



# ENVISIONING BEYOND ECONOMIC GROWTH AND PER CAPITA INCOME

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## 1. Introduction

Sri Lanka is, slowly but surely, emerging out of the vicious civil war that lasted over twenty-five years (July 1983 – May 2009); armed conflict since 1972; and the conflict *per se* ever since independence in 1948. The amount of human, material, environmental and psychological destruction caused by this long drawn out civil war, especially in the conflict affected Eastern and Northern Provinces, is immeasurable and would last for generations; though some quantitative and qualitative estimations do exist.<sup>1</sup> The end of the protracted civil war and a stable government with an invincible majority in parliament has removed two structural impediments (i.e. political and security) to economic take-off in Sri Lanka. However, what are lacking are a robust economic growth strategy and an optimal policy framework to implement the envisioned growth strategy, and strategise beyond economic growth and per capita income.

The Gross Domestic Product (GDP) in constant prices (real terms) grew by 8%, 8.3%, and 6.4% in 2010, 2011 and 2012 respectively in the immediate aftermath of the civil war. Though the economic growth rates in 2010 and 2011 were higher than during the time of the civil war (1983-2009), they are lower than most other post-civil war countries around the world, especially in Africa and Asia, that have recorded double-digit growth (10% or more) in the immediate aftermath of respective civil wars.

Despite a high intensity civil war, Sri Lanka's growth in quantitative terms during the time of civil war is remarkable in comparison to countries under similar circumstances. However, the quality (or the source) of such growth is the cause for concern. In 2009, Afghanistan's economic growth rate of 15.1% was the highest in South Asia and one of the highest in the world (in fact, in the past several years Afghanistan has recorded double-digit growth rates annually). However, foreign aid accounted for 40% and poppy plants and opium trade accounted for another 40% of the Afghan economy.<sup>2</sup> Is this the kind of economy that would secure Afghanistan from war and poverty? Hence, it is imperative, especially in civil wartimes and post-civil war times, to look beyond the numerical rate of economic growth and identify the source/s (or quality) of growth to determine the success or otherwise of the economic model/strategy pursued.



Sri Lanka's growth during the last few years of civil war (2006-2009) has been largely fuelled by the growth of the public sector; both the civilian public administration and the security forces. That is, the increase in the number of personnel in public services and frequent pay rises to public sector employees were the main sources of economic growth during the period 2006-2009. Productivity in the public sector is too low and the cost of the public sector is too expensive. Moreover, bulk of the rise in public expenditure was for public consumption rather than public investment. Public expenditure fuelled growth is wealth diversion rather than wealth creation. However, in the post-civil war period of 2010-2013 public investment led growth has taken precedence, which is relatively better than the previous public consumption led growth but not the best policy option of private investment led growth.

In the same way as the economic growth strategy at the national level, the government's post-civil war economic revival strategy both in the Eastern and Northern Provinces has been overwhelmingly based on government-funded projects with majority financial contributions from the bilateral and multilateral donors. For the four-year period (2007-2010), the budget provision for the Eastern Reawakening Programme (*Nagenahira Navodaya*) was a total of LKR.197 billion (USD.1.75 billion); 52% of this amount was to be financed by foreign aid, nearly 30% by the GoSL, and the rest 18% by the private sector. Similarly, the development programme for the North (*Uthuru Vasanthaya* and other projects) has been earmarked a total sum of LKR.7 billion during 2009-2010 (foreign funding accounting for 40.5% and the rest by the GoSL).<sup>3</sup>

Both at the national and regional levels there is a heavy reliance on government-funded and government-driven development strategy, which is a cause for concern because of the limited fiscal space available to the government, low (or less than optimal) productivity of the public sector, and the perpetuation of dependency on foreign donors and the non-governmental sector for delivery of goods and services to the people. Thus, the sustainability of the post-civil war growth strategy is doubtful.

This paper briefly charts out the economic path that should be followed by the former conflict-affected provinces in particular and the nation in general, and an enabling environment that the national government should create and foster for speedy recovery from the ruins of civil war. Economic resurrection of the former conflict-affected provinces, undoubtedly, would have a spill-over effect on the national economy as well.

