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He graduated with First Class Honours in English Literature from the University of Ceylon, winning the scholarship for postgraduate studies in the U.K. for the best performance in the Arts Faculty (1948). He was also awarded the Smith Mundt scholarship (1949). In 1996, Dr. Gunatilleke was conferred an honorary degree of Doctor of Letters (D.Litt) by the University of Colombo "in recognition of the significant and valuable contribution made (by him) in the field of social sciences". He was also awarded the prestigious national honour of "Deshamanya" by the Government of Sri Lanka in 1994.

As Executive Head of the Marga Institute from 1972 to 1996 where Dr. Gunatilleke directed a programme of multi-disciplinary social science research for over 25 years, producing a wide range of studies on development issues in Sri Lanka for the Government of Sri Lanka and international agencies including the World Bank, the Asian Development Bank UNICEF, WHO, ILO, UNU, UNCTAD and ESCAP. The areas of research included social policy and economic growth; the socio-economic dimensions of health; the demographic transition, migration and gender issues; the well-being of children; the ethnic conflict in Sri Lanka; the political culture and issues of governance; the linkage between education and employment, social and economic rights and the right to development.

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A VISION FOR SRI LANKA 2025 AND 2035: PREREQUISITES FOR VERY HIGH HUMAN DEVELOPMENT

1. Introduction

The main purpose of this paper is to examine Sri Lanka's long-term prospects for human development over the next two decades. The sources of data used for this exercise are those made available in the *Human Development Report* (HDR) – in particular, the latest HDR for 2014. Sri Lanka's future possibilities are assessed in terms of the framework used in the HDR, which classifies the countries under four categories – low, medium, high, and very high human development.

The term “human development” as has been conceptualised in the HDR is a state of wellbeing in which economic development plays a part but is not the sole or dominant determinant of wellbeing. In human development, economic development is only one of three essential fundamentals of development, the other two being good health and educational attainment of the population. Each of these has equal weight in the total outcome of development. In the HDR, the state of human development of a country is measured and ranked in terms of these three basic indicators on a scale of 0 to 1. It is this analytical framework on which the paper draws.

The category of Very High Human Development (VHHD) includes 49 countries with a human development score over 0.800. These countries enjoy a PPP (Purchasing Power Parity US dollar) per capita income in a range between 17,297 (Argentina) and 119,029 (Qatar), life expectancies averaging 80 years, and a span of schooling of approximately 16 years. In comparison, Sri Lanka enjoyed a per capita income of PPP 9,250 in 2013 and was ranked at a midpoint among the 52 countries in the second category - “high human development”. This category included all countries with a score between 0.800 and 0.700 on the *Human Development Index* (HDI), in which Sri Lanka has a score of 0.750. In 2015, Sri Lanka was estimated to have a per capita income of PPP US\$ 10,400.

Sri Lanka's economic performance in the last two decades places it among the fastest-growing economies in the world. It achieved an annual average growth rate of 5.3% during the period 1990 to 2000, 5.6% during 2000 to 2010 and 7.0% for the most recent period 2010 to 2014. Only two countries in the category of high human development as classified in the United Nations Development Programme (*UNDP*) *HDR 2013* have a record of sustained growth of over 5% per annum during the entire period of 23 years. If we assume that Sri Lanka would be able to make the corrective policy adjustments that are needed to deal with the emerging macroeconomic problems, the country should be capable of sustaining high rates of growth in the next two decades, which would be in the region of 7%. Consequently, it should be able to reach the lower rungs of VHHD by 2025 and progress to higher levels of VHHD by 2035. While the paper briefly discusses the country's potential for high growth in a later section, the

main purpose of the paper is not an analysis of the country's capacity for such a rate of growth. Its main focus is on the state of VHHD that it is capable of achieving in the years 2025 and 2035, assuming that it is successful in continuing to grow at current rates. On the basis of these assumptions, the paper raises the following issues:

- Apart from the three main indicators – life expectancy, education and income that constitute the HDI, what are the fundamentals that are intrinsic to the state of VHHD? And how are they manifested in the countries that are now in the category of VHHD?
- Where does Sri Lanka stand in relation to these fundamentals?
- What are the choices and options that are available for the growth path that Sri Lanka takes in the next two decades? Of the choices that are available, what are the most desirable?

