLICY ERRORS AND THE MISSED OPPORTUNITY

There are debates on the performance of the economy during the post independence period. At the time of political independence, Sri Lanka enjoyed the third highest per capita income in Asia after Japan and Malaysia (Rajapatirana 1988). South Korea, Thailand and Indonesia were behind Sri Lanka in terms of per capita income. Sri Lanka inherited a rich plantation sector from the British colonial rule. The higher prices for plantation exports increased trade surplus from Rs. 94 million in 1948 to Rs. 415 million in 1955(Lankatilake 1999). As a result, Sri Lanka enjoyed an economic prosperity during the early years of independence. Though at that time Sri Lanka had the finest of chances for a rapid economic take off, by and large, the economy performed poorly during the five decades of the post-independence period. Now, Sri Lanka is classified as a low income country by the World Bank.

Though there are several factors[1], which contributed for the retardation of the development of Sri Lanka during the post independence period, extensive welfarism was one of the factors. It is meaningless to argue that welfarism should be abandoned or to be given low priority. Our argument is that the government should have kept its welfare expenditure within limits dictated, not by the real needs of the society but by the rate of growth of its revenue. Importantly, there should be a strong positive relationship between welfare expenditure and per capita GDP and the rate of investment. Nonetheless, Sri Lanka implemented extensive welfarims with low level of per capita GDP and lower rate of investment. During the 1950s and 1960s, the rate of investment constituted only 12 per cent and 15 per cent of GDP respectively. However, though Sri Lanka failed to maintain higher GDP growth it achieved impressive result on the social development front.

1 First is the shift in the economic policies between two extreme ideologies i.e., liberal and left oriented ideologies. Sri Lanka has been ruled by two major political parties i.e., United National Party (UNP) and Sri Lanka Freedom Party (SLFP) since independence. The economic policies depended upon the political parties that came to power. After Independence, the UNP formed the first government and adopted outward looking and open economic policy but the SLFP embarked upon inward looking closed economic policy when it came to power. These sequential policy shifts led to inconsistent process of growth and development and uncertainty ultimately reduced the confidence of investors both internally and externally. The second is sporadic civil disturbances (1971 and 1989) in the Southern part of Sri Lanka and the destructive ethnic war in the Northern and Eastern part of Sri Lanka.

Table 1 presents the comparative position of Sri Lanka among some selected countries and shows that it has performed well in regard to social indicators in comparison to even East and South East Asian developing countries with relatively high level of average income. However, Sri Lanka's GDP growth performance was poor when compared with East and South East Asian developing countries.

Table 1: Economic Indicators of Some Selected Countries

		Sri Lanka	South Korea	Malaysia	Indonesia	Thailand
GNI Per capita GDP, Atlas Method (Current US$)	1962	160	110	300	70[a]	160[b]
	1982	320	1960	1900	590	770
	2004	1010	13,980	4650	1140	2,540
Life expectancy	1962	61	55	56	43	54
	1982	68	68	68	56	65
	2004	74	74	74	67	69
Infant mortality Rate	1962	83	90	73	128	103
	1982	36	16	-	60[c]	45
	2004	13	5	8	35	23
Average GDP Growth Rate	1962-1975	3.9	8.2	6.6	5.3	6.6
	1976-1989	4.6	8.2	6.7	6.6	7.7
	1990-2004	4.8	6.0	6.5	4.8	5.0
Gross Capital Formation (% of GDP)	1960-1974	16	21	19	13	22
	1975-1989	24	31	26	27	29
	1990-2004	24	32	32	25	20
Gross Domestic Savings (% of GDP)	1960-1974	12	11	23	12	20
	1975-1989	13	28	30	31	25
	1990-2004	16	34	42	28	34
Unemployment	1981	18	5	6	5	1
	1990	16	3	5	4	2
	2002	9	3	2	2	3

Source: World Bank (World Development Indicators)
[a] data for 1969
[b] data for 1966
[c] data for1990

