

PRICES, WAGES AND EMPLOYMENT

Overall Price Changes

The year 1988 was characterised by a sharp increase in prices, both at the retail level and the primary market level. The Colombo Consumers' Price Index (CCPI) for 1988 rose by 14.0 per cent, compared to an increase of 7.7 per cent in 1987. At the same time, the Wholesale Price Index (WPI) recorded an annual average growth of 17.8 per cent, compared with 13.4 per cent in the previous year.

Several factors contributed towards the sharp rise in prices during 1988. The lagged effect of the drought, escalation of civil disturbances, higher tariff on electricity, the revisions in excise duty on tobacco and alcohol and upward revisions of Business Turnover Tax (BTT) and stamp duty on letters of credit were the more notable among them. There was also considerable demand pressure on prices. The sharp increase in the money supply, as well as the substantial wage increases granted in several key sectors of the economy, contributed towards maintaining a high effective demand during the greater part of the year. The deterioration of the security situation in the last two months of the year, and the resulting disruption of transport, caused supply shortages and a consequent escalation in the prices of most consumer items during that period.

Consumer Prices

Consumer price behaviour in 1988 was characterised by a sharp upsurge in prices during January and moderate increases thereafter, followed by a sharp escalation during the last two months of the year.

During 1985 to 1987, the average rate of increase of the CCPI had remained at a single digit level. Hence, the re-emergence of double digit inflation in Sri Lanka was a matter of grave concern. On a point to point basis (December 1988 over December 1987), the CCPI rose by 15.0 per cent. The corresponding increase in the previous year was 10.2 per cent.

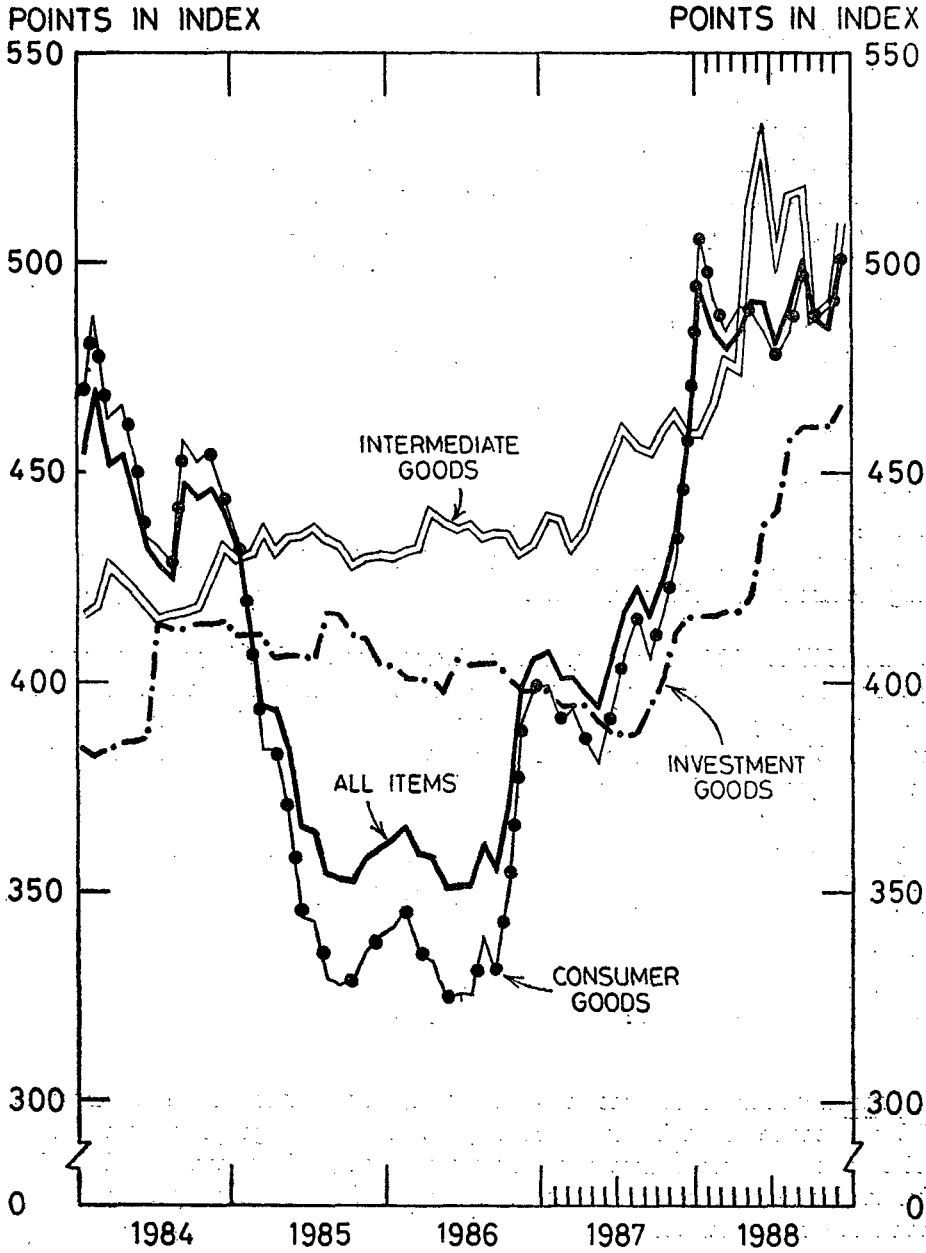
Higher food prices were the major underlying factor for the escalation of prices in 1988. The sub-index for food (weight=61.9 per cent) moved up by 15.1 per cent, compared to an increase of 8.7 per cent in 1987. Prices of coconut, coconut products, chillies and onions rose due to the lagged effect of the drought. The prices of rice and sugar also rose during the year. However, stable prices of bread and wheat flour helped mitigate, to some extent, the sharp increase in the prices of other food items.

