'MARKET-FRIENDLY' POLICIES: AN APPRAISAL

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An important attribute of successful economic policy making is a willingness to lean against a prevailing wind. Or to change the metaphor, when everyone is on the same bandwagon you can be sure that it is time for some of us to get off it. Research institutions were established to take a critical look at existing orthodoxies and create a forum where both advocates, and critics, could engage in honest and open debate. The hope is always that out of the clash between different schools of thought, a better understanding of society would evolve so that economists are better able to prescribe remedies. Such was my experience during these last eight years with WIDER which from the outset strove to be a very broad church indeed, where economists of *all* persuasions- neo-classical, Keynesian, structuralist, and monetarist -, and other social scientists - anthropologists, historians, philosophers and political scientists - could find a ready home. The only condition was that they would talk to each other in civilized and tolerant fashion.

My last research conference at WIDER was organised jointly with, and hosted by, the World Bank's Research Department in Washington D.C on 6 February 1993. Its purpose was to discuss the constructive criticism provided by some of WIDER's research net-work of the prevailing development orthodoxy being espoused by the World Bank,[1] namely "market-friendly" policies, and it is on the issues in this debate that I would like to focus today. What is meant by "market-friendly" policies is a framework in which governments *support* rather than *supplant* markets - which in other words is friendly to, rather than hostile to, markets. This has been well summarised by World Bank economists as follows:

> Governments have done too much of the things that they cannot do well - regulating markets and producing goods and too little of the things they must do well - maintaining macro economic stability and making necessary public investments. Governments need to do less and do it better.[2]

In other words, in the "market-friendly" policy framework, government intervention is to be confined, by and large, to the areas where markets typically fail i.e. in human development, - education, health, and social welfare -, in essential public infrastructure, and recently after the Earth Summit in Rio, environmental protection. This would leave the bulk of the task of resource allocation to the private sector responding to market forces.

Now of itself this framework is not necessarily a bad thing, and under certain circumstances, it can produce spectacular growth results, as happened in Sri Lanka in the period immediately after 1977. I was privileged to be professionally involved in the design of that framework from my position in the Treasury at the time. Its major rationale then was that it was leaning against the prevailing *dirigiste* wind that had been blowing for some 3 decades. The problem with "market-friendly" policies - and I am now speaking quite generally and not of Sri Lanka - is not so much with the underlying conceptual framework, as with the manner of its implementation. The vehicle for implementation has been described as the Washington consensus on stabilization and adjustment, a consensus common not only to the Bretton Woods institutions, the International Monetary Fund and the World Bank, but to the various prestigious "think-tanks" strung along the Potomac river in Washington, - hence the name. The Washington consensus involves five basic principles:

i. Budget balancing;

ii. Relative prices correction; this involves getting major prices right, such as the exchange rate, - typically a devaluation, - and interest rates - typically an increase.

iii. Trade and foreign investments liberalisation; this involves the abolition of import controls, and progressive tariff reductions alongside an open door policy to foreign investment;

iv. Privatisation; this involves the elimination of state ownership of productive enterprises, and

v. Domestic market deregulation.

Indeed, "market-friendly" policies may be defined as equivalent to implementing the Washington consensus, supplemented by government intervention in the areas of market failure already enumerated. This framework encounters two problems. In the first place, budget balancing within the Washington consensus can conflict with essential expenditure in areas where markets fail- on human development and public infrastructure etc., unless these activities are explicitly supported by foreign financing on an adequate scale,

The second problem is that it appears to conflict in crucial respects with the implementation of the alternative policy framework that has underpinned the spectacular success of the East Asian Newly Industrialising Countries →

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(NICS), following the pioneering example of Japan. I am referring, of course, to Korea and Taiwan, and the city states of Hong Kong and Singapore, whose example is in turn being followed by a second generation of aspirant NICS - Malaysia, Thailand and Indonesia.