To find answers to these questions, we need to examine the initial conditions from which Sri Lanka starts its journey, the distances that separate it from the levels of wellbeing, and the indicators that have been achieved by the countries that are now in the category of VHHD.

This paper is therefore an effort to delineate the states of human development Sri Lanka might be able to reach by 2025 and 2035. Thereafter, it attempts to identify the fundamentals or prerequisites that must invariably go together with VHHD and then points to the options that are available. In this process, it attempts to engage in a disciplined task of “imagining” Sri Lanka as it would /could be at these two levels and the quality of life the people would enjoy in those stages. It argues that Sri Lanka has the opportunity to evolve a model of development that offers a better mix of the state and market and can be better equipped to deal with the global challenges of over consumption, ecological threats such as global warming, and the dissonance between material and spiritual needs.

2. Per Capita Incomes of Sri Lanka in 2025 and 2035

Sri Lanka's HDI and global ranking would be a good starting point for our exercise. Let us assume that the Sri Lankan economy would be able to sustain an average growth rate of 6.5% in real terms during this 20-year period. From this we can derive a per capita income growth of 6%, assuming an average annual rate of population growth of 0.5% for the entire 20-year period.

The population projections that are available have forecast a lower average rate for the entire period - around 0.5% for the 10-year period 2015 to 2025 and 0.25 for 2025 to 2035. The economy has sustained growth rates of 8%, 8.2%, 6.3%, 7.3%, and 7.4% during the last five-year period 2010 to 2014. The Government is predicting that the growth rate will rise to over 8% in the next few years. Therefore, the more modest annual average Gross Domestic Product (GDP) growth rate of 6.5% and growth of per capita income at 6% used in the scenarios projected in this paper are arguably well

within realizable limits. As economies reach high income levels, growth rates tend to decline. The World Bank estimates that growth rates for high-income countries during the period 1965 to 1999 were in the region of 3.2%. For the period from 2000 to 2010, the average growth for most VHHD economies which had reached the VHHD condition much earlier, ranged from about 2.0% (Sweden, Canada) to less than 1% (Japan, Denmark). However, fast-growing developing countries that reached the high-income levels of developed countries during 2000 to 2010, as in the case of South Korea and Singapore, continued to sustain high growth rates in the region of 6% to 7%. Therefore, there should be no insuperable structural constraints that would prevent Sri Lanka from sustaining a growth rate of 6.5% over the next 20 years, until it reaches the levels of per capita income currently enjoyed by South Korea or developed countries such as Ireland or New Zealand, which have per capita incomes in this range. Towards the end of this period, growth will decelerate and move in the direction of zero growth. This long-term trend has to be kept in perspective in Sri Lanka's journey to the VHHD condition.

The calculations are made in terms of the PPP, which has been universally accepted for making international comparisons of per capita income and the state of economic development of countries. All the data for per capita PPP incomes presented in this paper are taken from the *UNDP HDR 2014*.

The PPP income of Sri Lanka in 2013 – PPP US\$ 9,250 – has been projected at 6% per annum and the outcomes for 2025 and 2035 have been derived accordingly. These projections of PPP income for the two goal posts are based on the methodology used in the HDR for constructing a time series of PPP incomes. The HDR uses the growth rate of real output for this purpose (“Technical Note 1”, <https://hdr.undp.org>). Undoubtedly, there are issues of great complexity that arise in the use of such a method. The PPP measures income at one time; it is an inter-spatial measure not an intertemporal measure whereas in the methodology used for the present exercise, the 2013 PPP is taken as the benchmark and used as a constant PPP over time. We have to note that these projections cannot fully and accurately represent the trajectory of development that Sri Lanka takes over a 25-year period; nevertheless, it provides an adequately reliable framework for realistically “imagining” the Sri Lanka which the children and grandchildren of the present generation will inherit.