The objective of this paper is to set out the contours of a broad policy framework for rebuilding the nation, particularly the former conflict-affected provinces, in the aftermath of the civil war but does not intend to get into specific sectoral or sub-sectoral strategies, policies, programmes, or projects. Moreover, this paper aspires to go beyond the avowed goals of economic growth (8% or over annually) and per capita income (achieving \$4,000 by 2016) of the present government in the aftermath of the civil war.



## 2. Lessons from International Experiences

Germany and Japan are two prime examples of successful resurrection of battered minds and economies after ruinous adventure of war. Nazi Germany and Imperial Japan pursued militaristic paths for dominance of their respective geographical regions of the world. In the same way, the Liberation Tigers of Tamil Eelam (LTTE or the 'Tamil Tigers') waged a relentless and ruthless war for separation of the Eastern and Northern Provinces from Sri Lanka. The consequences have been disastrous for the Tamil minority community in particular, and for Sri Lanka as a whole. Though the German and Japanese military pursuits of dominance were transnational wars, LTTE's separatist war was national. The LTTE was an institution that resembled militaristic adventurism of the regimes of Nazi Germany and Imperial Japan in the run up to and during the Second World War. The *modus operandi* of the LTTE also has close resemblance to the Khmer Rouge (Pol Potist) regime of Kampuchea (now known as Cambodia) in the late-1970s.

It is time for introspection, self-criticism, and remorse by the Tamil community in particular and Sri Lankan nation as a whole as we chart a way out of the current morass. There are two potential pathways ahead for the Tamil community in particular and Sri Lanka as a whole; one is that pursued by Germany and Japan in the aftermath of the Second World War and the other followed by post-Khmer Rouge Cambodia.

Post-Second World War Germany and Japan rebounded from ashes following pacifism, resolute adherence to democracy cum rule of law, and industriousness; as a consequence became economic powerhouses in the world within a short span. On the other hand, Cambodia is dogged by democratic deficit, corruption, nepotism, and authoritarian regime even after the ouster of the Khmer Rouge regime in 1979 and end of Vietnamese occupation in 1989; thereby continues to be one of the poorest countries in the world (per capita income US\$800 in 2011 according to World Development Indicators 2013). Thus, whilst post-war Germany and Japan reflect prosperity, post-war Cambodia reflects pauperism.

It is imperative for the people of the Eastern and Northern Provinces in particular, and Sri Lanka as a whole, to draw lessons from historical experiences of these two sets of contrasting post-war developments. Naturally, we would argue in favour of the path pursued by both Germany and Japan in the aftermath of the Second World War for the Eastern and Northern Provinces in particular and Sri Lanka as a whole to pursue in this post-war (not yet post-conflict) era.

## 3. Economic Freedom: the path to economic and political emancipation

A lay person's definition of Economic Freedom is freedom to do business locally, nationally and internationally with minimal cost and minimal interference of the local, national and international governments. Economic freedom is an essential ingredient of democracy like political freedom. Yet economic freedom is less understood, and even less underscored, compared to political freedom.



According to Gwartney, Lawson, and Hall “The cornerstones of economic freedom are (i) personal choice, (ii) voluntary exchange coordinated by markets, (iii) freedom to enter and compete in markets, and (iv) protection of persons and their property from aggression by others.”<sup>4</sup> A country’s adherence to economic freedom is measured by the Economic Freedom of the World (EFW) index developed by the Fraser Institute based in Vancouver, Canada. The EFW index is based on 42 variables (including 22 survey-based variables derived from the International Country Risk Guide, Global Competitiveness Report and Doing Business Report of the World Bank). The EFW index has a scale of 0 to 10: zero denoting no economic freedom at all and 10 denoting highest economic freedom.<sup>5</sup>

The EFW index is subdivided into 5 major components: (i) Size of Government: public expenditures, taxes and public enterprises; (ii) Legal Structure and Security of Property Rights; (iii) Access to Sound Money; (iv) Freedom to Exchange with Foreigners; and (v) Regulation of Credit, Labour, and Business. Further, the ‘Size of Government’ is subdivided into 5 components<sup>6</sup>; ‘Legal Structure and Security of Property Rights’ is subdivided into 9 components<sup>7</sup>; ‘Access to Sound Money’ is subdivided into 4 components<sup>8</sup>; ‘Freedom to Exchange with Foreigners’ is subdivided into 9 components<sup>9</sup>; and ‘Regulation of Credit, Labour, and Business’ is subdivided into 15 components<sup>10</sup>. Hence, altogether 42 variables compose the EFW index.<sup>11</sup>