3. SOCIAL DEVELOPMENT AND ECONOMIC GROWTH

The relationship between social development and economic growth is complex. Newman and Thomson (1989) pointed out that economic growth depends on social development but not vice-versa. However, Colombatto (1991) argued that the impact of social development on economic growth, although statistically significant, was quite marginal. Critics of the welfarist approach to development have argued that by emphasizing activities, which are essentially consumption oriented, the welfariast approach implies a reduction in the rate of growth. An economically advanced country can afford to sacrifice some growth for the sake of social justice. But the cost of greater equality may be luxury to any economy at a low level of economic development that wishes to grow rapidly. It would therefore seem unwise for a country anxious to enjoy rapid growth to insist too strongly on policies, aimed at ensuring economic equality and a just income distribution (Johnson as quoted in Laksman,1975). On the other hand, proponents of this approach point to the human capital aspects of welfarism, which could be instrumental in increasing productivity and growth in output. Particularly, education and health play a major role in increasing the standard of human capital through labour quality, which contributes significantly to economic growth. Empirical study in Bloom *et al* (2004) suggests that health, in the form of life expectancy, has a significant positive effect on the rate of economic growth. Their main conclusion is that health has a positive and statistically significant impact on economic growth. It suggests that a one - year improvement in a population's life expectancy contributes to a 4 per cent increase in output. Thus, health is a crucial aspect of human capital, and therefore a critical ingredient of economic growth. So, improvements in health may increase output through labour productivity. Colombatto (1991) explain the relationship between social development and economic growth using 'trickle - down effect' (whereby social development would lead to economic growth) and 'trickle - up effect' (whereby economic growth would make welfare improvements) approach.[2]

As far as Sri Lanka is concerned, we argue that neither 'trickle - down effect' nor 'trickle - up effect' did take place during the pre liberalization regime. In the early years of the implementation of welfare programmes, there was no strong positive relationship between economic growth and the expenditures on welfare programmes. Sri Lanka continued to implement all welfare programmes with low level of per capita income and GDP growth. Thus economic growth did not make welfare improvements (trickle-up effect). Meanwhile, though Sri Lanka achieved an admirable position with regard to Social indicators, the economic growth rate did not pick up (trickle - down effect) until the introduction of liberalization policies in 1977. Thus, social development did not lead to economic growth.

Sri Lanka spent a significant portion of its resources, 3.3 per cent of GNP, on average, on food subsidies from 1951 to 1977.[3] However, it was nearly 5 per cent of GDP in the mid 1960s.[4] In 1950-51, subsidies were estimated to be about a fifth of all government expenditures. By early 1952, expenditures on rice and flour subsidies exceeded expenditures on development projects (Central Bank of Ceylon 1951). Though provision of food subsidy is favored for reduction poverty, it may involve inappropriate incentives from the perspective of the economic development of the nation. Jayawardene (2004) argued that if Sri Lanka had abandoned the food subsidy it could have invested in plant and machinery at

[2] See Colombatto (1991) for elaboration of this point
[3] See Kelegama (2000:1481)
[4] See Jayawardena (2004:98)

around 20 per cent of GDP. Instead, Sri Lanka's inability to increase the rate of investment retarded country's growth momentum.