The projections given indicate that Sri Lanka would enjoy a per capita PPP income of US\$ 18,952 in 2025. It would be in a state of development similar to the countries in the bottom half of the VHHD category in 2025 – countries with PPP per capita incomes in the range of 18,000 to 20,000 – Argentina with a per capita dollar income of 17,297 or Chile with an income of 20,804. In 2035, it would have reached a PPP per capita income of 33,300, which is a little above the per capita incomes reached by South Korea and New Zealand in 2013. In order to reach these destinations in 2025 and 2035, we must assume that Sri Lanka should have closed the gaps in health and education. This means that by 2025, about two years should have been added to both life expectancy and the span of learning. By 2035, four more years should have been added to life expectancy and two more years to the span of learning. We are assuming that with economic growth taking place as projected, concomitant action

will be taken to close these gaps. Some of the requirements for closing these gaps are discussed in the sections that follow.

In the VHHD category, we are dealing with countries with populations of widely varying sizes. Countries with much smaller populations have economies of much larger size than Sri Lanka. Switzerland, (8.1 million population), Belgium (11.1 million population) and (Sweden 9.6 million population); each have economies in a range between PPP 400 billion and 440 billion. These are the closest in the VHHD category to the size of the economy of Sri Lanka in 2025. All of them have large service sectors above 70% of GDP. By 2035, Sri Lanka's economy would be the size of the present economy of Netherlands, which has a population of around 17 million. 72% of its output is in the service sector. These figures broadly indicate the magnitude of Sri Lanka's economy and the size to which it must grow to reach the two goal-posts. They also suggest the structure of the economy and in which sector it needs to grow fastest – the service sector. This paper does not deal with the potential of Sri Lanka's economy and the sources of growth that would lead the Sri Lankan economy to the VHHD state, as such a task does not come within its scope. It is, however, an essential task and would have to be undertaken as a separate exercise. Nevertheless, what can be robustly demonstrated here is that the ongoing development trends in Sri Lanka point in the direction of an economy that relies heavily on the service sector. Services should probably account for about 70% of GDP. Some of the implications of such an economy for the pattern of growth and quality of life are examined later in the paper.

When we make international comparisons of this nature, we need to move very cautiously. While it is easy enough to point to differences and similarities when making these comparisons, the degree of uncertainty and variability becomes increasingly difficult to control when we come to evaluate the impact that these have on the total outcome. The PPP helps us to reduce a part of this uncertainty by taking the component of development that can be monetized or priced. But even with regard to the PPP as a common measure of income, experts who designed this measurement have elaborated on the problems of selecting a common bundle of goods and services, tradable and nontradable, which can serve as a tool for international comparisons. Quality of life comparisons across countries on the basis of PPP per capita income alone can also be very misleading. We can illustrate this by taking three countries in the VHHD category - South Korea, New Zealand and Israel. All three cluster round the per capita income of PPP US\$ 30,000 - South Korea with a per capita income of PPP US\$ 30,345, Israel US\$ 29,966, and New Zealand US\$ 32,599. However, this proximity in terms of PPP per capita incomes have nothing to say about the huge distance that separates the quality of life as experienced by the average citizen in these three countries, in terms of personal security, quality of the environment, the geopolitical location and threat of conflict. Whereas South Korea and Israel are at the centre of these strategic conflict zones, New Zealand located far away from the international conflict zones enjoys an existence which is almost idyllic by contrast.

What are the conclusions that we could draw from the current human development performance of Sri Lanka regarding its capacity to achieve a state of VHHD

according to the two goal-posts; 2023 and 2035? We are beginning with the state of human development in 2013 and looking across a span of 12 years to 2025, and in the second stretch of the journey a further span of ten years. How do our initial conditions compare with those of countries in the VHHD category 20 years ago?