There is positive correlation between economic freedom and economic growth, per capita income, life expectancy, poverty, income inequality, literacy rate, access to safe sanitation facilities and safe water.<sup>12</sup> Moreover, a cross-country study by Eriksen and De Soysa establishes that there is a positive relationship between economic freedom and human rights; i.e. higher the economic freedom index, better the condition of human rights.<sup>13</sup> Another cross-country study by De Soysa and Fjelde disputes the argument that free-market economy is associated with political violence.<sup>14</sup>

Based on the conceptual framework of economic freedom as noted above, we would argue that the guiding principle of economic renaissance in the conflict-affected regions of Sri Lanka should be economic freedom, whereby the national, provincial and local governments should create an enabling environment for private sector-led economic emancipation of the people, with private cum public partnerships where absolutely necessary.

### **3.1 Accountability, Integrity, and Transparency**

Accountability, integrity, and transparency should be the cornerstone of provincial and local governments and provincial and local public administrations in the conflict-affected region, as well as rest of the country. A vibrant market economy could function effectively only when rule-of-law is supreme; merit and productivity are *sine qua non*; accountability, integrity and transparency are paramount.

In order to attain such an ethical system of governance, independent, efficient and credible Department of Auditor General, Bribery Commission, Public Services Commission, Police Commission, Human Rights Commission, and Media are indispensable. The existing similar national



level institutions are limited in scope and heavily politicised.

The functioning of the Auditor General's Department and the Human Rights Commission is undermined by apportioning inadequate financial and human resources. The latter is also politically interfered at times. Further, the Bribery Commission has severe limitation on three counts: firstly, the legislative act setting up the Bribery Commission is fundamentally flawed because it restricts its functions to bribery and corruption in the public sector only. Secondly, Bribery Commission has authority to make investigations only when complaints are made orally or in writing (reactive). It has no power to proactively investigate suspected bribery and corruption on its own initiative.

The national integrity system encompassing the foregoing supposedly independent institutions should have been the watchdogs of democracy, justice, and rule-of-law. However, in reality they have become just lapdogs of the powers that be.

Due to the aforementioned shortcomings in the national institutions, each province should set up regional institutions to foster good governance within the province. The corresponding national institutions could undertake the oversight of the provincial institutions. When there are truly independent, impartial, and non-partisan governance institutions, external interference or interventions on governance in the country would become irrelevant.

Moreover, an equal opportunities law should be enacted in order to stamp out discrimination based on ethnicity, religion, gender, caste, regional origin, physical disability, political party affiliation, etc, and promote merit-based system of economic, social, and political governance. On this score the conflict-affected provinces should become exemplary to rest of the provinces and the national government by instituting meritocracy in regional governance structures.

### **3.2 Education for Knowledge Economy**

Historically, the bedrock of regional pre-eminence of the North, particularly the Jaffna peninsula, has been education and knowledge. It is time to spread that to the East as well as the rest of the country. Relatively, the North is endowed with marginal natural resources in comparison to other provinces. Therefore, education was the pathway to prosperity by way of entering professions and public sector employment. Thus, the competitive advantage of the people of North has been education and knowledge (human capital).

Although the Eastern and Northern Provinces are touted as primarily agriculture cum fisheries economy, it is no more the case due to the protracted civil war resulting in mass displacement, mining of agricultural lands and coastal areas, and exodus of kith-and-kin overseas causing a 'demonstration effect' to migrate inland or overseas.<sup>16</sup> During the conflict time, services sector was the largest contributor to the provincial economies of the East and North (over 65%), which was larger than the services sector's share in the national economy (just over 50%). Furthermore, the services sector in the two conflict-affected provinces has been dominated by defence and public administration sub-sectors with minimal productivity.<sup>17</sup>



These minimal-productive services sub-sectors could and should be supplanted by dynamic and highly productive modern knowledge economy in order to compete in a globalised market place. The emerging economies in the conflict-affected provinces should seize this opportunity to foster and promote a knowledge-based economy. Information technology and English language are two indispensable ingredients of a knowledge economy. Besides, totally independent private schools and tertiary educational institutions (such as universities and technical/vocational educational institutions) are also indispensable to build a knowledge economy. The state-owned and run schools, universities, and further educational institutions should be made to compete for students with corresponding private institutions. The state should provide financial resources directly to needy students so that they could buy the educational services from either the public or private institutions according to their own choice.