In academic circles, Sri Lanka is cited as an outlier among developing countries because of the country's achievement in the social development. However, this achievement did not help Sri Lanka to achieve rapid growth particularly during the pre liberalization regimes. Firstly, higher spending on welfare programmes did not accompany higher rate of investment and higher per capita GDP. Sri Lanka continued to implement all welfare programmes with low rate investment and low level of per capita GDP. Secondly, the industrialization did not gather momentum until the introduction of the reforms in 1977. For example, industry's value added as a percentage of GDP was 20 in 1960 but Agriculture's value added as a percentage of GDP was 32 in the same year.[5] This led the country to depend highly on the agriculture sector for production, export earnings and employment. Since the agricultural production depends on favourable weather conditions, maintaining constant growth in the agriculture sector is difficult. Furthermore, the productivity grows less rapidly in agriculture than in the manufacturing sector because there would be difficulties in extending the division of labour in agriculture to the extent that it is possible in manufacturing. David Ricardo's fundamental model also assumes a fixed level of agricultural technology. Moreover, the dual economy model inspired by the work of W.A Lewis typically features a distinction between a stagnant, traditional rural agricultural sector and a dynamic modern manufacturing sector.[6] Generally, Agriculture sector will not attract all types of labour but in contrast Industry sector will attract all types of labour (high qualified and low qualified and high skilled and low skilled) irrespective of gender. In Sri Lanka, since most educated youths seek white colour jobs, agriculture sector was unable to absorb them. These contributed to high unemployment and led the country to experience low GDP growth during the pre liberalization period. Finally, since the late 1950s, Sri Lanka has had serious development problems including balance of payment deficit, extremely adverse terms of trade, and preemption of a high percentage of the budget and of imports for food subsidies. As a composite effect, Sri Lanka was unable to overcome the macroeconomic crisis of low GDP growth rate and high unemployment. In this context, achievement in social development did not help Sri Lanka to achieve a rapid growth to the maximum extent possible during the pre liberalization regimes.

5 Source: World Development Indicators

6 See Martin and Mitra (2001). Furthermore, empirical evidence in Dodzin and Vamvakidis (2004) confirms that the agriculture sector is a slow growing sector, and that the industry and services sectors grow considerably faster. Over the period 1970-1999, world agriculture value added grew by an annual average of 2.8 per cent in real terms, compared with 4.8 per cent for world industry value added and 4.1 per cent for world services value added.

Instead, as Laksman (1975) correctly noted the government's excessive preoccupation with redistributive justice was an important factor within a complex situation which led to a low rate of economic growth.

Trade off between the implementation of extensive welfare programmes and investment: Sri Lanka continued to implement extensive welfare programmes with very low level of per capita income. During the first two decades of independence (1948 – 68) social expenditure relating to education, health, food subsidies and public welfare assistance hovered around 40 per cent of total public expenditure or 10 – 12 per cent of GDP (Jayasuriya 2000). A significant portion of the GDP was used for such programmes.

Aturupane *et al* (1994) pointed out that well-being depends primarily on income and high incomes were necessary for poor countries to raise social indicators. But in Sri Lanka, there was a mismatch between huge expenditures on extensive welfare programmes and the low level of per capita income which led the country to experience lower rate of investment. The origin of these welfare programmes is due in part to the government's commitment to social welfare, engendered by the adoption of universal franchise in 1931 (Rajapatirana 1988).[7] Since, subsidies were considered as instrument to ensure electoral victory, the government had pledged during the election to maintain consumer subsidies. All welfare expenditures brought about massive electoral victory in July 1952 for the UNP government. However, the government faced difficulties to continue these subsidies due to the poor economic condition of the country. The government raised the price of rice and as well as the prices of publicly provided services. Other subsidies, including free meals for the schoolchildren also were cut. The political reaction was explosive. The country faced massive protest and a general strike. As a result the then Prime Minister, Dudley Senanayke resigned.[8] Since then, subsidies started to play a major role in the Sri Lankan politics. By the 1960s there were clear signs that Sri Lanka had been living far beyond its means (ILO, as quoted in Abeyratne 2004). Welfare programmes covered the entire population of the country without a clear economic rationale and an essential economic foundation. The political competition in a multi-party democratic system has been instrumental in the initiation and the continuation of the system (Abeyratne

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7 The political evolution in Sri Lanka that culminated in the 1931 reforms mirrored the evolution of British political reforms since 1832. Sri Lanka was the first among the colonial territories to have universal franchise, years before independence. This created an electorate that expected the government to play a dominant role in providing a number of social services (see Wilson, as quoted in rajapatirana 1988).