As per HDR (2014), in 1990, twenty of the countries in the VHHD category had an HDI lower than that of Sri Lanka today – 0.750. These include Singapore, South Korea, Greece, Poland, Portugal, Chile and Argentina. South Korea with an HDI of 0.731 in 1990, reached an HDI of 0.891 in 2013 – a path of growth closest to the path to be taken by Sri Lanka - 0.750 in 2013 to 0.892 in 2035.

3. Some Fundamentals of VHHD

At the very outset, it has to be acknowledged that the 49 countries in the VHHD category present a very wide variety and diversity of VHHD conditions. The paths that they have taken to arrive at the VHHD condition are equally diverse and varied.

There is first, the group of countries which were the leaders of industrialization and were already in the VHHD category in 1990 – countries of North Western Europe, North America, Australia, New Zealand, Japan; next there are the countries in southern Europe; Italy, Greece, Spain and Portugal (as well as Ireland), which were still below the cut-off point for VHHD in 1990; third, there are the oil-rich countries; Saudi Arabia, Brunei, UAE, Bahrain, Qatar; fourth, there are the two Asian economies; South Korea and Singapore; fifth, there is a group of “transitional economies” in Eastern Europe; Estonia, Poland, Latvia, Lithuania, Hungary, who have arrived from a socialist base which had already resulted in a relatively high standard of living and high social indicators with non-democratic systems. Cuba is an outlier with a fully socialist state. Then there are the two fast-growing Asian economies - Singapore and South Korea - with a mix of state and market which gives them an identity of their own. Finally, there are the two countries from South America; Chile and Argentina with socio-political and economic legacies very different from the rest.

This heterogeneity of development situations leads to the obvious conclusion that there has been no single path to the VHHD condition and there is no single country in the VHHD category that can be selected by Sri Lanka as a model for its own development.

As it would become clear in the discussion that follows, most of these countries end up in the VHHD condition only to face new problems of a persisting intractable character – high youth unemployment alongside shortages of labour, high levels of household indebtedness, over nutrition and obesity, a heavy burden of psychiatric ill health, the high prevalence of substance abuse and drug addiction, and the inevitable decline in the quality of life among the aged who now form more than 20% of their populations. Sri Lanka is at a stage when it still has the opportunity to choose from among a range of viable options, and reach a VHHD condition that can adjust better and avoid or mitigate these negatives.

For Sri Lanka's progress to the category of VHHD, the present exercise sets two goal-posts – 2025 and 2035 – and examines the state of VHHD in relation to the indicators of countries that are presently in the VHHD category. Given the capacity to achieve the goals set for per capita income, it selects six sets of issues and related indicators which appear to be fundamentally important for defining the capability for VHHD. These are:

- ***The role of government*** – total government expenditure and revenue as a % of GDP and the state's capability for the provision of a wide range of public goods and services, including economic infrastructure, health and education, social security, law and order and defense.
- ***Distribution of income and wealth, and society-wide distribution of capability*** (as defined by Amartya Sen), These indicators would represent the value system and norms of equity and justice that govern social relationships and the dimension of sharing and caring in a society, arguably the Scandinavian countries offer the best model.
- ***Human capital*** – the educational attainment of the population and the capacity to develop a knowledge-based society.
- ***The structure of the workforce*** – participation rates male and female educational levels, international mobility, and global competitiveness.
- ***Population dynamics*** – patterns of urbanization migration and the characteristics of VHHD in ageing societies.
- ***Growth, consumption, savings and life-styles***, and a desirable state of equilibrium producing stability and contentment.