Sri Lanka is one of the very few countries in the world where Vice Chancellors of Universities are appointed by political authority, viz. the President of the country, which is ridiculous to say the least. Appointments to the independent governance bodies such as the ones noted above, the judiciary, educational institutions, and the Central Bank should be made by groups of independent, non-partisan eminent persons in respective fields in order to inculcate merit cum competence, productivity, and performance based public administration and governance structures.

### **3.3 Fiscal Devolution<sup>18</sup>**

Fiscal decentralisation has gained momentum in capitalist and communist/socialist countries (in China, for instance) and in unitary and federal states alike since the last quarter of the twentieth century. Country experiences have shown that fiscal decentralisation does enhance public goods and services delivery and poverty reduction.<sup>19</sup> However, designing of fiscal decentralisation should be country-specific.<sup>20</sup> Our case for fiscal devolution is not based on the dichotomy of unitary versus federal constitutional cum political model, but based on the evolving business model globally towards subcontracting and outsourcing the production lines and and fiscal decentralisation is the panacea for economic efficiency.<sup>21</sup>

There is a lot of concern about the lop-sided economic growth and wealth concentration in Sri Lanka whereby the Western Province (Colombo, Gampaha, and Kalutara districts) accounted for 43% of the national Gross Domestic Product in 2012, which was greater in previous years. There could be several causes for this concentration of economic output and wealth in just one province out of the total nine provinces in the country; one obvious cause being 28% of the national population resides in the Western Province (WP).

Besides, tax incidence or the source/s of tax revenue is one of the principal factors affecting income inequality among the population and the regional dispersion of economic growth and wealth. When a tax system overwhelmingly depends on consumption taxes, income will be concentrated in the hands of the wealthy individuals (who largely reside in the WP), institutions, and regions of the country. After 1977, indirect or consumption tax as a proportion of the total tax revenue has increased at the same time direct or income tax has decreased. This is one of the



primary causes of the skewed production and wealth among the people and places in Sri Lanka. Moreover, the consumption tax revenue and savings of people from the provinces are transferred to the centre (part of Western Province) which spurs regional inequality. Therefore, giving freedom to the provinces to retain their respective consumption tax revenue and savings of the respective populations and increasing the proportion of the direct or income taxes in the total tax revenue would significantly disperse production, income, and wealth to the regions away from the Western Province. Therefore, fiscal devolution is proposed for inclusive growth among the different provinces.

By providing fiscal autonomy to the provinces, the national government could promote competition among provinces to attract businesses and investments (both domestic and foreign). The fiscal space envisaged to the provinces would create an environment for productive competition among provinces. The national government should do away with the nanny state it currently operates, vis-à-vis the provinces, by transferring annual grants to the provinces based on certain objective and subjective criteria. Present transfers from the centre to the provinces are barely adequate to pay for salaries, pensions, and recurrent expenditures of the provinces. On the contrary, provinces should be encouraged to earn and spend their own money.

The total revenue of the national government is insufficient to meet even the recurrent expenditures of the government for the past twenty-five years (since 1989). Therefore, part of the recurrent expenditure and entire capital expenditure of the government is financed through domestic and external borrowings. Furthermore, bulk of the annual government revenue goes for repayment of public debt (both domestic and external). Therefore, it is high time the national government thinks out of the box to fix its fiscal deficit by transforming the nature, content and extent of the fiscal architecture of the national government vis-à-vis the provincial governments.

#### **4. Deception of Per Capita income**

The Per Capita Income (PCI) is derived by dividing the Gross National Product/Income (GNP/I) of a country by the total population of a country during a given period of time. It is a commonly used yardstick for practical and analytical purposes. However, it is important to understand that the per capita income of a country does not necessarily indicate the level of development of that country. For example, according to the World Development Indicators 2013 of the World Bank, while the Per Capita Income of Angola was \$3,970, PCI of India was \$1,450, PCI of Timor-Leste was \$3,340, and Sri Lanka's Per Capita Income was \$2,580 (because according to WDI Sri Lanka's population in 2011 was 21 million which is an overestimation) in the calendar year 2011.<sup>22</sup> The foregoing figures do not imply that Angola and Timor-Leste are economically better-off than India or Sri Lanka; similarly it does not imply that Sri Lanka is economically better-off than India.