"Market-friendly" Policies and Budget Balancing

I propose to consider each of these problems in turn. To begin with the first problem, Dr. Gamani Corea at a recent seminar, recalling Lenin's recipe for socialism - socialism equals electrification plus Soviets-presented his own equation for development which I found very attractive. Development, he said, equals skills plus infrastructure. Now both these are areas where markets typically fail, and they therefore require public investment. While the "market-friendly" framework, at the conceptual level, provides for the necessary public intervention, in practice the necessary expenditures have often had to be sacrificed in the interests of budget balancing, in the absence of supporting foreign finance. In the 1980s, for example, conventional adjustment programmes called not for a single bout of budget balancing but for repeated bouts in the face of a continually deteriorating external environment. The typical sequence facing a developing country experiencing an external shock such as a fall in price of its staple export commodity, e.g. coffee or cocoa was, first, a sharp reduction in its export revenues; next, a vain attempt to maintain budgetary expenditures which are inflexible in the short-run, by printing the money; third, as reserves run out, a tightening of import controls with its attendant distortions, which if prolonged would lead to rapid inflation until sooner or later the country became compelled to negotiate a stabilization and adjustment programme with the Bretton Woods institutions. Given the stringencies affecting external resources availability, the readiest way of restoring fiscal balance in such a programme was to sacrifice human development expenditure, and the adverse consequences of the policy have been explored by studies in UNCTAD, UNDP, UNICEF and UNU/WIDER. WIDER's country study of Tanzania provides a good example of the difficulty. Under its adjustment program "expansion of education, health, and water facilities stopped despite increasing needs, as development expenditure was drastically cut."[3]

In the joint WIDER symposium with the World Bank, Dr Michael Bruno, former Governor of the Bank of Israel, and a distinguished member of the WIDER research net-work, made the point that public infrastructure investment was similarly vulnerable.[4]

> In the absence of a tax alternative, the pressure to balance the budget usually leads to expenditure cuts where the political opposition is least but the long-term economic cost is highest, namely investment in infrastructure (roads, communications). This is the one area in which government intervention is usually essential and the positive externalities for the long-term growth of the private enterprise sector may be highest. There may be differences in the urgency of the problem in different countries, but there is a minimum requirement in each of the countries.

It is not without significance from the stand-point of future reform that Dr.Bruno has recently been appointed as the Chief Economist of the World Bank, and Vice President in charge of the Research Department of the World Bank. For one result of the critique from the rest of the United Nations system has been the recognition of the need within the Bretton Woods institutions to address the social dimensions of adjustment, (though not yet of the sacrifice of essential infrastructure,); but this has so far been in the nature of an add on to the extent permitted by available resources, rather than an integral part of the design of an adjustment programme.

In addressing the human development and essential infrastructure gap, the dilemma facing the donor community needs to be squarely faced. Once a country gets into economic difficulty, as a result of an external shock, the turn around would require major decisions on key parameters such as the exchange rate and the interest rate, coupled with a determination to restore fiscal balance. In the absence of adequate corrective actions in these areas, external support by donors can be viewed as pouring money into a "black hole" without result. It is this fear which explains the reluctance of the G-7 countries to support the former Soviet Union, for example, in the absence of a credible attack on basic macro-economic problems.

A Sustainable Development Compact

On the other hand, once a developing country having got into difficulty as a result of an unexpected external shock, decides firmly to put its economic house in order by taking the basic macro-economic decisions needed to chart an irreversible course for economic recovery and growth, there is a *prima facie* case for addressing the country's needs for human development and essential infrastructure as a matter of urgency. The solution that needs to be put in place for dealing with this problem is for budget balancing to take place gradually, and for the donor community to provide in recognition of progress in other relevant areas of the Washington consensus - eg. getting key prices right, foreign financing support for human development, essential public infrastructure, and environmental protection. The suggestion that the reciprocal obligations between a country and its donors involved in such a solution should be embodied in an "Environmental Compact for Sustainable Development" between the parties, was first elaborated in my Dr.N.M.Perera Memorial Lecture in August 1991.[5] The idea was adapted with acknowledgement by the UNCED