The indicators that are selected in examining these six sets of issues are what might be regarded as primary indicators of VHHD, over and above the HDI. They are “constants” in VHHD and have a long-term structural character. Performance indicators such as public debt, fiscal deficits, Foreign Direct Investment (FDI) flows have not been included. They are at a secondary level with short-term application. They are essentially indicators on aspects of macroeconomic management that are relevant to all levels of human development. They can have different meanings in different contexts. For example, in many of the VHHD countries the share of public debt as a % of GDP is quite high - Singapore, Portugal, Greece, and Italy. But the vulnerability of the economy in terms of the public debt has to be assessed not only in terms of its size but also in terms of the capacity for adjustment. In the case of Singapore, the public assets outweigh by far the public debt. Similarly, the importance of FDI for growth and the dependence on FDI can vary greatly. FDI has played only a minor role in the growth of South Korea and Japan. So far, Sri Lanka has sustained its relatively high growth rates without any large flows of FDI. Levels of FDI and foreign ownership may have an impact on the self-reliant and autonomous character of development. The performance indicators, therefore, have to be examined in each

country context before we come to conclusions regarding the policies that need to be pursued.

The paper also does not deal with the political dimension of human development. The HDR excludes the political dimension in its design of the HDI owing to problems of quantifying political goods for the purpose of measurement. Nevertheless, issues of democracy and freedom of choice have been singled out as essential preconditions of development. Amartya Sen assigns a central place to democracy in the process of development, and one of his books is entitled “Development as Freedom”. Several non-democratic countries such as the oil countries and Cuba have reached the state of VHHD when assessed on the non-political Human Development Index of the HDR. Even so, the values of democracy – the freedom of choice, liberty of the individual, consent of the governed, enjoyment of full human rights, and sound, effective systems of accountability - should unquestionably remain a fundamental of the model of VHHD to which Sri Lanka aspires. These issues, however, have not been brought within the scope of this paper and would require examination and analysis in a separate exercise.

4. The Role of Government

The first set of issues – the role of government - takes us directly into a very controversial and challenging area which may have far-reaching significance for the human development strategy as a whole. The analytical approach taken in this paper is based on the premise that the state of VHHD requires a strong proactive state, capable of assuming public and collective responsibility for a large and essential component of the wellbeing of its citizens. Along with it, they possess the capability to mobilize a substantial volume of resources for public spending. When government expenditure is efficiently managed and equitably allocated, the size of the government becomes a useful indicator of the partnership between government and the people, the foundation of social and political stability and the inclusiveness of a society.

A full analysis of the role of government in VHHD is hindered by the paucity of data on all aspects of government in the international databases that are available. Scholars have complained of the lack of adequate data on government expenditures and the composition of government expenditures. The *World Development Indicators 2014* provide information of central government expenses and revenues. The World Bank’s *World Development Report* and the HDR also give the data for final government consumption. These do not cover government expenditure at subnational levels. The figures for total public expenditure which will include public spending at state, provincial, and local levels are available from various sources such as the *Economic Freedom Index* of the Heritage Foundation. What is relevant for our analysis would be the total public expenditure. As was mentioned, government expenditure includes military expenditure and the maintenance of armed forces; expenditure on law and order, justice, and a vast range of regulatory services; substantial outlays on the development and maintenance of the economic infrastructure; the public provision of educational services and healthcare; social protection in the form of unemployment

relief, old-age pensions, income after retirement and various forms of public assistance to the vulnerable and disadvantaged groups of society.

The large majority of countries in the VHHD category have public expenditures over 35% of GDP. Government spending as a percentage of GDP has been increasing rapidly with economic growth and increase in GDP.