The sub-index for clothing rose by 4.7 per cent, which was lower than the increase of 7.0 per cent recorded in the previous year. Fuel and light prices rose sharply by 13.0 per cent, whereas these prices increased by only 0.8 per cent in 1987. The higher tariff on electricity and the rise in firewood prices were the factors primarily responsible for this increase.

Prices of miscellaneous items also rose by 14.1 per cent, owing to the increase in excise duty on tobacco and alcohol imposed with the 1988 Budget, and again in June 1988.

WHOLESALE PRICE INDEX

1974 = 100
MONTHLY



Wholesale Prices

In 1988, the Wholesale Price Index (WPI) registered an annual average growth rate of 17.8 per cent, compared with the 13.4 per cent growth in 1987. On a point to point basis, (December 1988 over December 1987), the index increased by 9.3 per cent.

Prices of two major export items-tea and coconut-continued to influence the movement of the index in 1988, by virtue of their higher relative weight in the index. The prices of these items fluctuated during the year, but were on average at a higher level than in 1987.

The sub-index for Food rose by 22.3 per cent during the year surpassing the 19.0 per cent increase recorded in 1987. There were also notable increases in the prices of alcoholic drinks (14.0 per cent), chemicals and chemical products (14.1 per cent), machinery (12.3 per cent), metal products (11.2 per cent), non-metallic products (10.8 per cent), electrical appliances and supplies (12.2 per cent) and miscellaneous items (27.4 per cent). The prices of textiles and foot wear, transport equipment, paper products and fuel and light also rose during the year. Prices of petroleum products, however, remained unchanged-a feature since 1984.

The sector-wise classification discloses that prices of export items rose by a lower rate of 28.3 per cent in 1988, compared to the 38.2 per cent rise in the previous year. Prices of domestic and imported items rose by 12.6 per cent and 11.3 per cent, respectively. The corresponding increases were 4.1 per cent and 2.1 per cent, respectively in 1987.

The sub-index for Consumer Goods rose further by 20.4 per cent in 1988, from a 17.7 per cent increase in 1987. Prices of investment goods which had dropped in 1987, rose by 10.7 per cent in 1988. The average price of intermediate goods increased by 10.1 per cent, compared to an increase of 3.6 per cent in the previous year.

