I. ECONOMIC PERFORMANCE, PROBLEMS AND POLICIES-1970

(A) Economic Performance

(1) National Product

In 1970 the Gross National Product at constant prices rose from Rs. 9,316 million to Rs. 9,695 million. This is an increase of 4.1 per cent in 1970 as against 5.1 per cent in the previous year. It is better than the annual average rate of growth of 3.9 per cent in the period 1960-1967, although lower than the average rate of 4.5 per cent for the decade (1960-1969). The higher average for the decade is due to a high growth rate in 1968. Allowing for a population increase of 2.1 per cent in 1970 the rise in Gross National Product per capita is 2.0 per cent. Per capita output has risen from Rs. 760 in 1969 to Rs. 775 in 1970.

The increase in Gross National Product which is less than in the previous year, must be evaluated in the context of the general readjustment of the system to the new economic policies, particularly those relating to imports and the rationalisation of private sector industry which were introduced by the Government from the middle of the year onwards. These policies, to some extent affected the volume of activity and a comparison therefore, between the growth rates for 1968 and 1969 with that of 1970, may not be strictly appropriate. The expansion in the two preceding years was sustained to a large extent by the availability of a wide range of inputs, mainly for industry, transport and communications and construction. The abolition of Open General Licences resulted in a wide range of items being less freely available. Although business activity in 1970 was maintained for some time at the levels in 1968 and 1969 due to the availability of stocks built up in the earlier period, these stocks were being gradually exhausted and by the fourth quarter of the year replenishment had become necessary.

The sectoral increase in Gross Domestic Product at constant prices is given in Table I - 1. Mining and quarrying, construction and electricity and gas are the major sectors that have shown appreciable growth during the year. In each of these sectors the expansion in 1970 exceeds 15 per cent, while all other sectors, other than transport and the wholesale and retail trade, showed an expansion of more than 3 per cent. No sector has shown an absolute decline.

With regard to agricultural crops the output of paddy increased by 16.5 per cent to 76.8 million bushels, thus increasing the growth rate in this sector from 0.9 per cent in 1969 to 3.6 per cent in 1970 and to some extent offsetting the fall in tea production. Output of tea has shown a fairly sharp declining trend; at 468 million pounds in 1970 it is only slightly higher than production in 1962. The output of coconut, though higher than in 1969 at 2,447 million nuts, was lower than the output reached in 1966. Rubber production rose from 333 million pounds to 351 million pounds. Since both tea and coconut are vital foreign exchange earners a sustained effort may be necessary to step up output in both these industries.

TABLE I - 1

Sectoral Growth-Gross Domestic Product 1970 (at constant prices)

	1969 (Rs. million)	1970 (Rs. million)	Percentage change
1. Agriculture, Forestry, Hunting and Fishing ..	3,276·4	3,395·2	+ 3·6
2. Mining and Quarrying ..	55·0	65·2	+18·5
3. Manufacturing ..	1,260·5	1,334·9	+ 5·9
4. Construction ..	519·5	598·2	+15·1
5. Electricity, Gas, Water and Sanitary Services ..	17·6	21·3	+21·0
6. Transport, Storage and Communications ..	899·1	912·5	+ 1·5
7. Wholesale and Retail Trade ..	1,366·7	1,391·4	+ 1·8
8. Banking, Insurance and Real Estate ..	113·7	118·0	+ 3·8
9. Ownership of Dwellings ..	290·9	301·5	+ 3·6
10. Public Administration and Defence ..	445·4	458·8	+ 3·0
11. Services ..	1,138·9	1,183·7	+ 3·9

Gross domestic capital formation in the private sector and public corporations fell from Rs. 1,748 million in 1969 to Rs 1,707 million in 1970. The fall in investment in 1970 was chiefly due to the fall in imports of investment and intermediate goods. In the government sector, investment increased from Rs. 505 million to Rs. 785 million in 1970. This rise reflects the large increase in stocks of rice with the Government. The share of capital formation in Gross Domestic Expenditure rose from 18.6 per cent in 1969 to 19.0 per cent in 1970. Gross Domestic Expenditure exceeded the Gross National Product by Rs. 453 million and the deficit was met by foreign aid and the utilisation of reserves.

(2) Fiscal and Monetary Developments

(a) Government Finance

In 1969/70, according to provisional data, Government revenue collections were Rs. 2,736 million, while net expenditure reached the record level of Rs. 3,672 million causing a cash deficit of Rs. 936 million. The cash deficit in 1969/70 was the highest so far and was financed by obtaining Rs. 220 million from the the external sector, by borrowing Rs. 288 million from the non-bank domestic sector and Rs. 454 million from the banking system. The resources thus mobilised however exceeded requirements resulting in an increase of Rs. 26 million in cash balances. The net expansion resulting from Government fiscal operations in 1969/70 is estimated at Rs. 428 million (Rs. 336 million if adjustment is made for the retirement of Government food import bills amounting to

Rs. 92 million which were outstanding at the beginning of the financial year 1969/70). The monetary expansion caused by Government budgetary operations in 1969/70 is the largest for any single year.

The revenue collections of the Government in 1969/70 increased by Rs. 239 million. The imposition of the business turn-over tax on the Petroleum Corporation, the removal of the exemption of cigarettes from turnover tax and certain modifications in the turnover on manufacturing industries contributed to the increase of Rs. 136 million in revenue from this source. The sharp increase in FEEC revenue of Rs. 161 million is mainly due to the decision to bring most of the imports of Government Departments under the FEEC scheme which more than offset the loss of FEEC revenue after the suspension of the Open General Licence Scheme in May, 1970. The higher receipts from income tax of Rs. 98 million was partly due to the advance collection of tax dues from corporations and private firms. The decline in import duties by Rs. 154 million was mainly attributable to the abolition of import duties on crude and base oils in the 1969/70 Budget. The loss of revenue from the Electrical Department follows its reconstitution as a public corporation and its consequent exclusion from Government accounts.

In 1969/70 the total net expenditure of the Government increased by 12 per cent or Rs. 387 million comprising increases of Rs. 275 million or 12 per cent in expenditure under recurrent votes, offset partly by a fall of Rs. 40 million or 5 per cent in expenditure under capital votes and an increase of Rs. 152 million in advance account payments. On an economic and functional basis, current expenditure shows an increase of 9 per cent or Rs. 238 million while capital expenditure has fallen by 3 per cent or Rs. 27 million.