Secretariat, and presented to the Rio Earth Summit as their principal proposal on financing, under the caption "A Partnership in Additionality : Contracts for Accelerated and Sustainable Development". The idea as presented by the UNCED Secretariat is that:

> it might facilitate the provision of aid if developing countries were to put forward ambitious, accelerated and 'sustainable development' programmes, and if willing donors responded with additional funding.
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> A 'partnership in additionality' would be based on a developing country's clear articulation of policies and strategies and a programme of action for their implementation. The strategies would be designed to enable full use of economic opportunities in a drive for fast growth in production levels, while at the same time re-ordering internal priorities toward a broad-based attack on poverty, concentrating, for example, on basic education, and rural infrastructure. Such strategies would be the basis for a commitment to increased funding from international and bilateral donor sources. A sustained commitment would be needed by both developing countries and by the donors. It would be essential for such programmes also to enjoy broad popular support since the donor-recipient relationship would be unlikely to endure any charge of unwanted conditionality.
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> Such a process could be co-ordinated through existing consultative group and roundtable processes. However, in view of the broad nature of the funding required, a special process could be considered where periodically the 'contracting parties' could meet to discuss progress and agree on the solution of any emerging problems and on future plans.[6]

In the final decision of the Earth Summit, a somewhat weak formulation of this compact was adopted in Chapter 33 of Agenda 21: Financial Resources and Mechanisms:

> For an evolving partnership among all countries of the world, including, in particular, between developed and developing countries, sustainable development strategies and enhanced and predictable levels of funding in support of longer term objectives are required. For that purpose, developing countries should articulate their own priority actions and needs for support and developed countries should commit themselves to addressing these priorities. In this respect, consultative groups and roundtables and other nationally based mechanisms can play a facilitative role.

What is crucial to the notion of a compact between developing countries and their donors implicit in this Earth Summit decision, is that a country's development strategy is cast over a sufficiently long period of time. There is an opportunity for doing this by extending the 3 year time horizon of the Policy Framework Paper (PFP) a country has to prepare as part of any IMF package, to a minimum of 5 years, and fleshing it out to encompass expenditure on its sustainable human development and infrastructure goals. This process can make use of the country strategy notes being prepared under United Nations auspices in some 40 countries. There is an opportunity available at the forthcoming Social Development Summit of the UN for ideas along these lines to gain political endorsement.

20-20 Vision

Subsequently, a parallel initiative has been developed by UNICEF, based upon UNDP work,[7] which isolates a subset of priority areas of human development which are in the nature of basic human rights that should never be sacrificed on the altar of an adjustment programme. This can readily be incorporated in such a country level compact, once the concept gains the necessary political endorsement, again possibly at the forthcoming UN Summit on Social Development.

What UNICEF envisages is a global compact termed "20-20 Vision". What this means at the aggregative level is that donors (both bilateral and multilateral) undertake to provide 20 per cent of their aid for priority human development needs, as the *quid pro quo* for developing countries deciding to allocate 20 percent of their budgetary expenditure towards these same purposes. This contrasts with the current global averages, whereby under ten per cent of aid, and barely ten per cent of developing countries' budgetary expenditure go towards meeting priority human development needs. For "20-20 Vision" purposes, priority human development expenditure can be defined as a sub-set of allocations for the social sector, and would comprise the following activities:

i. Primary health care (including basic curative care);

ii. Basic education (including pre-school, primary, literacy, and life skills);

iii. Low cost rural, and peri-urban water supply and sanitation;

iv. Nutrition support (including community based approaches, and the provision of micro nutrients).

"20-20 Vision" as defined above is in the nature of a global compact between donors and recipients. What would be required to incorporate it into a compact at the individual developing country level of the kind envisaged by the Earth Summit, would be to link foreign savings support for basic human development priorities (with 20 per cent of all aid to that country and 20 per cent of its budget being devoted to these priorities), with irreversible movement in the direction of economic reform. The sim- →

plest formula that needs to be specified as regards a country's commitment to economic reform is that it is engaged in an economic reform programme acceptable to the Bretton Woods institutions, or is in otherwise good standing with one or other of these institutions.

