Ever since Dr. Gamini Corea stressed the need of macro level economic planning for the development of Sri Lanka in the early 1950s, the notion of economic planning has played a critical role in the Sri Lankan development discourse notwithstanding the fact that the notion of economic planning has, to a great extent, dwindled in recent years. The customary theorization of locating market and planning in either/or binary fails to recognize the dialectical relationship between the two in the real process of economic development. Any company CEO would know very well that unless he or she plans the entire process of production and marketing, his or her company cannot survive in a business atmosphere that is highly competitive. Proper planning and implementation is the only guarantee that the company has in competitive market structure. Last week, I visited Uva-Wellassa University, the only university in Sri Lanka with a vice-chancellor who came from the corporate sector. Does this mean less planning? Absolutely not!! I would say Uva-Wellassa is the university that plans almost everything, from goal identification to product creation while other universities run by academics have failed in this regard. This dismantles another myth that the private sector is identified with the market while the state sector is with planning. Of course, we are here referring to what is customarily called micro-planning. Neo-liberals may argue that internal planning is fine until it happens within the framework that is guided by signals and information sent by the market. Hence, the argument of neo-liberal economics is that macro-economy should be guided by unrestrained and unregulated market so that economic growth and fair distribution will take place unhindered.

Sri Lanka’s per capita income has reached US$ 2,053 in 2009. The government has announced in its policy statement that it aims at doubling the per capita income by the end of 2017. In other words, the projected per capita income in 2017 is US$ 4,106. According to The Island last Friday, Minister of Economic Development Basil Rajapaksa said that ‘with the growth rate of 8.5 per cent during the second quarter of 2010, reaching USD 4,000 per capita was not a Herculean task’. Back of the envelope calculation suggests that in order to double the per capita income at the end of 2017, the average rate of growth of per capita income between 2010 -2017 should be in the vicinity of 9 per cent per annum. Assuming the annual rate of growth of population will be at 1 per cent, the rate of growth of the economy should be around 10 per cent per annum. It seems that the rate of growth of the economy in 2010 would be less than the required rate making required rate in balance years exceeding 10 per cent average mark. Still a doable, but not an easy task! Economic growth does not fall from the sky; it needs a specified rate of capital investment. Once again back of the envelope calculation would show that capital formation as a percentage of GNP should increase to around 45 per cent. This is, in fact, a Herculean task given the low level of national savings in Sri Lanka. (See the chart.)

Let me go beyond statistics. Neither the State nor the market ensures that the selection process required for economic development is in place. A country may achieve 10 per cent rate of growth but may remain underdeveloped if the high growth rate is achieved through the production of low value added economic sectors. The best example for this is Argentina, a country that had very high per capita income when the demand for its agricultural products was higher in the world market. So, what is of great significance is not just increasing rate of capital formation and achieving high growth rate, but investing in the sectors that are growth-augmented. The present system of national accounts is somewhat misleading and does not reflect the real picture of the economy. When the import tax on motor cars was reduced recently, the trading and related activities associated with car imports have gone up. So, under the present system of national accounts, this may contribute positively by increasing the rate of growth of trade and commerce sector of the economy and would reflect also in the overall growth performance of the country. Does it mean that the economy is on the right path? Similarly, if a country adds more people to its armed forces, it would also reflect in the overall national income accounts. Does it mean that kind of resource allocation benefits the process of economic development? Many followers of Adam Smith have forgotten the lucid and enlightening section in the Wealth of Nations on the distinction between useful labor and productive labor. Hence, economic development requires allocation of investable resources in sectors that are critical in economic transition. From the perspective of economic development, it is imperative to not only increase capital formation but also to make sure that capital resources are invested in critical sectors that have growth-augmented characteristics. When India and China adjusted their economic policies to changing international environment, two giants are able to reap the benefits of globalization partly because of the manufacturing base that was built in the pre-liberalization phase. India and China have changed their design of economic planning in recent years but have not abandoned the planning principle in the development process. What sectors should be given the priority and how capital resource is allocated among different sectors should be determined by an economic plan as there has been a tendency for market to prioritize sectors that have potential for short term gains but are not contributory to long term economic development.

The design of economic planning that I talk about is substantially different from detailed and comprehensive system of economic planning practiced in the former Soviet Union. Soviet Planning, like neo-liberal economics, was based on two binaries, namely, the market and planning and the State and private sector. Similarly, the notion of economic planning that I promote is also different from the so-called indicative planning that some neo-liberals advocate half-heatedly. Economic planning that is valid in current global context thus needs deconstruction of above-mentioned binaries in synergizing the element of public and private and market and conscious process decision making.

The principal goal has already been fixed, namely, reaching US $ 4,100 per capita income. Two associated goals should be more justifiable system of distribution and viable and strong economic structure that could stand against the vicissitudes of the global market. All three goals need conscious intervention of the collective, i. e. the State. Hence, I submit that a six-year economic plan for the period 2011- 2017 outlining the trajectory of economic growth, time frame, investment plan specifying priorities, the phases of structural transformation, and participatory structure (the private sector, the state and other collective actors) has to be designed prior to the commencement of President’s second term in office.

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