Current expenditure rose with the decision to bring most of the imports of the Government Departments under the FEEC scheme and the salary increase granted to public servants. On the other hand the reconstitution of the Electrical Department resulted in a substantial reduction in gross payments of trading enterprises.

Transfer payments consisted mainly of the gross food subsidy, interest payments on the public debt and pensions. The growth in transfer payments and social welfare programmes of education, health, etc., were 7 per cent and 14 percent respectively, in 1969/70, compared to the growth in population of 2.1 per cent and growth in Gross National Product of 4.1 per cent in 1970. While revenue had been increasing at 16 per cent in 1968/69 and 10 per cent in each of the years 1967/68 and 1969/70, the increases in current expenditure were 14 per cent in 1967/68 and 9 per cent in each of the years 1968/69 and 1969/70.

The capital expenditure of the Government, which was Rs. 883 million in 1969/70 was lower than the capital expenditure of Rs. 910 million in the previous year. This was mainly due to the reconstitution of the Electrical Department in November 1969 as a public corporation which resulted in the exclusion of its capital expenditure from the Government accounts.

A net cash deficit of Rs. 722 million was anticipated in the Budget for 1969/70 but the provisional figure indicate a deficit of Rs. 936 million. The increase in the net cash deficit was largely the outcome of a shortfall in anticipated revenue partly offset by decreases in expenditure under recurrent and capital votes and on account of a payment of Rs. 201 million under advance accounts for which no provision was made in the Budget. The resource problem of the Government was further aggravated by shortfalls of Rs. 142 million in the anticipated borrowings from foreign sources and of Rs. 15 million from the non-bank domestic sector, thereby compelling the Government to resort to bank borrowings of Rs. 454 million.

TABLE I-2

Financing of the Net Cash Deficit 1969/70

Rs. Million

Source	Original (Anticipated)	Actual (Provisional)	Excess or shortfall (—)
1. Foreign finance (Commodity & project aid) ..	362	220	— 142
2. Local loans			
(*a*) Market borrowing from non-bank sources ..	281	266	— 15
(*b*) Non-market borrowing	—	22	+ 22
3. Total (1+2)	643	508	— 135
4. Net cash deficit	722	936	+ 214
5. Net expansionary financing (4 – 3)	80	428	348

Data on the financing of the Net Cash deficit together with the estimated expansionary impact of such financing are presented in Table 1-3 for the financial years 1965/66 to 1969/70.

TABLE I-3

Financing of the Net Cash Deficit 1965/66 to 1969/70

(Rs. Million)

Source	1965/66	1966/67	1967/68	1968/69	1969/70 (Provisional)
1. Total financing from non-bank sources ..	486·1	577·9	448·3	608·3	508·0
(a) Domestic non-market borrowing ..	112·2	72·3	9·8	52·2	21·8
(b) Domestic market borrowings from non-bank sources ..	255·9	297·0	248·3	202·5	266·0
(c) Foreign loans and grants ..	118·0	208·6	190·2	353·6	220·2
2. Domestic borrowing from the banking system·	162·3	51·3	303·5	68·1	453·5
3. Use of Government cash balances and commodity aid counterpart funds ..	– 82·4	– 22·4	– 36·1	111·2	– 25·6
(a) Cash balances ..	– 47·2	21·5	– 48·4	62·9	– 30·6
(b) Foreign aid counterpart funds ..	– 35·2	– 43·9	12·3	48·3	5·0
4. Total net cash deficit ..	566·0	606·8	715·7	787·5	935·6
5. Adjustment for change in U·S· Aid counterpart funds ..	42·5	27·2	—	– 0·3	...
6. Net xpansionary impact of Government fiscal operations (2+3+5) ..	122·4	56·1	267·4	179·0	427·9

Of the Rs. 220 million obtained from the external sector to finance the deficit, Rs. 183 million was from commodity loans and Rs. 57 million from grants, partly offset by a net repayment of Rs. 19 million under project loans. The increase in net repayments of project loans is an indication that external borrowings which hitherto had substantially minimised the resource problem of the Government is beginning to cause strain on the Government Budget. The resources obtained in 1969/70 as commodity loans are also considerably lower than that in the previous year, while receipts in the form of grants reached Rs. 57 million. Foreign assistance financed 23 per cent of the net cash deficit in 1969/70 as compared to 45 per cent in 1968/69.

The Budget for 1970/71 anticipates a total revenue of Rs. 2,878 million and provides for a total net expenditure of Rs. 3,809 million. The net cash deficit which is estimated at Rs.931 million is to be financed by domestic borrowing of Rs. 440 million and foreign finance of Rs. 491 million. The expansionary impact of the budget is estimated to be Rs. 97 million.

(b) Money and Credit

In 1970, the money supply increased substantially by Rs. 83 million and was on the average 4 per cent higher than in the previous year. This does not show the rapidity of the increase in money supply in the first ten months when it was 9.8 per cent. The monetary expansion in the first ten months was not only checked but reversed largely as a result of the demonetisation in October 1970. The fall in money supply in November was Rs. 140 million. The contraction brought about by the demonetisation was reversed to some extent in December, when the money supply once again expanded by Rs. 39 million, or 2.1 per cent.

TABLE I-4

Change in Money Supply — End December 1969 to end December 1970.

Rs. Million

Factors affecting money supply	Amount	
1. Expansionary Factors		
(a) Commercial bank credit to the private sector*	104·3	
(b) Commercial bank credit to government corporations	43·2	
(c) Credit to Government from the banking system	349·8	
(d) Decrease in time & savings deposits of government corporations	17·5	
(e) Decrease in other liabilities & accounts (net) of commercial banks	12 4	527·2
2. Contractionary Factors		
(a) Decrease in external banking assets	1·5	
(b) Increase in time & savings deposits of the private sector*	196·3	
(c) Increase in other liabilities & accounts (net) of central bank	120·4	
(d) Increase in Government's cash balances	124·2	
(e) Adjustments	1·1	443·5
3. Change in Money Supply		+ 83·5

* Includes Co-operatives.

The monetary expansion in the year resulted mainly from government fiscal operations, while the overall effect of the private sector was contractionary. The net expansion in the Government sector was Rs. 105 million. Government's indebtedness to the banking system increased by Rs. 349 million. Central Bank holdings of government paper and advances rose by Rs. 155 million; these were largely used to liquidate goods receipt advances for purchasing paddy under the Guaranteed Price Scheme. Commercial bank credit to Government rose by Rs. 194 million and consisted of increases both in treasury bills and government and government guaranteed securities, but this increase was partly offset by a rise of Rs. 124 million in government cash balances and an increase of Rs. 120 million in other liabilities and accounts of the Central Bank.