It is instructive to see how Sri Lanka could benefit from "20-20 Vision". The UNDP analysed the data for some 25 developing countries covering 74% of the developing world for the year 1988.[8] Countries were first ranked in accordance with the percentage of their GNP allocated to priority human development expenditure for which data was available - primary health care, and basic education. A ratio of above 5% was considered to mean high human expenditure, of between 3% and 5% medium human expenditure, and under 3% low human expenditure. Twelve of the 25 countries, including Sri Lanka were in the low human expenditure category. Four countries - Zimbabwe, South Korea, Morocco, and Malaysia, met the 20% target for priority human development expenditure in their budgets. A mixed bag of countries - some low income, some middle income - had ratios below 10%. They are listed in descending order with the ratios given in parenthesis - Bangladesh (10.1) Chile (9.5) Tanzania (8.3) Sri Lanka (7.7) Nigeria (7.6) India (6.8), Argentina (5.6) Pakistan (2.9) and Indonesia (2.3). In the latter group, the proportion of aid allocated to priority human development expenditure was for the most part below 10%, with Bangladesh and Sri Lanka being above 10% and heading the list. These aid ratios are given in parenthesis against each country: Bangladesh (12.2) Chile (9.5) Tanzania (10.2) Sri Lanka (11.5). Nigeria (0.6) India (4.6) Argentina (1.4) Pakistan (8.5) Indonesia (2.6).[9] The acceptance of "20-20 Vision" will involve an increase in both ratios in all these cases.

For the donor community as a whole, there are limits to how far their obligations can be reached by a re-allocation of existing aid alone. This is because only Norway has reached the 20% target for donors, with only the smaller donors within reasonable distance of it, and the large donors performing at under 10% and in important cases under 4%. The data is set out in Annex Table 2. The performance of multi-lateral donors is set out in Annex Table 3, which indicates that several multi-lateral donors, including the World Bank and the regional development banks, have a considerable distance to go before reaching the 20% target. Indeed UNICEF has estimated that the donor obligation would cost an additional $25 billion per year[10] in the remaining years of the century - a less than 50% increase in today's ODA of $ 60 billion.

For the developing countries however, implementing "20-20 Vision" will require a major reassessment of expenditure priorities. In Sri Lanka, budgetary expenditure for human development priority areas will have to rise by 12 percentage points from the present 8% to elicit an increase in aid devoted to these same purposes by 8 1/2 percentage points from the present 11 1/2%. For Sri Lanka, the readiest way of proceeding, and possibly the only way, would be to shift a major share of military expenditure now running at Rs.20 billion a year, or 15% of budgetary expenditure, to human development priority purposes. Indeed if military expenditure were reallocated in this way, virtually the entire expenditure on human development priorities in Sri Lanka will in effect be financed by the donor community as part of their obligation under "20-20 Vision".

Thought is also being given internationally to a more straightforward link between disarmament and foreign aid, the most obvious one being that of matching every dollar saved on military expenditure with a dollar of additional aid, which could also be earmarked for priority human development purposes. In Sri Lanka's case, given the magnitudes of the relevant categories of expenditure, the two approaches would come to much the same thing. As a general formula of universal application, and as an alternative to "20-20 Vision", however, this formula would have the disadvantage of discriminating in favour of high military spenders as against other developing countries.

"Market-Friendly" Policies and the East Asian Development Model

The discussion has so far been concerned with ways of providing adequately for public investment in the areas of market failure that are threatened by the Washington consensus principle of budget balancing, and with protecting, as of right, expenditure on defined human development priority areas. The second problem with the Washington consensus is that some of its other principles could conflict with the successful policy framework introduced by the East Asian economies. What is distinctive about the policies of these economies can be summarised under 4 heads. Under each head, the East Asian strategies differ from "market-friendly" policies, in some cases markedly, in others in more nuanced fashion.