According to the World Development Indicators 2013 (WDI 2013) of the World Bank, countries are classified as follows using the World Bank Atlas method. All the data in the WDI 2013 pertains to the calendar year 2011. These benchmark figures are revised upwardly every year. According to WDI 2013:<sup>23</sup>



Low-income economy - \$1,025 or less GNI (Gross National Income) per capita in 2011

Lower middle-income economy - \$1,026 - \$4,035 GNI per capita in 2011

Upper middle-income economy - \$4,036 - \$12,475 GNI per capita in 2011

High-income economy - \$12,476 or more GNI per capita income in 2011

Latest available Per Capita Income data of 2011 and 2012 in Sri Lanka as reported by the Central Bank of Sri Lanka (CBSL) are taken for critical appraisal as follows.

The Per Capita Income determined by the above method is misleading, because it is worked out at current market prices. For example, the Gross National Product (GNP) at current prices in 2011 (Rs.6,471,968 million), which is called the nominal GNP, is divided by the total population in 2011 (20.2 million). This gives an annual Per Capita Income of Rs.320,394 in 2011 (\$2,896 @ annual average exchange rate of \$1=Rs.110.6 in 2011). In the same way, the provisional Gross National Product (GNP) at current prices (Rs.7,433,954 million) in 2012, which is called the nominal GNP, is divided by the total population in 2012 (20.3 million according to the Census undertaken in March 2012). This gives an annual Per Capita Income of Rs.366,205 in 2012 (\$2,870 @ annual average exchange rate of \$1=Rs.127.6 in 2012).

On the other hand, if we use the GNP at constant (2002) prices, which is called the real GNP (Rs.2,832,189 million in 2011), the annual Per Capita Income in 2011 was Rs.140,207 (\$1,268). Similarly, if we use the provisional GNP at constant (2002) prices, which is called the real GNP (Rs.2,987,628 million in 2012), the annual Per Capita Income in 2012 was Rs.147,174 (\$1,153). This is a relatively better realistic measure of Per Capita Income because it takes into account the rise in prices (consumer price index), i.e. inflation (as measured by the GDP deflator).

Moreover, according to the Preliminary Report of the latest Household Income and Expenditure Survey (HIES) undertaken by the Department of Census and Statistics (DCS) between July 2012 and June 2013, Annual Average Per Capita Income was Rs.143,184 (\$1,122 @ annual average exchange rate of \$1=Rs.127.6 in 2012).

The HIES 2012/13 covered all the districts of the country after twenty-seven years; last time HIES covered the entire districts of the country was in 1985/86. There are, of course, district-wise variations in the above figures that are not available to date. The HIES 2012/13 was conducted among a representative sample of 25,000 housing units (households) in all the 25 districts in the country during a twelve-month period between July 2012 and June 2013 to account for seasonal variations in income and expenditure of households.





### Per Capita Income of Sri Lanka 2011-2012

	2011	2012 (Provisional)
Annual Per Capita Income at Current Prices based on Gross National Product at Current Prices (Nominal Per Capita Income)	Rs.320,394 (\$2,896)	Rs.366,205 (\$2,870)
Annual Per Capita Income at Constant (2002) Prices based on Gross National Product at Constant (2002) Prices (Real Per Capita Income)	Rs.140,207 (\$1,268)	Rs.147,174 (\$1,153)
Average Per Capita Income Per Annum based on Household Income and Expenditure Survey (HIES)	Rs.109,248 (\$966) HIES 2009/10	Rs.143,184 (\$1,122) HIES 2012/13

**Source:** Central Bank of Sri Lanka, Annual Report 2012, Statistical Appendix Tables 1 & 2.  
Department of Census and Statistics, Household Income and Expenditure Survey (HIES) 2012/13, Preliminary Report, June 2013, page 3. <http://www.statistics.gov.lk/HIES/HIES201213BuletinEng.pdf>

**Notes:** The total population in 2011 and 2012 was 20.2 and 20.3 million respectively. The annual average exchange rate of US dollars in 2010, 2011, and 2012 were Rs.113.1, 110.6, 127.6 respectively.