In sharp contrast to trends in the years immediately preceding, the external payments deficit had little impact in reducing the monetary expansion. As against a decrease in external banking assets of Rs. 299 million in 1969 the effect of the decline in these assets on money supply in 1970 was only Rs. 1 million.

TABLE I-5

Credit to Government & Private Sectors

(Annual changes in Rupees Million)

	1968	1969	1970
Government	+ 192·0	+ 117·4	+ 349·8
From Central Bank			
1. Loans & Advances	+ 37·5	– 7·6	+ 29·5
2. Government securities & treasury bills ..	+ 269·4	+ 112·0	+ 126·2
Sub-total	+ 306·9	+ 104·4	+ 155·7
From Commercial Banks			
1. Import bills	– 125·0	+ 87·9	– 141·8
2. Government securities & treasury bills ..	+ 10·1	– 83·1	+ 334·9
3. Others	—	+ 8·2	+ 0·7
Sub-total	– 114·9	+ 13·0	+ 194·1
Private Sector			
From Commercial Banks			
1. Government Corporations	+ 90·6	+ 69·9	+ 43·2
2. Other private sector	+ 173·5	+ 156·2	+ 104·3
3. Export bills	+ 26·8	+ 5·7	+ 20·6
Sub-total	+ 290·9	+ 231·8	+ 168·1
4. Adjusted for private securities held by commercial banks	—	+ 2·4	+ 0·4
Sub-total	+ 290·9	+ 229·3	+ 167·8
Total Credit from Banking System	+ 482·9	+ 346·7	+ 517·6

Bank credit to the private sector including government corporations increased by Rs. 147 million in 1970 which was appreciably lower than the increase of Rs. 226 million in the previous year. Credit to co-operative institutions against goods receipts for the sale of paddy to Government under the Guaranteed Price Scheme and credit under the agricultural credit scheme contributed largely to this increase. The expansion of credit to the private sector was more than offset by the increase of Rs. 178 million in time and savings deposits. A large part of this increase is attributable to the demonetisation.

Demands on commercial bank resources, mainly from Government, were quite high in the first nine months, and this was met by increased borrowings from the Central Bank. With the considerable improvement in their liquidity position arising from the demonetisation, commercial banks reduced their indebtedness to the Central Bank to Rs. 148 million at the end of December.

Thus, the liquidity position of the commercial banks, which was more than comfortable during the last three months of the year, was subject to considerable strain during the first nine months. The monthly average level of loans and overdrafts amounted to 71.4 per cent of total deposits during this period, as compared with 66.6 per cent in 1969. The banks had to run down their investment portfolios from a monthly average of 14.8 per cent of their total deposits in 1969 to 13.5 per cent in the first nine months of 1970; with the improvement in the liquidity position in the last three months, the ratio moved up to 15.1 per cent at the end of December 1970. Loans and overdrafts as a ratio of total deposits declined to 58.6 per cent at the end of December, 1970.

With regard to credit policy a significant measure was the increase in Bank Rate from 5½ to 6½ per cent in January 1970. The Central Bank continued to maintain the revised ceilings on commercial bank credit which were effective in July, 1969.

(c) *Demonetisation:*

In the Budget Speech for 1970/71, delivered on 25th October 1970, the Hon. Minister of Finance announced that the existing currency notes of the denominations of Rs. 100 and Rs. 50 shall cease to be legal tender with effect from 3rd November, 1970. The objective of the measure was to bring to the surface the considerable amount of currency notes believed to have been hoarded in the country. It was estimated that this anti-hoarding measure would provide a minimum of Rs. 100 million as additional tax collections.

Between 27th October and 2nd November 1970, inclusive, every person in possession of these denominations of currency was allowed to present them to a bank in exchange for new currency of the same denomination as has been surrendered, up to a stated maximum. The maximum was originally fixed at Rs. 1000 but was reduced subsequently to Rs. 250 and finally to Rs. 100. Holdings of the demonetised notes in excess of these limits had to be credited to an account in a bank. The time allowed for this purpose originally was until the 25th November, 1970 but was subsequently brought forward to 15th November, 1970. Withdrawals of these deposits, beyond certain limits, were subject to a clearance from the Commissioner of Inland Revenue.

In the first nine months of the year the increase of Rs. 182 million in money supply was accompanied by an increase of Rs. 86 million in currency holdings. There was also a tendency on the part of the public to hoard a part of the increase in the money supply, as was evidenced in the increase in holdings of currency of high denominations in the early part of the year. Upto the end of May 1970 holdings of currency of the Rs. 100 and Rs. 50 denominations increased by Rs. 63 million, while the currency issue increased by Rs. 80 million. Between May and July there was a tendency for currency holdings to decline in anticipation of steps which the Government may take against hoarders of notes of high denominations. Since the demonetisation there has been a sharp decrease in the share of currency in the money supply. For instance, in 1970 although money supply increased by Rs. 83 million, currency in circulation fell by Rs. 148 million as a result of the demonetisation. It has to some extent reversed a trend that set in somewhere in the late fifties. But it is yet too early to come to any firm conclusions whether the reversal is permanent because sufficient time has not lapsed for the public to make readjustments. But a salutary aspect of the demonetisation is that a fair segment of the public have had transactions with banks for the first time and this should undoubtedly help to promote the banking habit, especially in the rural sector.

The currency demonetisation exercise was the major step taken by the Government in its effort to smoke out currency hoarders and tax evaders. In the monetary history of Ceylon the exercise was unique.

The total value of the demonetised notes in circulation on 24th October 1970 was Rs. 792 million, of which Rs. 58 million was held by the commercial banks. The total value of the demonetised notes exchanged by the public for new notes was Rs. 153 million while the amount deposited in bank accounts was Rs. 569 million.

(3) External Payments in 1970

A notable feature of the balance of payments in 1970 has been the reduction of the current account deficit. This was largely due to the better export performance, where export earnings for the year increased by Rs. 102 million to Rs. 2,011 million. At the same time import payments were less, due to the curtailment of imports. The appreciable increase in export earnings helped the country to finance a relatively larger proportion of imports out of its own resources. Aid and suppliers' credits enabled the country to import goods to the value of Rs. 469 million over and above the exchange resources available from export earnings.