These trends indicated an emergence of considerable inflationary pressure in the economy during 1988.

Wages

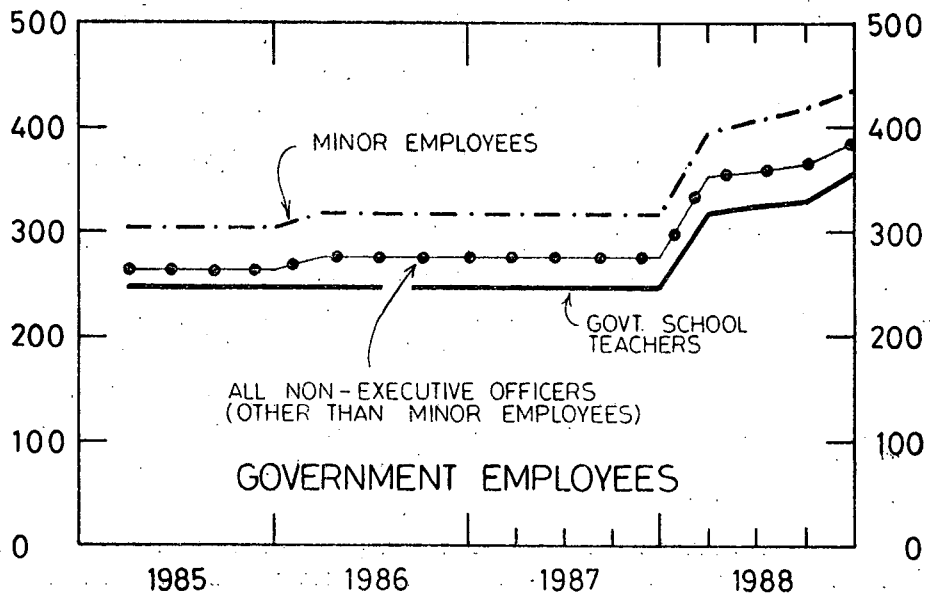
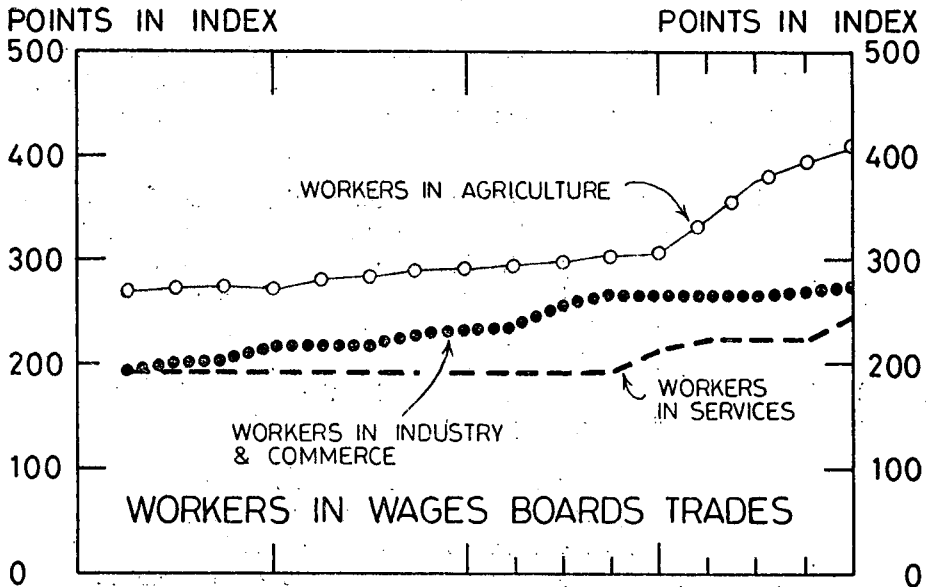
The year 1988 saw major developments in the sphere of wages. Substantial wage increases were granted to employees in the public sector and the plantation sector. Wages in several trades in the organised private sector also rose during the year.