8 See Athukorala and Jayasuriya(1994) for further details.

2000). Increasing human capital, productivity and incomes of the poor is treated as means of meeting basic needs and increasing growth. Basic needs proponents would point to the human capital aspects of basic needs as possibly having long-term effects sufficient to cancel out any temporary reduction in growth (Hicks 1979). However, Sri Lanka was not following ….a basic needs approach, but rather was responding to political pressures for a set of social programmes (Isenman 1980). [9]

Some argued that if Sri Lanka had liberalized its economy in the 1960s, higher growth rates could have been achieved. Perhaps one reason why Sri Lanka did not take a more outward - oriented development approach was its early commitment to welfarism (Rajapatirana 1988). Financing of welfarism cum subsidies necessitated the imposition of high taxes, especially on foreign trade. This clearly distorted production incentives. The government's role as the chief importer of food also led to a problem in that a large amount of foreign exchange was apportioned to pay for this fixed level of food imports. These developments were bottlenecks in increasing the rate of investment. Welfarism is not harmful for any country in terms of socio - economic development. Nevertheless, Sri Lanka's commitment for the extensive welfarism was controversial, because Sri Lanka implemented all these welfare programmes (mainly food subsidy) for long time irrespective of lower rate of investment. At the same time, East Asian countries implemented welfarism with higher rate of investment unlike Sri Lanka. Therefore, we can conclude that welfarism was one of the main reasons for Sri Lanka to experience low level of rate of investment during the pre liberalization regime.

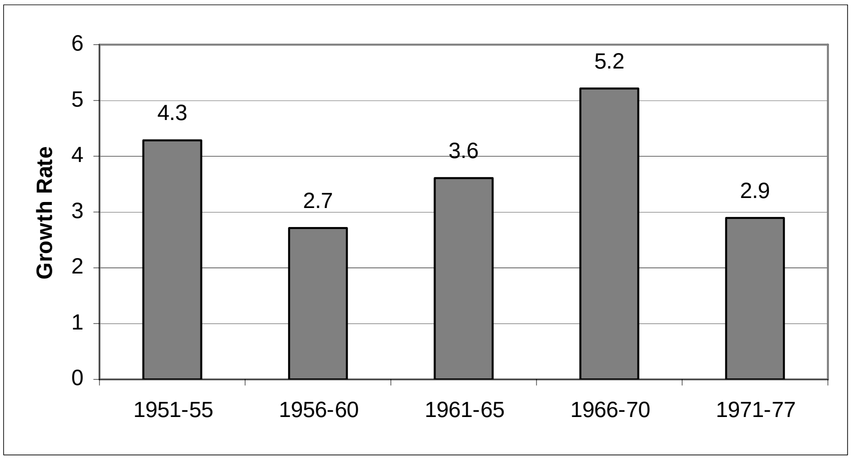
Low investment and low GDP growth: During the early stage of independence, Sri Lanka enjoyed economic prosperity. However, Sri Lanka diverted huge portion of this resource to the implementation of extensive welfare programmes instead of spending on development through increased investment. Sri Lanka resorted to welfarism as a means of human development long before such welfare concepts acquired a dominant position in developing thinking (Abeyratne 2000). During 1960-77, GDP growth rate and gross capital formation (as a percentage of GDP) were 8.3 and 22.5 respectively in South Korea. But in Sri Lanka, these

[9] By early 1952, welfare measures exerted tremendous pressure on government budgets. In 1951 - 52, welfare expenditures accounted for 29 per cent of the government current expenditure, even exceeding the expenditure on development (Central Bank of Sri Lanka -1951). But export prices started to decline in 1951 and on the other hand import prices were rising. As a result, the Government faced severe financial crisis to meet subsidies expenditure and decided to reduce the subsidies. Due to the reduction of the subsidy, the country faced an unprecedented massive public protest (Hartal), which resulted in the resignation of then Prime Minister Dudley Senanayaka. Henceforth whenever the issue of food subsidies came up, the specter of the Hartal haunted every Sri Lankan government (Athukorala and Jayasuriya 1994). Since then the welfare systems and the food subsidy started to play a major role in capturing power during every parliamentary election.

were 3.8 and 15.7 respectively in the same period.[10] Therefore, it is clear that low level of gross capital formation has led Sri Lanka to experience low level of GDP.