The major change in the balance of payments was in the services account, where the deficit rose from Rs. 97 million in 1969 to Rs. 143 million in 1970. An increase in interest payments on a very much larger foreign debt resulted in an outflow of Rs. 101 million, which was more than double the payments made in 1968. Earnings from tourism showed a fair increase from Rs. 17 million to Rs. 22 million in 1970. The Foreign Exchange Entitlement Scheme was partly instrumental in increasing receipts from tourism.

The external resource gap was narrower than in the preceding year but financing the gap became a formidable problem in 1970. Repayments of foreign loans by government and the Central Bank increased by 74.2 per cent from

Rs. 361 million in 1969 to Rs. 629 million in 1970. The bulk of this, almost 72.2 per cent, was repayments of short term loans taken in the immediately preceding period. Among these were large repayments to the I. M. F. Upto 1969 the drawings from the Fund have exceeded repurchases. In fact, 1970 was singularly exceptional because repurchases exceeded drawings by Rs. 104 million. Due to the inadequacy of foreign aid and loans to meet the entire resource gap, Ceylon had in 1970 to utilize its entire allocation of Special Drawing Rights of Rs. 78 million. The section entitled 'The Balance of Payments Problem' amplifies the earlier trends which have contributed to the gravity of balance of payments situation in the seventies, which is largely evident as a shift in the source of imbalance, to a progressively increasing deficit in respect of capital payments. Of the resource gap of Rs. 1,124 million only 41.6 per cent constituted a deficit in the current account and the balance of Rs. 656 million was in respect of capital repayments. This represents a sharp change from the situation in 1969 when only 31.7 per cent was used to meet capital payments and the balance was to meet the current account deficit. The bunching of capital repayments in 1970 and in the period immediately ahead is largely due to the fact that the grace periods of a large number of loans taken in the middle and later sixties have now ended and also because suppliers' credits taken in the late sixties are now falling due for payment.

(4) Prices

Price increases in 1970 were less marked than in the previous year. The increase in prices by 5.9 per cent, though appreciably lower than in 1969 corresponds to the increase in 1968. Among the significant factors tending to push up the price level were demand pressure resulting from the monetary expansion on the one side, and reduced supplies in relation to quantities available in 1969. Turnover taxes also tended to push up prices. Prices particularly of food and clothing items rose mainly due to increases in prices in the supplying countries.

In relation to the overall trends during the last few years the price increase in 1970 is of modest proportions. In a world economy where the secular trend is for all prices to increase over a period of time, it is difficult to conceive of a situation where prices are relatively stable or where the average price level will even decline. A price increase of about 5 per cent is not only permissible but such increases must be expected in most developing economies that are primarily dependent on imports of manufactured goods.

(5) Public Enterprises

The total capital investment as at the end of 1969/70 in the public sector was Rs. 4,215 million. Of this, investment in industrial enterprises was Rs. 1,347 million, services Rs. 2,830 million and agriculture Rs. 38 million. In 1969/70 estimated total profits from public sector industry was Rs. 69.9 million while losses were Rs. 8.8 million. The industrial sector thus gave a net profit of Rs. 61.1 million. Profits in the services sector were Rs. 62 million as against losses of Rs. 105 million. The net loss in the services sector was Rs. 43 million. Taking all three sectors the estimated net profit earned by the public sector as a whole was Rs. 16.9 million. As a return on the total capital outlay this works out to 0.4 per cent.

The section on public enterprises gives details of the individual profitability of corporations in the industrial and the services sectors. With regard to financial viability a few corporations such as Petroleum, Cement, the Co-operative Wholesale Establishment and Insurance were able to earn relatively high profits, generally, in excess of Rs. 15 million. On the other hand, there are a large number of corporations which are just earning profits to keep themselves going; these profits are marginal and represent a fairly low return on capital in view of the high investment outlays.

In comparison to the early 1960's the number of industrial corporations making losses has come down considerably. In fact in 1969/70 only five industrial corporations made losses. In the services sector, however, losses were the rule than the exception; the highest losses were in the Ceylon Transport Board and in the Government Railway which functions as a government department. The estimated loss of these two enterprises in 1969/70 amounted to Rs. 89.2 million and to a considerable extent were responsible for reducing the overall profitability of the public sector. If these two enterprises are able to break even it will help to raise the average rate of return on investment in the public sector to about 2.5 per cent.

The public sector has now been given an important place in the country's economic organisation and enterprises in this sector are expected to operate as efficient and viable units. With increasing state control and intervention in production, import and the wholesale trade, the economic functions of the private sector are likely to dwindle over a period of time. In particular, the contribution that the private sector has made in the past in the form of resources for investment is likely to decline. Directly and indirectly the private sector contributes a very large amount of resources to revenue mainly as taxes and levies, both for consumption and investment purposes. More than 90 per cent of the foreign exchange earnings result from activity in the private sector. The public sector will have to increasingly gear itself to provide these resources.

Public sector enterprise will be able to achieve this objective only if they increase their profits and push their products in overseas markets. Most of them should endeavour to progressively increase their profits and this would be true particularly of those enterprises that are making only marginal profits. Many of the state enterprises are monopolies; they have no selling problem and almost all can market their products. This should make it quite easy for public sector enterprises to have realistic pricing policies to improve quality and to minimise expenditure by cutting down costs by extensive economies in overheads and administration. For the furtherance of this objective wage levels in the public sector could also be increasingly geared to productivity and future wage increases could take the form of incentive payments which would contribute to greater efficiency and productivity.

(B) The Balance of Payments Problem

Ceylon's foreign exchange difficulties have existed for about a decade and have been repeatedly referred to in previous issues of the Annual Report. In 1959/60 Government took serious notice of the emerging balance of payments crisis and in the Annual Report for 1960 and successive issues the Central Bank drew attention to the worsening payments position. Inspite of the measures that have been taken from time to time the balance of payments has remained increasingly adverse. This section will primarily be devoted to examining the factors behind the deteriorating external payments situation.

Ceylon's foreign trade in the postwar period has had two short-lived phases of substantial prosperity. These were, in 1950/51 during the Korean war boom when rubber prices shot up sharply, and in 1954/56 when tea prices rose appreciably to produce a surplus in the balance of payments which pushed up external assets to the level of Rs. 1,194 million in 1956. Thereafter external assets continued to decline steadily upto the present time.