There are disadvantages and advantages of HIES over the National Income Accounts. Since HIES is a representative sample survey it does not cover each and every household in the country, which is a disadvantage. The advantage of HIES is that it covers the informal economy as well, in addition to the formal economy. In the case of the National Income Accounts, it covers only the formal economy and the informal economy is not accounted for. Therefore, the National Income Accounts could be an underestimation of the actual total income of the country.

Furthermore, the Per Capita Income worked-out from the National Income Accounts (NIAs) is deceptive because it includes the incomes of households, government, and industries (institutions) in a country and the incomes of the government and industries (institutions) do not necessarily trickle-down to the household incomes. In contrast, the HIES accounts solely the incomes (and expenditures) of the households, which is the real disposable income of households and by extension individuals. Hence, a significant part of the Per Capita Income derived from the National Income Accounts is ghost income as far as the households and individuals are concerned; which is reflected in the significant discrepancy between the Per Capita Income derived from the two sources, viz. the HIES and NIAs.

Therefore, we would argue that the Per Capita Income derived from the HIES is what relatively better reflects the real well-being (in terms of monetary income) of the people of a country.



## 5. Conclusion

The 'new economic geography' theory that emerged in the early-1990s coinciding with the new growth theories has highlighted the catalytic role regions could play in economic growth of countries and the world at large.<sup>24</sup> A recent World Bank publication highlighted the geographic concentration of economic growth in Sri Lanka.<sup>25</sup> More recent literature argue that physical distance between 'leading' and 'lagging' regions not only be bridged by infrastructure development (faster highways and road, rail, ocean and air transport services) but by Information and Communication Technologies (ICTs) as well. That is, virtual infrastructure development (modern ICTs) could shorten the physical distance between geographical regions and production lines of goods and services in a time-efficient and cost-efficient way than physical infrastructure development could.

Another body of literature marshals evidence to argue that not only geography but institutions are also equally important (if not more) to spur economic growth in the regions within countries. Thus, not only spatial economics but institutional economics is also necessary to understand the dichotomy between the 'leading' and 'lagging' regions within nation states. Whilst physical infrastructure (roads, transportation services, etc) and information and communication infrastructure (telecommunications, internet, etc) connect places, it is the institutions such as rule of law, property rights for land, political, administrative, and fiscal decentralisation, financial integration, education and skills development, and development of inter-regional markets that connect peoples across the national boundary.<sup>26</sup> Thus, the connectivity in terms of physical distance and connectivity in terms of human distance are *sine qua non* for spreading economic growth and competitiveness to the regions and integrating the national economy.

There is empirical evidence to show that democratisation and fiscal decentralisation dilutes primary cities and promotes secondary cities. Davis and Henderson (2003), using panel data from 1960 to 1995 with instrumental variable estimation, find that moving from most centralised to least centralised government reduces primacy by 5%. Similarly, moving from least democratic to most democratic form of government reduces primacy by 8%.<sup>27</sup>

A recent empirical study based on cross-country data from 1961 to 2004 by Hanne Fjelde and Indra De Soysa finds that government spending on political goods (such as development, education, health, etc) and credible/impartial/trustworthy state institutions (such as contract enforcement, security of property rights, etc, as noted in section 3 and 3.1 above) are better determinants of civil peace than spending on defence.<sup>28</sup>

We hope that the community of policy makers in Sri Lanka, both within and outside the government, considers the intra-national, national, and cross-national empirical evidence presented herein with utmost importance and urgency to usher in a policy trajectory beyond economic growth and per capita income towards durable civil peace.



## Endnotes

<sup>1</sup> Arunatilake, Nisha, Sisira Jayasuriya, and Saman Kelegama, (2000), *The Economic Cost of the War in Sri Lanka*, January, Colombo: Institute of Policy Studies of Sri Lanka; Gunatilleke, Godfrey, et al, (2001), *Cost of War*, Colombo: National Peace Council of Sri Lanka; Sarvananthan, Muttukrishna, (2007). *Economy of the Conflict Region in Sri Lanka: From Embargo to Repression*, Policy Studies No.44, Washington, D.C.: East-West Center. <http://www.eastwestcenter.org/fileadmin/stored/pdfs/ps044.pdf> ; Somasundaram, Daya, (1998), *Scarred Minds: The Psychological Impact of War on Sri Lankan Tamils*, New Delhi: Sage Publications (India) Ltd.