The recommendations of the Administrative Reforms Committee on Salaries and Cadres were implemented in 1988 in respect of government employees. While half of the proposed increase was paid with effect from January 1988, the balance was granted with effect from November, 1988.

Under these recommendations, the cost of living allowance, which had been previously frozen at the level of Rs. 504, was consolidated with the new salary scales, and a new cost of living allowance, at the rate of Rs. 2 per point increase of CCPI above the base level of 612, was payable to all employees whose annual salaries did not exceed Rs. 35,700. However, this allowance was frozen at its July level of Rs. 260.

WAGE RATE INDEX NUMBERS

DECEMBER 1978 = 100
QUARTERLY



As a result of these revisions, the average Wage Rate Index of all government servants rose sharply by 31.1 per cent in 1988 (Table 1). It should be noted, however, that wage scales in government service had remained unchanged since January, 1986. Wages of non executive officers, minor employees and government school teachers rose by 31.6 per cent, 30.5 per cent and 34.0 per cent, respectively. The real wages of all government servants improved by 14.9 per cent in 1988.

Several public corporations and statutory boards also revised their wage rates upwards during the year.

In the organised private sector, several trades covered by Wages Boards raised their minimum wages. As a result, the Minimum Wage Rate Index of all employees covered by Wages Boards rose sharply by 20.9 per cent, compared to a 6.3 per cent increase in the previous year. The improvement in real wages for all employees covered by Wages Boards was 6.0 per cent.

As a result of a substantial wage hike in the plantation sector, the Minimum Wage Rate Index for workers in agriculture rose by 25.2 per cent. In the previous year, the increase was only 4.9 per cent. Wages of workers in industry and commerce rose by a lower rate of 6.0 per cent, compared with the 14.3 per cent increase of the previous year. Workers in services received a substantial wage hike of 16.7 per cent, as compared to 3.1 per cent in 1987.

Minimum wages in the building, engineering, printing, motor transport, catering, tyre and tube manufacturing, match manufacturing, liquor and vinegar production, ice and aerated water production, tea export and garment manufacturing trades were also raised in 1988.

TABLE 1. 28

Wage Rate Index Numbers 1987 and 1988

December 1978 = 100

	Nominal Wages		Percentage Change
	1987	1988	
1. Government employees Non			
Executive officers	276.6	364.0	31.6
Minor employees	317.2	414.1	30.5
All Central Government employees	297.4	390.0	31.1
Government School teachers	247.3	331.5	34.0
2. Workers in Wages Boards Trades			
Agriculture	302.3	378.4	25.2
Industry & Commerce	256.3	271.7	6.0
Services	196.6	229.5	16.7
All Wages Boards Trades	277.7	335.8	20.9

Sources : Labour Department and Central Bank of Sri Lanka.

Employment

Employment in both the public, (government and semi-government) and private sectors is estimated to have increased marginally in 1988 when compared with the previous year.

Public sector employment in defence services, education, health, transport and provincial administration increased in 1988 due to the expansion of such activities. In contrast, the level of employment in plantations, banking, trade, industry and construction declined.

Public sector employment estimates were based on the data collected through the Survey on Public Sector Employment conducted by the Central Bank. According to provisional estimates of this survey, total public sector employment increased marginally by 0.4 per cent, from its level of 1,222,000 as at end of 1987 and stood at 1,227,400 as at end of 1988. Of this, 752,900 were employed in semi-government institutions, while the balance 474,500 were employed in government institutions. The employment in semi-government institutions such as public corporations, authorities, statutory boards and other institutions, increased slightly by 0.03 per cent in spite of a substantial decrease in the number of workers in estates belonging to the Janatha Estates Development Board (JEDB) and the Sri Lanka State Plantations Corporation (SLSPC). The increase in employment in semi government institutions, although marginal, was a reversal of the declining trend observed in recent years. Sri Lanka Ports Authority, Regional Transport Boards, certain trading corporations, service based establishments and higher educational institutions were among the semi-governmental organizations that registered significant increases in employment in 1988.