Since 1957, with the exception of 1965, Ceylon's current payments to the rest of the world have exceeded her current receipts. During the period 1957 to 1960, the primary cause of these deficits was the tendency for the demand for imports to exceed Ceylon's import capacity which had been considerably impaired by the fall in export earnings. The excessive import demand was in turn largely due to the expansionary budget deficits.

Export Earnings:

One of the major secular factors behind the adverse payments situation has been the unfavourable price trends of Ceylon's main exports in overseas markets. Table I - 6 gives earnings in rupees and U. S. dollars from Ceylon's three major export products and the corresponding export volumes for each year from 1947. Values have been given in U. S. dollars as well to show the actual contribution to external reserves by exports.

In 1947 Ceylon earned $ 170 million by exporting 287 million pounds of tea. In 1970, total earnings from tea exports were $ 188 million with the export volume at 459 million pounds. Between 1947 and 1970 although export volume increased by 60 per cent value has only increased by 10 per cent. The difference in export earnings has been due to very depressed prices particularly in the sixties. In the intervening period, especially in the mid fifties, the tea export market has been more favourable than it has been in 1968/70. In 1955, Ceylon exported 362 million pounds and receipts were $ 250 million. This was at the peak of the tea boom when tea fetched more attractive prices. In 1965 export earnings rose to $ 254 million with export volume at the record level of 494 million pounds. The latter was not due to an improvement in tea prices but due to a very substantial increase in export volume; prices have generally remained adverse since 1957. From 1960 onwards increases in export volume have to some extent helped to offset losses in earnings from lower export prices, but despite this, foreign exchange earnings have fallen.

TABLE I-6

Ceylon's Export Volumes and Earnings

Year	Tea			Rubber			3 Major Coconut Products			Total Exports*	
	Volume Mn. lbs.	Value Rs Mn.	Value $ Mn.	Volume Mn. lbs.	Value Rs. Mn.	Value $ Mn.	Volume Mn. Nuts	Value Rs. Mn	Value $ Mn.	Value Rs. Mn.	Value $ Mn.
1947	287·3	567	170·8	182·2	137	39·2	572	93	28·0	829	267·8
1948	296·0	590	177·7	207·3	143	43·1	970	153	46·1	1011	304·5
1949	297·6	650	195·8	197·0	125	37·7	940	168	50·6	1063	320·2
1950	298·1	752	158·0	265·1	405	85·1	1030	248	52·1	1563	328·4
1951	305·2	800	168·1	229·1	582	122·3	1263	320	67·2	1904	400·0
1952	314·5	723	151·9	209·8	373	78·4	1454	232	48·7	1502	315·5
1953	335·6	825	173·3	217·3	338	71·0	1262	244	51·3	1568	329·4
1954	361·3	1123	235·9	209·4	285	59·9	1171	212	44·5	1809	380·0
1955	362·2	1194	250·8	222·3	350	73·5	1531	225	47·3	1940	407·6
1956	348·1	1044	219·3	193·0	293	61·6	1418	213	44·7	1735	364·5
1957	368·1	1022	214·7	208·6	300	63·0	950	156	32·8	1682	353·4
1958	411·2	1132	237·8	207·2	258	54·2	890	164	34·5	1711	359·5
1959	383·8	1046	219·7	205·8	298	62·6	1140	244	51·3	1754	368·5
1960	410·2	1096	230·3	234·6	378	79·4	976	184	38·7	1832	384·9
1961	426·0	1115	234·2	197·3	260	54·6	1355	202	42·4	1733	364·1
1962	452·0	1149	241·4	224·5	290	60·9	1530	227	47·7	1808	379·8
1963	455·9	1140	239·5	209·5	257	54·0	1208	198	41·6	1731	363·7
1964	455·7	1142	239·9	253·2	290	60·9	1618	273	57·4	1876	394·1
1965	494·6	1210	254·2	266·8	304	63·9	1270	275	57·8	1949	409·5
1966	441·3	1027	215·8	298·4	337	70·8	1017	196	41·2	1700	357·1
1967	477·7	1061	222·9	290·9	282	59·2	940	167	35·1	1690	355·0
1968	460·2	1162	195·4	328·3	331	55·6	1096	331	55·6	2035	342·0
1969	444·5	1062	178·5	314·8	431	72·4	896	221	37·1	1916	322·0
1970	459·7	1120	188·2	354·2	440	73·9	874	237	39·8	2033	341·7

Source: Ceylon Customs Returns.

* Includes re-exports

Exchange Rates — 1947–49 : 1 U.S. $ = Rs. 3·32 (Rupee devalued in September 1949.)
1950-67 : 1 U.S. $ = Rs. 4·76 (Rupee devalued in November, 1967)
Since 1968 : 1 U.S. $ Rs. 5·95

The performance of rubber has been a little better than that of tea. In 1947, 182 million pounds of rubber were exported and receipts were $ 39 million. In 1970, 354 million pounds were exported with export receipts at $ 73 million. In the period 1947 to 1970 rubber exports have risen by 95 per cent with a 85 per cent increase in total export receipts Here again, the increase in the volume exported rather than prices has contributed to higher export earnings. Prices were heavily depressed in 1956/57 and also in 1962/64 and again in 1967/68 when prices reached the lowest level. The only exception to this general trend was in 1951. when the country exported 229 million pounds of rubber and export receipts were $ 122 million.

There have been both price and quantity fluctuations in the case of coconut products. While the export volume of rubber has generally shown a secular increasing trend, which has been most marked since 1964, fluctuations in the export volume of coconut products have been significant. In 1947 export volume was 572 million nuts, in 1952 it rose to 1454 million nuts, in 1955 to 1531 million nuts and in 1958 fell sharply to 890 million nuts. The second peak in export volume was reached in 1964 when exports were 1618 million nuts falling to 896 million nuts in 1969 and to 874 million nuts in 1970, which is the lowest volume exported since 1958. Unlike in tea and rubber, the fall in the export volume of coconut has to some extent been offset by increasing prices. For instance, in 1962, although export volume was 1530 million nuts, earnings were $ 47 million and in 1965 with exports at 1270 million nuts earnings were $ 57 million. In 1969 and 1970 although the volume fell very sharply, higher prices enabled earnings to be maintained at $ 37 million and $ 39 million respectively. In general, export receipts from coconut products despite volume fluctuations, have reflected greater stability and the price factor has often offset shortfalls in the volume of exports.

