Abstract

This thesis examines the impact of economic liberalization in Sri Lanka, with a view to assessing the role of that strategy in accelerating trade and output growth, generating employment and, more specifically, redressing poverty and economic inequality. To that end, the post-reform period which is divided into two phases—1979 to 1989 and 1990 to 2004—is compared with the pre-reform period (1970-1978). The study uses a range of macro and micro data sources, including a custom-made survey conducted by the researcher in a poverty-stricken district in Sri Lanka, to delineate trends in poverty and inequality, and to isolate the proximate determinants that contribute to their persistence.

The thesis reveals that the economic reforms of 1977 failed to accomplish the avowed objectives of moving the economy towards a new trajectory of accelerated and sustained growth through export-led industrialization. The growth that took place during the post-reform era was sub-optimal in terms of pace and exclusive in terms of distribution widening the economic divide sharply at decile, regional and sectoral levels. Besides increasing the incidence of head count poverty it also lowered the overall economic well-being engendering human poverty.

The thesis divides the proximate determinants of poverty and economic inequality into macro and sectoral categories. Declining public expenditure emerges as the most important macroeconomic influence on the level of poverty in Sri Lanka. The uneven pattern of growth in the provinces widened the economic divide between sectors and regions. It worsened the inter-household income inequality too. The impact of inflation was severe on wage workers and peasant farmers whose real income declined persistently. The pace of growth was not strongly related to poverty reduction, because the post-reform growth impetus was sub-optimal and uneven.

The analysis of sectoral determinants indicates that declining growth in the agricultural sector contributed to the persistence of poverty in rural and estate sectors that shelter more than 90 per cent of the country's poor. The special poverty alleviation programmes of the 1990s failed to neutralize this tendency on account of the depletion of fiscal allocations and targeting errors. The micro finance initiatives hailed by the multilateral donors were inadequate to cause a substantial impact on poverty reduction. Using case data from the district of Hambantota, the thesis illustrates how producer margins, 'poverty traps', 'indebtedness' and 'dispossession of assets' worked to the detriment of the poor at the grass-roots level.

The thesis argues that the trends in income inequality, employment and poverty in Sri Lanka go contrary to the many orthodox views including those of Kuznets, Sachs and Warner and Dollar and Kraay. It also disproves the H-O-S-S hypothesis on employment opportunities for unskilled labour. Rather, the persistence of poverty and widening economic divide in Sri Lanka is due to the liberalization-cum-structural adjustment policies. This finding contradicts the cross-country research outcomes that espouse economic liberalization policies. While arguing that trade expansion is important, this thesis posits that 'non-inclusive growth' is meaningless when one quarter of the population lives below the poverty line. It, therefore, foresees a need for state activism in the spheres of poverty reduction and income distribution. The thesis recommends a series of general and specific policy measures ranging from changes in tax structures to increasing the government revenue; augmenting public expenditure on social security to generating employment opportunities; arresting falling real wages and producer prices of food grain with a view to promoting a 'development-driven approach' to poverty reduction instead of the market-driven approach that failed to produce positive results.