Inability to exploit the benefits of social development due to the low GDP growth: By the early 1970s, again there was a problem for Sri Lanka not only from the implementation side but also from the outcome of the welfare programmes because Sri Lanka was unable to exploit the benefit from the social development due to dismal growth of GDP. To gain fully from the social development, there should be a parallel growth in GDP. Except the partial liberalization regime (1965-70), GDP growth rate was sluggish during the pre liberalization regime.

Figure: 1 GDP Growth Rate (Pre Liberalization Regime)



Source: Central Bank of Sri Lanka (Various annual Reports)

Moreover, the country faced a severe unemployment problem (18.7 per cent in 1971, 19.7 per cent in 1975) particularly among the educated youth, almost throughout the pre liberalization period. Human development is a means to higher productivity. A well-nourished, healthy, educated, skilled, alert labour force is the most important productive asset (Streeten 1994). Healthier workers are physically and mentally more energetic and robust. They are more productive and less likely to be absent from work because of illness (or illness in their family). Illness and disability reduce hourly wages substantially, with the effect especially strong in developing countries, where a higher proportion of the work force is engaged in manual labor than in industrial countries. Indeed, there was an irony in Sri Lanka because on the one hand Sri Lanka had excellent human development record but on the other hand it was unable to generate employment opportunities due to dismal growth. As a result the country face severe unemployment problem.

Table 2 : Unemployment Rate by Age Groups (Percentage of Labour Force)

[10] Source: World Development Indicators

Age Group (Years)	1963	1973	1986-87	Age Group (Years)	1994	2000	2006
14-18	47.5	65.8	48.0	15-19	40.7	23.3	23.1
19-25	30.3	47.5	35.3	20-29	24.5	17.4	15.9
26-35	7.8	15.2	10.6	30-39	7.6	3.6	3.3
36-45	2.4	3.9	3.2	40-49	2.5	1.3	1.4*
46-55	2.7	1.2	0.7	50 & above	1.2	0.8	
Over 55	1.9	0.8	0.6				
Total	13.8	24.0	15.5	Total	13.1	7.6	6.5

Note: * 40-49 and 50 & above

Source: Central Bank of Sri Lanka (Various Annual Reports)

As shown in Table 2 during the pre liberalization regime, not only was the unemployment rate very high but the level highest in the 14 to 25 age group. With improved human abilities owing to the extensive welfare system, these younger economically productive groups confronted the Government, which had not given them a chance to participate either in the development process or in the political proces. Undoubtedly, this was a failure of the country that did not use the productive labour force in productive activities.

Table 3 : Unemployment Rate by Level of Education (Percentage of Labour Force)

Level of Education	1963	1973	1986-87	1994	2000	2006
No schooling	6.1	8.0	2.9	2.6	1.2	-
Completed primary education	10.5	14.1	5.0	5.0	1.0	-
Completed secondary education	23.0	37.1	19.8	13.0	7.5	5.8
Obtained GCE (Ordinary Level)	39.3	47.4	28.5	19.6	11.3	9.9
Obtained GCE (Advanced Level)	13.9	44.4	36.8	23.7 *	14.9 *	11.6*
Obtained university degree	0.0	16.2	7.6			

Note: GCE: General Certificate of Education

Note * GCE (A/L) and Above

Source: Central Bank of Sri Lanka (Various Annual Reports)

As can be seen in Table 3 unemployment was highest among the educated youth. The educated and unemployed youth represent not just underutilized resources but a threat to Sri Lanka's political stability. With the escalated social aspirations and expectations as a result of welfare system this younger generation, mostly Sinhala youths, engaged in an insurrection in 1971 in the southern part of Sri Lanka. Simultaneously, in the North – East, the Tamil youth started to deviate from the mainstream politics towards a violent path due mainly to the standardization practice of 1970, which, they believed, diminished their chances of university entrance.[11] Here also the country failed to utilize the ability of the youth who had benefited from state welfarism. Instead, their misdirected abilities were a threat to the future development and the stability of the country.