(I) Industrial Strategy and Support

The East Asian approach differs from the "market-friendly" approach of the Bretton Woods institutions in that Government intervention was not limited to human development and essential public infrastructure. Although these interventions were regarded as indispensable by these economies, what was distinctive about their experience was that governments also intervened to 'pick winners' instead of leaving industrial choice to the workings of the market alone. Their strategy has been summarised by a former Vice President of the Asian Development Bank (ADB) as follows:

> Neither Asia's NICs nor Japan entrusted to the market, or to foreign investors, responsibility for deciding which of their industries would prosper and which would fail. On the contrary, they for-

mulated industrial strategies based on forecasts of market developments and assessments of which of their "neo-infant industries" could be expected to carve out a competitive niche in world markets and which could not. For the first group, they provided protection from the import competition as well as export incentives, tax relief and other financial help to bolster their growth and competitiveness.[11]

Market pressures were used to ensure that infants initially protected would become internationally competitive over time, so that subsidies initially given to them were tapered off eventually. Simultaneously, Governments intervened to help firms in declining industries to diversify and retrain workers. The merit of the East Asian approach is that industries, which might succeed over the medium term in Latin America or in Eastern Europe if handled East Asian style, might not survive the competition resulting from the rapid and uncontrolled liberalisation which is an integral part of the Washington consensus.

More recently, a quasi-official challenge along these same lines to Washington consensus policies has been mounted by Japan's Aid Agency. In an important paper, entitled *Issues Related to the World Bank's Approach to Structural Adjustment - Proposal from a Major partner*[12]Japan's Aid Agency (Overseas Economic Corporation Fund) makes several suggestions all pointing to a longer term approach to development if Washington consensus policies are to move countries towards sustained growth. In the first place, it questions whether the impetus for sustained growth can be created by structural adjustment, if it merely takes the form of introducing a market mechanism, and eliminating restrictions on the private sector. It argues for additional measures aiming directly at promoting investment, and patterned after Japan's fiscal and monetary policies in the post-war era, which were centered on preferential tax treatment and lending by development finance institutions. It also mentions the encouragement given by these policies to building up small scale industries who would supply components to large scale industry. Their effect was to encourage self employment, and reduce unemployment to very low levels.

Secondly, the paper challenges the third principle of the Washington consensus which prescribes rapid and indiscriminate trade liberalization. It argues that effective development and industrialization involves deliberate state intervention, and cannot be left automatically to the private sector, and advocates the temporary protection of selected domestic industries for relatively long periods of time in order to allow a viable industrial export sector to develop. The paper acknowledges the need to prevent the harmful effects of protection, and proposes as a preventive measure a 'Policy Dialogue on Industrial Development' between donors and each developing country in order to identify promising products. The processes involved in formulating Sustainable Development Compacts at the country level, could provide an ideal vehicle for this dialogue.

(II) Exchange Rate Policy

East Asia kept exchange rates deliberately under valued to encourage exports and discourage imports. They succumbed reluctantly to pressures to revalue only after capturing overseas markets and building up often large reserves. In contrast, Washington consensus policies by prescribing market clearing rates from the outset, as in Eastern Europe, may fall between two stools. On the one hand they run the risk of not succeeding in generating the necessary export inducements. On the other, they court the risk of overshoot and excessive devaluation, resulting in excessive import costs and an exchange rate induced inflationary spiral.

(III) Foreign Investment

The NIE's followed Japan in being somewhat lukewarm in their approach to foreign investment. They preferred to acquire technology through licenses, franchising and market sharing arrangements and skills through training of personnel abroad. This selective approach contrasts with the indiscriminate approach to liberalising foreign investment that is built into the Washington consensus. In today's international climate, welcoming foreign direct investment may be the only practical option available to developing countries, aspiring to be NICS. But what East Asian experience suggests is the need to attract private foreign finance through encouraging "portfolio" investment as well, in addition to promoting direct investment alone. A WIDER Study Group[13] has suggested that "the net inflow of portfolio investment into developing countries could expand from an annual level of around $ 1 billion a year in the second half of the 1980's to a potential level of around $5 to 10 billion a year in the 1990's."