<sup>2</sup> Schramm, Carl J, (2010), "Expeditionary Economics: Spurring Growth after Conflicts and Disasters", *Foreign Affairs*, 3 (89), May-June, pp96. <http://www.foreignaffairs.com/articles/66207/carl-j-schramm/expeditionary-economics>

<sup>3</sup> See Kelegama, Saman, (2010), "Reconstruction and Rehabilitation of the North and East of Sri Lanka: Programmes and Constraints", *Economic Review*, Vol.35. Nos.11&12, February-March, Colombo: Peoples Bank, pp24 & 28.

<sup>4</sup> Gwartney, James, Robert Lawson, and Joshua Hall, (2013), *Economic Freedom of the World: 2013 Annual Report*, Vancouver: Fraser Institute, pp1. <http://www.freetheworld.com/2013/EFW2013-complete.pdf>

<sup>5</sup> Gwartney, James, Robert Lawson, and Joshua Hall, (2013), *Economic Freedom of the World: 2013 Annual Report*, Vancouver: Fraser Institute. <http://www.freetheworld.com/2013/EFW2013-complete.pdf>

<sup>6</sup> (i) Government consumption, (ii) transfers & subsidies, (iii) government enterprises & investment, (iv) top marginal income tax rate, and (v) top marginal income & payroll tax rate.

<sup>7</sup> (i) Judicial independence, (ii) impartial courts, (iii) protection of intellectual property, (iv) military interference in rule of law & politics, (v) integrity of the legal system, (vi) legal enforcement of contracts, (vii) regulatory restrictions on the sale of real property, (viii) reliability of police, and (ix) business costs of crime.

<sup>8</sup> (i) Growth of money supply, (ii) standard deviation of inflation, (iii) most recent annual inflation rate, and (iv) freedom to own foreign currency bank accounts.

<sup>9</sup> (i) Revenue from trade taxes (as a share of trade sector), (ii) mean tariff rate, (iii) standard deviation of tariff rates, (iv) non-tariff trade barriers, (v) compliance costs of importing & exporting, (vi) black market exchange rates, (vii) foreign ownership / investment restrictions, (viii) capital controls, and (ix) freedom of foreigners to visit.

<sup>10</sup> (i) Ownership of banks, (ii) private sector credit, (iii) interest rate controls/negative real interest rates, (iv) hiring regulations and minimum wage, (v) hiring & firing regulations, (vi) centralised collective bargaining, (vii) hours regulations, (viii) mandated cost of worker dismissal, (ix) conscription, (x) administrative requirements, (xi) bureaucracy costs, (xii) starting a business, (xiii) extra payments/bribes/favouritism, (xiv) licensing restrictions, and (xv) cost of tax compliance.

<sup>6</sup> Gwartney, James, Robert Lawson, and Joshua Hall, (2013), *Economic Freedom of the World: 2013 Annual Report*, Vancouver: Fraser Institute, pp4. <http://www.freetheworld.com/2013/EFW2013-complete.pdf>

<sup>7</sup> See Gwartney, James, Robert Lawson, and Joshua Hall, (2013), *Economic Freedom of the World: 2013 Annual Report*, Vancouver: Fraser Institute, pp21-23 and Chapters 3&4. <http://www.freetheworld.com/2013/EFW2013-complete.pdf>

<sup>8</sup> Eriksen, Silja, and Indra de Soysa, (2009), "A Fate Worse than Debt? International Financial Institutions and Human Rights 1981-2003", *Journal of Peace Research*, Vol.46. No.4, pp496-498.

<sup>9</sup> De Soysa, Indra, and Hanna Fjelde, "Is the Hidden Hand an Iron Fist? Capitalism & Political Violence, 1970-2005", *Journal of Peace Research*. Vol.47. No.3, pp273-285.



<sup>10</sup> World Bank, The, (2002), *The Right to Tell: The Role of Mass Media in Economic Development*, Washington, D.C.