Improved education and health can make a major contribution to increase productivity. It has been argued that there is a stable relationship between the rate of increase in the productivity of labour and the fraction of the economically active population engaged in schooling (Razin, 1977). Furthermore, education has a positive effect on agricultural output when technology is changing, because educated farmers would be keen to use improved technology in production. However, the unemployment was severe among low - skilled people during the pre liberalization regime. If we look at Table 3, people who had lower qualifications than GCE O/L had experienced severe unemployment. Agriculture sector could have played a key role in absorbing this low - skilled labour force. At the same time, the industrial sector also reeled under sluggish growth on account of scarcity for intermediate and capital goods and on the other hand the agriculture sector was unable to absorb all unemployed. Thus, this period experienced massive unemployment problem. So, free education and free health could not contribute to the GDP growth of Sri Lanka.

Moreover, the country had to face enormous social demand, which was generated by extensive welfare programmes. The people brought up within the welfare system always pressurized the country to fulfill their aspirations. For example, those who benefited from free education tended to seek white-collar skilled jobs in the government and formal organization in the private sector. This required a parallel expansion of economic opportunities through sustained economic growth. However, the country experienced dismal growth performance (except partial liberalization regime of 1965-70) during the pre liberalization era.

Most importantly, Sri Lanka should have improved the social development without hindering the economic growth needs of the country. In brief, as quoted in Newman and Thomson (1989) Srinivasan claims that too much emphasis on basic needs provision will hurt economic growth which in turn will damage future basic needs programmes. Srinivasan's argument seems to be true as far as Sri Lanka is concerned. Two pieces of evidence can be cited here. Firstly, Sri Lanka dismantled its extensive food subsidies programme and

[11] The Government implemented a scheme for university entrance under which a Tamil student was required to achieve higher marks than a Singhalese student making it difficult for the Tamil students to enter Universities. For example, in 1970, the cut off marks for Engineering (I) course was 250 for a Tamil student but for a Sinhala student it was 227 (Source: Hansard, division 83,No.5, 514 -518, 06.01.1971(as quoted in Tharmalingam, 1974)

introduced a food stamp programme to the low income strata of society in 1978.[12] Secondly, the expenditures on total welfare programmes continued to decline. For an example, total welfare expenditure as a percentage GNP declined from 12.1 per cent in 1970 - 71 to only 4.1 per cent in 1981.[13] As a percentage of GDP, total expenditure on welfare, education and health was only 1.1 per cent in 2005.[14] This implies that Sri Lanka was unable to continue the extensive welfare programmes during the post liberalization regime as it was implemented during the pre liberalization regime.

Country studies in Fica and Ghateb (2005) suggest that expanding welfare state regimes are associated with low economic growth regimes, while contracting welfare state regimes are associated with high growth regimes. We also find that the structural decline in growth rates during the pre liberalization regime led to a downward structural break in the welfarism in Sri Lanka during the post liberalization regime. This suggests that the decimal growth regime forced the government to cut the size of the welfare expenditures in the latter period.

During the 1950s, Sri Lanka increased welfare expenditures at a slightly faster rate than the growth rate of output. As a consequence, transfer spending constrained the growth of the country. Over time, however, a threshold emerged wherein to maintain positive output growth. More specifically, when growth fell, the welfare expenditures also declined, although at a faster rate than the reduction in growth.

Following the liberalization Sri Lanka experienced relatively higher growth rate[15] and unemployment also declined drastically. For example, the unemployment rate declined from 19.7 per cent in 1975 to 14.8 per cent in 1978 and to 6.5 per cent in 2006. At the same time, like overall unemployment rate, employment among 14 -25 and 26 - 35 age groups also declined during this period.