(IV) Price Liberalisation and Subsidies

While as a rule prices in East Asia's NIE's reflected market forces, key prices were adjusted to conform to social goals, e.g. to ensure high savings and investment rates, to give selective inducements to exports by means of subsidised rates of interest, and to bring about self sufficiency in food. (e.g. in Japan there is no market price for imported rice because of protection in the interests of self sufficiency and of maintaining the social fabric intact of peasant producers, and the banning in consequence of rice imports).

To summarise the East Asian experience, what is distinctive about the model is its use of the market in support of defined social priorities, as contrasted with an abdication to market forces which accepts whatever short and long run consequences are incurred as a result. The merit of the approach is that the experience of Japan and the NIE's has succeeded in bringing about rapid

growth and development without incurring unacceptably high social costs, so that at all times popular support has been enlisted in favour of the reform process. As the concluding paragraph of the OECF paper previously cited, captioned "Beyond the Decade of Efficiency", summarizes Japans view point on this matter:

> Although efficiency and fairness are the major objectives to be pursued in economic policy, there is sometimes a trade off between the two. In the 1980s, economic theory as well as economic policy were heavily oriented toward the pursuit of efficiency. In this sense, it was a unique period. However, this period has come to an end. What is now needed is a policy well balanced between efficiency and fairness in order to improve the welfare of the entire society. The World Bank's approach to structural adjustment may have to be changed reflecting the change of streams.

The WIDER - World Bank Symposium

A major part of the WIDER network's critique at the joint symposium with the World Bank was that the mechanical application of "market-friendly" policies in developing countries might deprive them of the benefits of the East Asian approach. An important contribution to the debate was made by Mr. Masaki Shiratori, a former Executive Director of the World Bank and Vice President of OECF, Japan's Aid Agency. His paper conceded that in the Bank Research Department's formulation there was acceptance of the government's role in areas of market failure. He maintained, however, that Japanese experience "suggests a bit stronger role for government".[14] than envisaged by the Bank's Research Department, including selectively "picking winners" and subsidising interest rates. He concluded however, from his assessment of the established practice of the operational departments of the Bank, that

> in reality, even this "market-friendly approach" seems to have been not fully adopted and developing countries have been often urged to adopt policies based on the blind belief in the market mechanism instead. It is argued that the government cannot be relied upon because of weak structures of the civil service and resultant corruptions in many developing countries, thus making the market mechanism the better alternative. Thus, various regulations should be abolished, transactions liberalized, and state-owned enterprises privatized.
>
> More often than not, the market mechanism fails to function properly in developing countries, and in many cases markets simply do not exist, however. The single-minded application of marketism is unrealistic under such circumstances.

According to Mr.Shiratori:

> Japanese experience suggests that the role of government should include the following:-
>
> - Setting medium-term goals that could serve as guidance for private economic agents;
> - Appropriate economic policy management;
> - Human resources development through education and training, and the promotion of science and technology; and
> - Establishment of a financial system that will encourage national savings and channel them into productive investments."

Conclusion

The WIDER- World Bank symposium is part of an ongoing international debate on what constitutes the best recipe for successful development. There is a major research project under way within the Bank, as a result of the views urged by Japan in the Bank's Executive Board. Meanwhile how should we appraise "market-friendly" policies? Sri Lanka's experience suggests that they can constitute a powerful necessary condition for rapid growth, removing important price distortions that had accumulated during 3 decades of *dirigiste* policies. However, the rapid output and export expansion that followed after 1977 could not, in all probability, have been achieved without the rich human capital endowment that Sri Lanka had also built up in its *dirigiste* phase.Indeed, in one of the best known of WIDER's books,[15] *Hunger and Public Action* by Professors Jean Dreze of London University and Amartya Sen of Harvard University, Sri Lanka's development experience constitutes an important case of one of the two valid development strategies analysed by the authors, "support-led security", the other being "growth- mediated security".