Employment in government institutions included all employees of government ministries and departments. The number of such employees at 474,500 as at end 1988 was an increase of 1.1 per cent over 1987. The largest increase was in defence services.

The classification of employment by occupational categories indicated that manual workers numbering 546,300 were the largest single group of employees in the public sector. The share of this category in total employment in the public sector, however, dropped from 46.0 per cent in 1987 to 45.4 per cent in 1988, due to the decline in the number of estate workers. The number of other manual workers in the public sector increased moderately. When estate workers numbering 402,600 were included, the total number of manual workers in semi-government institutions was 494,900 or 65.7 per cent of the total of such employees in the sub-sector.

Clerical and related workers numbering 235,200 and professional, technical and related workers numbering 223,600 were the second and third largest categories of employees in the public sector, in 1988. The levels of employment in the respective categories were 231,600 and 222,000 in 1987. There were 205,800 professional, technical and related workers employed in government institutions, as against only

17,800 such employees in semi-government institutions. The higher number in the government sector was mainly due to the inclusion of teachers and nurses under the category of professional, technical and related employees.

In 1988, service workers as a single occupational category registered the largest increase in employment. The total number of service workers in the public sector at 83,900 as at end of 1988 was a 6.6 per cent increase over the previous year. Clerical and related workers increased by 3,600 or 1.6 per cent. The other occupational categories that registered increases in employment were administrative and managerial workers and drivers and transport equipment operators. However, such increases were very marginal. The number employed as sales workers, agricultural, livestock and fishery workers, production related workers, and manual workers decreased marginally in 1988.

A sex-wise break-down showed that 79.3 per cent of those employed in the public sector were males. The ratio of male employees in government institutions at 82.5 per cent was slightly higher, while that of semi-government institutions constituted 73.3 per cent. As in the previous years, the largest number of females were employed as clerical and related workers. Regular employees accounted for 91.2 per cent of the total employment in the public sector.

Private sector employment data are available only in respect of certain sub-sectors of the organized private sector. Annual data on employment in the unorganized private sector are not available. According to the Consumer Finance and Socio-Economic Survey of 1986/87, the unorganized private sector accounted for about 78 per cent of total employment. The share of the organized private sector was approximately 7 per cent. The public sector, which constitutes the government, public corporations, statutory boards and local government institutions accounted for the balance 15 per cent.

Employment in enterprises under the Greater Colombo Economic Commission (GCEC) continued to increase considerably in the year under review. As at end 1988, the total number employed in GCEC enterprises stood at 54,626, showing an increase of 7.7 per cent over 1987. These employment opportunities were generated in 101 projects, 69 of which were situated within the Katunayake Investment Promotion Zone (IPZ). Of the balance 32 projects, 11 came under the Biyagama IPZ and 21 outside the GCEC area.

In continuation of the trends observed in the past, activities of the projects approved by both the Foreign Investment Advisory Committee (FIAC) and Local Investment Advisory Committee (LIAC) expanded further in 1988. As a result, the potential labour absorption capacity of the FIAC projects is estimated to have increased to 7,527 in 1988 from 6,937 in 1987, while that of the LIAC projects is estimated to have risen by 28 per cent to 18,633 in 1988.

The unsettled situation that prevailed in the country was the main factor responsible for the sluggish growth in employment opportunities both in the public and private sectors in 1988. However, the increased recruitments to defence services have more than offset the decline in employment in other sectors. The unfavourable impact of civil disturbances on employment was evident mainly in the productive sectors such as agriculture and industry. The non-expansion of the estate plantation sector has resulted in the gradual decline of the number of estate workers. The alienation of marginal lands was also a factor responsible for this decline. The expansion in non-traditional export industries such as textile and garments, (as evident in the continuous increase in employment in the GCEC enterprises) continued to be a major source of labour absorption in 1988 as well. This phenomenon reflected a gradual shift of labour away from traditional activities.