<sup>11</sup> Sarvananthan, Muttukrishna, (2007). *Economy of the Conflict Region in Sri Lanka: From Embargo to Repression*, Policy Studies No.44, Washington, D.C.: East-West Center. <http://www.eastwestcenter.org/fileadmin/stored/pdfs/ps044.pdf> ; Sarvananthan, Muttukrishna, (2006), *Children of War: Aspirations and Opportunities*, Point Pedro (Sri Lanka): Point Pedro Institute of Development.

<sup>12</sup> Sarvananthan, Muttukrishna, (2007). *Economy of the Conflict Region in Sri Lanka: From Embargo to Repression*, Policy Studies No.44, Washington, D.C.: East-West Center. <http://www.eastwestcenter.org/fileadmin/stored/pdfs/ps044.pdf>

<sup>13</sup> This sub-section is drawn from Sarvananthan, Muttukrishna, "Fiscal Devolution: A Stepping Stone towards Conflict Resolution in Sri Lanka", *South Asian Survey*, forthcoming.

<sup>14</sup> See Ehtisham, Ahmad and Giorgio Brosio, (eds), (2009), *Does Decentralization Enhance Service Delivery and Poverty Reduction*, Cheltenham (UK): Edward Elgar.

<sup>15</sup> Fedelino, Annalisa and Teresa Ter-Minassian, (2009), *Macro Policy Lessons for a Sound Design of Fiscal Decentralization*, July, Fiscal Affairs Department, Washington, DC: International Monetary Fund.

<sup>16</sup> Hewavitharana, Buddhadasa, (1997), *Economic Consequences of the Devolution Package and an Evaluation of Decentralisation*, Colombo: Sinhala Weera Vidahana.

<sup>17</sup> World Bank, The, *World Development Indicators 2013*, Washington, D.C. <http://wdi.worldbank.org/table/1.1>

<sup>18</sup> World Bank, The, *World Development Indicators 2013*, Washington, D.C., pp xiii. <http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf>

<sup>19</sup> Nallari, Raj, Breda Griffith, and Shahid Yusuf, (2012), *Geography of Growth: Spatial Economics and Competitiveness*, Washington D.C: The World Bank, pp11.

<sup>20</sup> Lall, Somik V. and Claus Astrup, (2009), *Sri Lanka: Reshaping Economic Geography – Connecting People to Prosperity*, Washington D.C.: The World Bank. <http://documents.worldbank.org/curated/en/2004/01/14981545/sri-lanka-reshaping-economic-geography-connecting-people-prosperity>

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<sup>22</sup> Cited in Nallari, Raj, Breda Griffith, and Shahid Yusuf, (2012), *Geography of Growth: Spatial Economics and Competitiveness*, Washington D.C: The World Bank, pp3.

<sup>23</sup> Hanne, Fjelde and Indra De Soysa, (2009), "Coercion, Co-optation, or Cooperation? State Capacity and the Risk of Civil War, 1961-2004, *Conflict Management and Peace Science*, Vol.26. No.5, pp5-25.

<sup>24</sup> See also Sarvananthan, Muttukrishna, (2011), "Sri Lanka: Putting Entrepreneurship at the Heart of Economic Revival in the North, East, and Beyond", *Contemporary South Asia*, Vol.19. No.2, June, pp205-213.

<sup>25</sup> Lall, Somik V. and Claus Astrup, (2009), *Sri Lanka: Reshaping Economic Geography – Connecting People to Prosperity*, Washington D.C.: The World Bank. <http://documents.worldbank.org/curated/en/2004/01/14981545/sri-lanka-reshaping-economic-geography-connecting-people-prosperity>



<sup>26</sup> Cities Alliance, The, (2007), *Understanding your Local Economy: A Resource Guide for Cities*, Washington D.C, pp19: Nallari, Raj, Breda Griffith, and Shahid Yusuf, (2012), *Geography of Growth: Spatial Economics and Competitiveness*, Washington D.C: The World Bank, pp8.

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<sup>29</sup> See also Sarvananthan, Muttukrishna, (2011), "Sri Lanka: Putting Entrepreneurship at the Heart of Economic Revival in the North, East, and Beyond", *Contemporary South Asia*, Vol.19. No.2, June, pp205-213.