An important element in Sri Lanka being able to afford the necessary investment in human development, with social expenditure being consistently in the range 9%-12% of GNP from the mid 1960's to 1979, was her extremely low level of military expenditure throughout that period. This rarely exceeded 1% of GDP, at a time when the rest of the developing world was spending nearly 5% of GDP on arms, Sri Lanka's level today. Sri Lanka is also unique in having had a consistently high level of unemployment of 13% to 16% for nearly two decades, on the evidence of various surveys spanning the period 1963-1988. High human development and high unemployment constitute a uniquely Sri Lankan recipe for endemic violence, generating expectations which cannot in the circumstances be fulfilled. This, in turn, risks a further reduction in social expenditure from recent levels of around 6%-7%, thus eroding Sri Lanka's human development base further.

It is therefore all the more important to recognise that the requirements for minimum levels of social protection are not overridden by the "market-friendly" framework, at least in its budget balancing aspect. The move towards a solution of this problem is bound to require international action through negotiation within the United Nations of an appropriate global compact as described above, involving both "20-20 Vision" and sustainable development compacts at the country level. It is also necessary that we evolve ways of expanding employment opportunities rapidly by boosting our growth rates, and by looking to regional cooperation for expanding markets at a time of global recession. This could take the form of a fast track within SAARC by accelerating Indo-Sri Lankan economic cooperation through a reciprocal preference scheme as envisaged in the 9th WIDER Study Group Report[16] which I understand has now been adopted as part of government policy.

We would also need to work out our own adaptation of the East Asian model, by strengthening our educational policies in the tertiary sector, by adopting selective strategies for "picking winners," including interest rate subsidies, and creating viable self- employment opportunities in small to medium scale activity. We would also need the kind of detailed framework for consultations between government and the private sector that was pioneered by Japan and adopted by all the aspiring NICS. In a word, "market- friendly" policies are in Sri Lanka's case at best no more than necessary conditions for transition to NIC status. They are far from being sufficient conditions as well, and require to be supported by the kinds of interventionist and full-employment strategies which the East Asian NICS have successfully pioneered.

Above all, we need to end the war in the North and its drain on our finances. War is, however, not only an economic drain. Its costs in human terms are incalculable; it can leave behind a brutalised society that glorifies violence. For a secure future, we have to transcend the ethnicities within which we are imprisoned and resolve the conflict in a way that will reunify our fragmented society.

Annexes

1. Table 1 - Selected Country Expenditure Shares, 1988.
2. Table 2 - Human priorities in bilateral aid
3. Table 3 - Human priorities in multilateral aid

TABLE 1

Selected Country Expenditure Shares, 1988

(for 25 countries for which data are available, listed in order of Human Development Priority Ratio)

Country	Public Exp. Ratio (=GE/GNP)	Soc. Alloc. Ratio (=SS/GE)	Soc. Priority Ratio (=HDP/SS)	Human Exp. Ratio (=HDP/GNP)	(20/20 TARGET) Human Devt. Priority Ratio (=HDP/GE)
Zimbabwe	52	49	50	12.7	24.5
S.Korea	16	30	77	3.7	23.1
Morocco	29	42	52	6.3	21.8
Malaysia	32	29	68	6.3	19.7
Thailand	16	37	42	2.5	15.5
Botswana	51	37	41	7.7	15.2
Colombia	15	40	36	2.2	14.4
Costa Rica	41	50	26	5.3	13.0
Singapore	35	35	35	4.3	12.3
Brazil *	34	32	38	4.1	12.2
Sierra Leone	13	39	31	1.6	12.1