Taking all exports into consideration earnings at the end of 1970 at $ 341 million were lower than the export earnings in any year between 1954 and 1968. In 1947 total receipts from the three major exports were $ 267 million. In 1950 it was $ 328 million and in 1970 $ 341 million. This shows that the increase in total export earnings over a 20 year period beginning 1950 has been only $ 13 million or 4 per cent.

Terms of Trade:

These trends are better reflected in the terms of trade which also takes into account the effect of changes in import prices. Since 1961 the terms of trade have steadily worsened. Between 1962 and 1964, the index of the terms of trade (base 1967-100) fell from 142 to 105, a decline of over 26 per cent. Then again, between 1965 and 1969 the index fell from 112 to 88, a decrease of over 21 per cent.

The extent of the balance of payments problem created by the adverse movement in the terms of trade can be gauged from the table below:

TABLE I - 7

Deficits in the Current Account Attributable to Movements in the Terms of Trade 1960 - 1970 [1]

Rs. million

Year	Current Account Balance	Effect of Terms of Trade
1960	– 220	– 11
1961	– 94	– 151
1962	– 140	– 82
1963	– 168	– 242
1964	– 160	– 316
1965	59	– 309
1966	– 290	– 505
1967	– 288	– 667
1968	– 355	– 784
1969	– 797	– 811
1970	– 503	

Source: Central Bank of Ceylsn

1. The loss of income due to changes in the terms of trade is obtained by deflating the F.O.B. value of exports first by the import price index and then by the export price index. Since the terms of trade have moved against Ceylon, the difference between these two figures will show the loss of income due to the rate at which Ceylon exports exchange for her imports.

It shows that in almost every year since 1965 when the impact in the fall in the terms of trade was greatest, the amount of exchange "lost" to Ceylon by the unfavourable movement in the terms of trade was greater than the deficit realised in the current account. In other words, if prices of exports and imports had remained at their 1959 levels, the actual volume of exports and imports, which took place in the period 1965 to 1969 would in fact have resulted in surpluses rather than deficits in the current account.

Of the many factors that have contributed to the worsening of the terms of trade, the more important ones are:

(a) The sharp rise in the prices payable by Ceylon on her imports. In addition, Ceylon has also had in recent years to face several increases in freight charges, apart from the increase resulting from the closure of the Suez canal.

(b) The relatively poor prices fetched by two of Ceylon's major exports tea and rubber. Tea prices have tended to remain at the low levels reached in the mid-sixties. Natural rubber has had to contend with increasing competition from synthetics, as well as uncertainties created by stock piling policies of the major powers.

(c) The higher prices which are normally associated with imports obtained on credit or under aid arrangements,

Balance of Payments Policy

The deficits in the current account of the balance of payments which occurred from 1957 to 1960 did not impose too great a burden on Ceylon's economy owing to the availability of a sizeable reserve of external assets to finance the deficits. It became apparent by 1960 that the liberal trade policy followed hitherto by Ceylon could not be maintained. External assets which stood at Rs. 1,194 million at the end of 1956 had dwindled to Rs. 457 million by end 1960 largely as a result of import payments much in excess of export earnings. A balance of payments policy, as such, became necessary and the choice was import and exchange controls of increasing rigour which have continued upto the present time, with a brief period of liberalisation under the Foreign Exchange Entitlement Certificate Scheme, from May 1968 to August 1970. Despite stringent controls, in the period 1961 to 1964, external assets continued to decline, though at a less alarming rate, and recourse was had to drawings from the International Monetary Fund in 1961 and 1962.

Apart from the monetary methods of import control adopted by the Central Bank in 1960, it has subsequently taken other measures towards correcting the balance of payments. It has retained marginal reserve requirements from 1961 onwards and maintained ceilings on bank credit to the private sector since 1965. Bank Rate was raised on four occasions, from 2½ per cent in 1959 to 6½ per cent at present. The Central Bank has consistently advocated an increase in the Government Bond rate which has been progressively increased from 3½ per cent in 1959 to 9 per cent at present. The rupee was devalued by 20 per cent in 1967 and the Foreign Exchange Entitlement Certificate Scheme with appropriate monetary measures was introduced in 1968.

The Foreign Exchange Entitlement Certificate Scheme amounted to an additional tax on foreign exchange on a wide range of payments and gave a premium for certain types of receipts. The object of the FEEC scheme was to provide a cash incentive to selected exports and invisible transactions and to impose an additional rupee cost on selected imports and invisible payments. Judging from the substantial increase in imports of investment goods and raw materials in 1968 and 1969, it would appear that advantage was taken of the free imports possible under the FEEC scheme to utilise capacity in existing industries fully. Under the impetus of the premium exchange rate minor exports have shown some expansion during the last two years. But the increase in export duties has to some extent reduced the benefits to the exporter of the FEEC scheme. Considering the fact that an appreciable expansion in the volume of these exports would normally take several years to achieve, the progress so far made provides evidence of the usefulness of the scheme. Another important direction in which the FEEC scheme has helped to increase foreign exchange earnings is tourism.

Financing the Resource Gap:

Table I - 8 shows how Ceylon has financed its external resource gap since 1952. It also shows how to an increasing extent the country has had to depend on foreign aid to finance this gap. In the earlier years, especially 1957 to 1960, Ceylon utilised its external assets to meet its foreign liabilities. Project aid annually upto 1960 did not exceed Rs. 23 million (except in 1954) while grants constituted the major part of total aid. In 1957, Ceylon ran down its external assets appreciably to finance the deficit but approximately 1/5th of the resource gap was financed by project aid, grants and the inflow of foreign capital. This pattern broadly continued until the year 1960.

A significant feature has been the marked increase in the size of the resource gaps from 1957 to 1970, a good part of which was programmed on the basis of pledges made by donor countries. The external resource gap in 1966 at Rs. 541 million was the highest in the period 1952 to 1966. The previous high, leaving out 1952, was Rs. 328 million in 1959. The external resource gap rose from Rs. 541 million in 1966 to Rs 649 million in 1968 and to Rs. 1,235 million in 1969. In 1970 the resource gap was Rs. 1,124 million.