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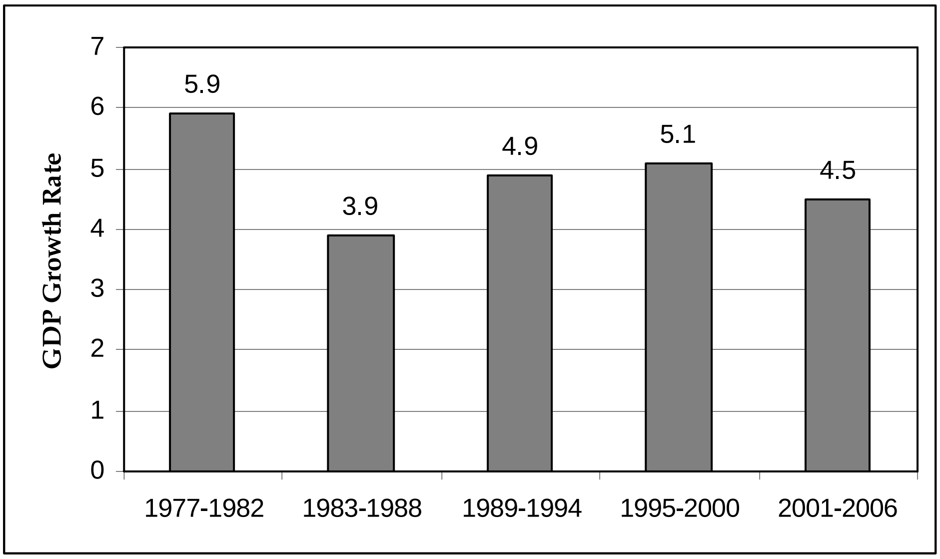
12 Though the government tried to reduce welfare expenditure during 1977-88 period, again welfare programme started to play a key role during the election time. Janasaviya and Samurthi welfare programmes were implemented in adhoc manner by the governments. It should be noted here these programmes were used to gain political support by main political parties rather than addressing welfare of the people.

13 See Jayasuriya (2000:67)

14 See Central Bank Report 2005, page 99

15 Since 1983, Sri Lanka had to spend a significant portion of GDP on another unproductive area, i.e. North East War which also hampered the growth performance of the country.

Figure: 2 GDP Growth Rate (Post Liberalization Regime)



Source: Central Bank of Sri Lanka (Various annual Reports)

Though the eruption of the ethnic war in 1983 had harmful impact on the economy, Sri Lanka maintained increased growth rate to some extent during the post liberalization regime as compared to the pre liberalization regime. Sri Lanka maintained relatively higher gross capital formation and gross domestic saving during the post liberalization regime (see table 3). As a result, Sri Lanka was in a position to benefit from the social development because, primarily, many Sri Lankan obtained employment opportunities. Newly emerged garment industries and toys manufacturing industries contributed significantly for this development during the post liberalization period. Further more, many Sri Lankans obtained employment opportunities abroad, particularly in the Middle East. These employment opportunities included unskilled workers and skilled workers (housemaids, carpenter, plumber, mason, technician etc). Only after the liberalization, controls on foreign traveling were relaxed (passports are issued within one day) and many foreign employment companies, which facilitated Sri Lankans to get a job easily, were opened in Sri Lanka. Due to these developments, foreign remittances became an important source for the foreign exchange earnings in Sri Lanka.

Therefore, we argue that increased growth rate provided a chance for Sri Lanka to exploit the benefit of social development through increased employment opportunities at home as well as abroad. Secondly, this development helped Sri Lanka to maintain at least a moderate growth rate during the post of liberalization period. However, if there was no war, the economy would have raised growth rate further and Sri Lanka would have been in a position to use fully the benefit of social development.

4. CONCLUDING REMARKS

In sum, during the colonial period, the colonial governments implemented food subsidy programme with the view to encouraging plantation agriculture and discouraging peasant agriculture in order to confirm that future Sri Lanka should depend on the imports of industrial and consumption goods while exporting plantation products. Unfortunately, the governments formed after independence followed the extensive food subsidy policy without targeting the poor with a view to obtaining political mileage. To exploit the benefit from the welfarism, there should be parallel growth in the GDP. However, during the pre liberalization regime, Sri Lanka was able to maintain only dismal growth. Nonetheless, during the post liberalization regime, to some extent, Sri Lanka maintained a moderate growth rate on average amidst destructive civil war. Apart from this growth performance, increased employment opportunities in the newly emerged garment industry and in the Middle East, provided a chance to Sri Lanka to reduce unemployment significantly and to benefit from the welfare achievements. However, if there is no civil war in the country, the economic scenario would have been entirely different during the post liberalization regime.

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