Philippines	21	22	53	2.4	11.7
Mauritius	27	40	29	3.1	11.6
China	19	24	46	2.1	11.0
Jordan	50	25	44	5.5	11.0
Kuwait	36	42	26	3.9	10.9
Bangladesh	12	24	42	1.2	10.1
Chile	33	50	19	3.1	9.5
Tanzania	29	15	55	2.4	8.3
Sri Lanka	31	43	18	2.4	7.7
Nigeria *	29	20	38	2.2	7.6
India *	37	20	34	2.5	6.8
Argentina	41	35	16	2.3	5.6
Pakistan *	25	21	14	0.7	2.9
Indonesia *	25	13	18	0.6	2.3
* Large federal systems					
AVERAGE (ALL)	30.0	32.6	37.9	3.7	12.0
(non-federal)	30.0	35.4	40.3	4.1	13.5
TOP 4 (HDPR 20%+1)	32.3	37.5	61.8	7.3	22.3
REST (HDPR <20%)	29.5	31.6	33.4	3.0	10.1
(non-federal)	29.4	34.9	34.9	3.3	11.2
UNDP NORM	25.0	40.0	50.0	5.0	20.0

Key:

- GNP Gross National Product (national income)
- GE Government Expenditure
- SS Social Sector (government) expenditures
- HDP Human Development Priority expenditure

- PER Public Expenditure Ratio GE GNP
- SAR Social Allocation Ratio SS GE
- SPR Social Priority Ratio HDP SS
- HER Human Expenditure Ratio HDP GNP
- HDPR Human Development Priority Ratio HDP GE (20/20)

Source: UNDP *Human Development Report*, p.41 Table 3.1 as presented in UNICEF, *20/20, Mobilising Resources for Human Development Priorities in the 1990's: An Issues Paper* (Mimeo 8 April 1993)

TABLE 2

Human Priorities in Bilateral Aid *

Country 1990	ODA (US $ millions) 1990	ODA as % of GNP 1988/89	Aid social allocation ratio 1988/89	Social priority ratio 1988/89	Aid human expendiratio 1988/89	Percentage of total CDA for human priorities 1988/89
Norway	1,207	1.17	27.2	72.3	0.230	19.7
Finland	846	0.64	38.0	41.4	0.100	15.7
Denmark	1,171	0.93	19.2	55.4	0.099	10.6
Netherlands	2,580	0.93	21.1	44.5	0.087	9.4
Sweden	2,007	0.90	17.0	41.5	0.064	7.1
Switzerland	750	0.31	35.8	50.6	0.056	18.1
Canada	2,470	0.44	23.8	45.9	0.048	10.9
Italy	3,395	0.32	18.0	47.3	0.027	8.5
U.K.	2,639	0.27	13.4	65.8	0.024	8.8
France	6,277	0.52	11.0	35.9	0.021	4.0
Austria	389	0.25	13.4	60.6	0.020	8.1
U.S.A.	10,166	0.19	16.4	50.4	0.016	8.3
Germany	6,320	0.42	8.9	21.4	0.008	1.9
Japan	9,054	0.31	10.7	25.5	0.008	2.7
Australia	955	0.34	6.4	31.4	0.007	2.0
Total 15 DAC Countries	50,226	0.35	14.8	43.7	0.023	6.5

TABLE 3

Human Priorities in Multilateral Aid *

Agency	Aid social allocation ratio 1988/89	Social priority ratio 1988/89	Percentage of total ODA for human priorities 1988/89
UNICEF	91.7	85.9	78.8
IFAD	16.8	100.0	16.8
IDB (including special)	27.8	54.4	15.1
ASDB(Including special)	17.5	64.5	11.3
IBRD/IDA	17.5	47.7	8.3
AFDB/African Dev. Fund	16.6	32.4	5.4
Total	19.1	49.1	9.9

* Human priorities include basic education, primary health care, safe drinking water, adequate sanitation, family planning, and nutrition programmes.

Source: UNDP, *Human Development Report,* 1992 p.43, Tables 3.14 and 3.15