From 1961, when active steps were taken to deal with the balance of payments crisis, there was a substantial change in the methods of financing the deficit. External assets could no longer be used as it was the practice in the period 1957-60. Increasing recourse was made to other means. For the first time in 1961 Ceylon made drawings from the I. M. F. to finance approximately 1/4th of the foreign deficit during the year. Between 1961 and 1965, the deficits were financed partly by I. M. F. drawings in each of the years 1961, 1962 and 1965, while project aid, grants, private capital and short term credits were the other methods. The financing of the deficit through project aid did not create immediate repayment problems because most of these credits had a grace period. Grants too which exceeded Rs. 37 million in each of these years under review,

TABLE I - 8

Ceylon's External Resource Gap and Modes of Financing 1952 - 1970

(In Millions of Ceylon Rupees)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970 [a]
1. Total Foreign Exchange Earnings (Goods and Services) ..	1,648	1,796	2,015	2,201	2,086	1,995	1,956	2,056	2,050	1,937	1,992	1,924	1,955	2,116	1,885	1,866	2,231	2,178	2,264
2. Total Import Payments (Goods and Services) ..	2,107	1,958	1,733	1,895	2,032	2,217	2,164	2,309	2,323	2,072	2,173	2,135	2,192	2,121	2,237	2,200	2,615	3,021	2,732
3. Total Capital Payments ..	28	79	73	85	99	92	29	75	36	37	12	17	86	121	189	80	265	392	656
4. Total Current and Capital Payments ..	2,135	2,037	1,806	1,980	2,131	2,309	2,193	2·384	2,359	2,109	2,185	2,152	2,278	2,242	2,426	2,280	2,880	3,413	3,388
5. External Resource Gap ..	- 487	- 241	+ 209	+ 221	- 45	- 314	- 237	- 328	- 309	- 172	- 193	- 228	- 323	- 126	- 541	- 414	- 649	- 1,235	- 1,124
6. Financing of the Deficit ..																			
(a) Project Aid ..	—	—	70	8	6	23	22	16	20	19	40	82	78	77	76	34	40	89	36
(b) Commodity Aid ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	107	178	255	272	263
(c) Grants ..	13	3	24	17	28	27	55	44	53	41	37	44	76	64	63	46	28	46	75
(d) Private Capital ..	53	9	15	6	40	21	25	18	14	19	10	9	7	2	6	17	9	9	10
(e) Change in Bilateral Trade Balances	—	—	—	—	—	—	—	—	—	16	- 14	39	19	- 69	30	80	42	18	- 75
(f) Short-term Credits ..	23	—	—	—	—	—	55	48	—	28	7	8	39	26	2	7	84	185	434
(g) Suppliers' Credits ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	176	85
(h) Bank Borrowings ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	57	—	227	123
(i) I. M. F. Drawings ..	—	—	—	—	—	—	—	—	—	54	54	—	—	110	144	123	213	77	57
(j) Change in External Assets (Increase = -) (Decrease = +) ..	348	230	- 288	- 260	- 25	236	60	199	193	10	28	42	111	- 89	122	- 131	- 14	86	- 26
(k) Other Loans and Lines of Credit ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	33
(l) Special Drawing Rights ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	78
(m) Other ..	—	1	2	—	—	—	46	—	—	5	—	1	2	9	9	15	12	32	20
Errors and Omissions ..	+ 49	- 2	- 28	+ 8	- 3	+ 7	- 26	+ 3	+ 30	- 20	+ 31	+ 3	- 6	- 6	- 18	- 12	- 22	+ 18	+ 11
Total Financing ..	+ 487	+ 241	- 209	- 221	+ 45	+ 314	+ 237	+ 328	+ 309	+ 172	+ 193	+ 228	+ 323	+ 126	+ 541	+ 414	+ 649	+ 1,235	+ 1,124

Source: Central Bank of Ceylon

a. Very Provisional.

Note: 1. The change in external assets tallies with the change as shown in the Table on external assets, from 1959 onwards. Prior to this year the change in external assets as shown in the Table above, is according to foreign books, since published data on balance of payments statistics, especially in relation to the Monetary Sector, is based on records abroad.

2. All data on short-term credit imports were recorded from 1968 onwards. Prior to this date the figures relate only to the net change in short-term liabilities on account of credit imports, and these related mainly to imports of rice from Burma and flour from Australia.

reached Rs. 76 million in 1964 and did not involve repayment and were not a burden. Short term credits ranged from Rs. 7 million to Rs. 39 million and from the point of view of their magnitude, were not a strain on the payments situation. The only credits in the period 1961 to 1965 which required repayment within a three to five year period were the I. M. F. drawings referred to earlier. In 1965, I. M. F. drawings financed the external resource gap of Rs. 126 million to the extent of Rs. 110 million.

Between 1966 and 1970 the strategy employed was to some extent to overcome the effects of the terms of trade by continued resort to borrowing from abroad to finance imports. Had the terms of trade been favourable, the country would have been able to finance a considerable part of its development programme without foreign aid. This policy has resulted in the accumulation of a substantial foreign debt. Thus Ceylon now has to cope not only with problems arising from a continuing adverse terms of trade, but also with the problems arising from the foreign debt she has accumulated.

From 1966 onwards various methods were used to bridge the resource gap. For the first time, in 1966, commodity aid and I. M. F. drawings alone financed about 45 per cent of the external resource gap. In 1967 these two items financed more than 60 per cent of the resource gap and in 1968 more than 70 per cent. The problem with short term credits and I. M. F. drawings is that repayment is normally called for within a few years

In 1969 and 1970 more sources were tapped to finance the resource gap. For the first time in 1969 borrowings from commercial banks on a substantial scale were utilized to finance about 1/5th of the resource gap and in addition to this, I. M. F. drawings, suppliers' credits and short-term credits provided another 2/5ths of the financing, while commodity aid largely provided the rest. Thus in 1969, commodity aid, short term credits, suppliers' credits and bank borrowings together financed more than Rs. 1,000 million of the total resource gap of Rs. 1,235 million. This pattern was followed to meet the resource gap in 1970. The only difference being that short term credits reached the all time record of Rs. 430 million while commodity aid went up to Rs. 263 million.

In the period 1960 to 1965 total outlays on imports were contained at an average of about Rs. 2,150 million (according to Exchange Control data). In 1966 and 1967 too, despite an appreciable reduction in export earnings, this level was maintained, but in 1968 although foreign exchange earnings in rupee terms improved slightly there was a much larger release of exchange for imports. Import payments shot up from Rs. 2,200 million in 1967 to Rs. 2,615 million in 1968 and to Rs. 3,021 million in 1969. At the same time capital repayments tended to increase sharply after 1967. In the period upto 1965 capital repayments had reached the peak of Rs. 121 million in the latter year. By 1970 capital payments had reached the figure of Rs. 656 million.

Balance of Payments Strategy:

The issues which have been discussed in this section point to the need for certain fundamental changes in Ceylon's development strategy. The first relates to the utilization of foreign aid for investments which will tend to increase exports and domestic employment. Commodity aid, or the import savings resulting from aid, should be geared as far as possible to projects which will have an early beneficial effect on the balance of payments. It also points to the need to give much greater emphasis to the production of foodstuffs, particularly subsidiary crops because it is in this area that maximum foreign exchange savings could be achieved in a short time. A properly organised survey of mineral and natural resources might give some indication of other products and raw materials that may be available either for export or as inputs for some domestic industries which are now dependent on imported raw materials.

The availability of credit from abroad has had in one respect an adverse result. It has insulated the Ceylon economy from the drastic economies in expenditure which she would otherwise have been compelled to adopt in accordance with the constraints imposed by the balance of payments. The continued availability of imports has tended to conceal the gravity of the country's balance of payments situation, and the need for exercising restraint in both private and public expenditure. A reduction in the overall level of consumption even of basic essentials is a *sine qua non* for tackling the balance of payments problem. The emphasis in policy should be increasingly directed towards a higher level of investment than consumption.

It has been possible for Ceylon to sustain a high and growing demand for imports, despite controls on credit to the private sector, largely because of the expansionary financing of large and growing deficits in the Government Budget. The annual expansionary gap in the Budget in recent years has exceeded Rs. 400 million. It is not possible to maintain such an expansionary gap without causing severe strains on the balance of payments, strains which the country's reserves and foreign borrowing capacity could no more bear. It is, therefore, fundamental to a solution of the balance of payments problem that the Government Budget should be brought into reasonable balance and that it should generate a substantial current account surplus in order to finance a part of its capital expenditure. It would greatly assist the balance of payments if the expansionary gap in the 1970/71 Budget is maintained at the estimated level of Rs. 97 million.

Hitherto reliance has been placed heavily on the policy of import substitution, for generating the foreign exchange savings. This expectation has, however, not so far been realised. In the case of industrial products, Ceylon continues to depend increasingly on imported raw materials. Foreign exchange allocations for new industry have progressively risen and today are in the region of about Rs. 500 million per year. Data in Table II (B) 6 reveal that the proportion of imported raw materials contained in Ceylon's manufactured products is as high as 75 per cent. When account is taken of royalties, fees on professional services, dividends in respect of foreign share-holdings, etc. it could even be that some industries have a negative effect on the balance of payments. It is imperative then that effective measures should be taken to rationalise these new industries and to ensure that they will be progressively less dependent on imported raw materials. There is little social justification to divert nearly one fourth of the country's foreign exchange earnings to a sector that contributes only about 10 per cent to the Gross National Product, earns little or no foreign exchange while saving very little.

As regards agriculture, import substitution has certainly had a very favourable impact on the balance of payments. However, the rate of progress so far achieved in agriculture has not been sufficient in relation to the rate of growth of the population. As a result, it has still not been possible to effect a substantial reduction in agricultural imports. Even in 1970, imports of food and drink amounted to Rs. 1,051 million or 46 per cent of total imports (customs data).

Imports of consumption goods bulk large in the total import bill. In value terms in 1970 they were 56 per cent of total imports, the corresponding figure for 1969 was 48 per cent. This is because consumption has tended to increase not only on a nation-wide scale due to increase in population but also due to the rise in per capita incomes. A progressive rise in consumption at the expense of investment could have repercussions on the overall rate of economic growth and the capacity of the economy to sustain a high level of employment. In this context it is imperative that government gives priority to containing consumption within the limts that the economy could sustain with due consideration to a sufficiently high level of investment which will help to maintain a satisfactory rate of growth. This will involve an immediate review of outlays on consumption, subsidies and more realistic prices for public services provided by State enterprises.

The alternative to the reduction of imports is either an increase in export earnings or more foreign aid or greater import substitution, especially in agriculture. As far as expansion of export earnings from traditional exports is concerned, the market trends do not give much hope that a substantial increase in foreign exchange earnings can be realised from these products in the immediate future. With regard to coconut, specifically, there is the further problem, of domestic consumption making heavy inroads into the quantity available for export and this is likely to continue unless the rate of increase of production outstrips the increase in domestic consumption. In view of such uncertainties associated with the major export products, the export effort will necessarily have to concentrate on the development of new items. Considerable progress has already been achieved in this direction, but yet no new export or a group of exports has been developed which contributes as much as tea, rubber or coconut individually. A concerted effort to build up the export trade in a few commodities to provide substantial additional foreign exchange earnings is of utmost importance.

Export earnings from gems have been almost insignificant in the past despite incentives under the Foreign Exchange Entitlement Certificate Scheme. This is an export which can bring in large resources to the country. The special efforts that are being made to encourage the tourist industry and the proposed Gemming Corporation could lead to a substantial increase in foreign exchange earnings.

The other alternative is to obtain more aid. If foreign aid consists purely of grants, there is no problem. But table I-8 shows that the grant element has been small and that aid has consisted of loans which are repayable with interest. In the context of the balance of payments picture which has now emerged further use of short term credit on an extensive scale is inappropriate. The balance of payments problem which Ceylon now faces is not a temporary or a cyclical one. It is inherently structural in nature because it is the result of changes which seem unlikely to reverse themselves in the foreseeable future.

The fundamental imbalance in Ceylon's balance of payments is basically the result of expenditure outstripping available resources. A solution to this problem is easier stated than implemented. The basic solution is to spend less or, which is the same thing, save more. Ceylon's current rates of saving are inadequate to maintain a development programme capable of absorbing the available workforce. In seeking a solution to this problem, excessive expenditure would have to be curtailed. Such curtailment must fall on current consumption and not on investment, for, a higher rate of investment is not only the right solution to the unemployment problem, but the goods and services which a higher rate of investment would eventually generate would form a lasting solution to the other problems of the day, such as, the high cost of living and the disequilibrium in the balance of payments.

The foregoing should make it clear that there are no quick solutions to the balance of payments problem confronting the country. Since each of the avenues available has its own problems and limitations, action will need to be taken on several fronts at the same time. A concerted national effort maintained over a fairly long period will be necessary if the balance of payments is to be placed on a sound footing.