The countries with a style of development that offers a possible model that could be suitably adapted to Sri Lanka would be the Scandinavian countries with their social welfare orientation. These are among the countries with the highest scores on the HDI - Sweden, Denmark, Norway and Finland. The government expenditure as a percentage of GDP in these countries range from 43.9% (Norway) to 57.6 % (Denmark). The tax burden ranges from 43.2 % of GDP (Norway) to 48.1% of GDP (Denmark). The second group of countries with high proportions of public expenditure (above 40% of GDP) and tax burden, include Belgium, Netherlands, U.S.A., U.K., Italy, Germany, France, Greece, Canada, Japan, Argentina, and most of the East European states which had developed within socialist systems. In the middle range (between 30% and 40% of GDP) are Australia, Spain, Chile and South Korea. South Korea has the lowest proportion in this category (30.2% and 25.9% of GDP for expenditure and revenue respectively). Singapore stands by itself offering a model of low government expenditure and revenue - 17.1% GDP and 13.8% of GDP respectively. The data indicate a large range of options for the management of the balance between the state and the market.

To begin with, we need to take note of the fact that in the case of Singapore, the small size of government as reflected in the government expenditure and revenue, does not fully reflect the role that the government plays in the macroeconomic and sociopolitical management of Singaporean society. The decision-making capacity of the government in Singapore is derived from other sources, including the political processes which enabled it to function virtually as a one-party state, capable of mobilizing its citizens to move in the direction of clearly articulated development goals. Furthermore, the state ownership in sectors such as the economic infrastructure (transportation, telecommunication, power, water), helps the Government to play a commanding role in the framing of policies governing growth and investment. Nevertheless, Singapore could be held up as a model for its small size of government expenditure and revenue. It exemplifies “limited government” to the extent that government consumption remains small, and the major parts of the resources are available to the private sector and households. We can come back to the Singapore “model” and its relevance for Sri Lanka, after we have further analyzed the role of government in the majority of countries who have opted for a much larger role for government, in sustaining the condition of VHHD in their societies. The data for these countries sharply contradict the assumptions that are implicit in the approach that selects “limited government” as a positive indicator of macroeconomic management and development strategy.

The government expenditures in the countries in the VHHD category include a high proportion of public social expenditure. According to the data given in HDR 2014,

public social expenditure accounts for almost half of the total public expenditure. In these countries, the balance of social and political forces appears to have created a value system in which society assumes collective responsibility for the provision of a whole range of public goods and services to its citizens. The majority of the countries in the VHHD category have national healthcare systems with universal coverage. The private sector in health is a very small component. The average public expenditure on education is in the region of 6% of GDP for the Organization for Economic Cooperation and Development (OECD) countries, and the public sector caters to the needs of the preponderant majority of their student populations. The social security of the non-working, aged population is the responsibility of the state. These systems and their institutions are driven by a value system closer to the value system that has underpinned the development process in Sri Lanka, than those of Asian societies such as Singapore and South Korea. This becomes evident in the system for social protection adopted in Singapore. The ruling People's Action Party in its 1998 Budget stated:

“We believe that extensive welfare programmes damage the fabric of our society as they discourage individual responsibility, self-reliance, community support and the work ethic.”

The alternative that Singapore offers is one based on a high level of individual savings capable of promoting home ownership, supporting households after retirement, and meeting all the healthcare costs and living requirements. To achieve this, Singapore was able to adopt a scheme of compulsory savings averaging around 40% of income sustained over the entire working life. By 1988, the Central Provident Fund had accumulated savings that were as much as 86% of GDP and had become a major source for its housing programme, and the development of its economic infrastructure. This system relieved the state of the burden of financing a social welfare system on the lines of the Western democracies. Government expenditure was confined to the essential functions of defence, law and order, and the development and maintenance of the economic infrastructure.

In this context, the observations made by scholars who have studied the Singaporean system are relevant, when we evaluate the viability of the Singaporean model for replication outside the unique and special Singaporean context:

“This anti-welfare philosophy appears to be explicitly reflected in the everyday activities of government and non-government welfare services. Service users are given temporary assistance, but are strongly encouraged to move towards self-reliance through workfare programs. Longer-term dependency on welfare assistance is considered unacceptable (Aspalter 2001, 52). For example, the introduction of the new ComCare fund was accompanied by an emphasis on “mutual obligation, not entitlement. Individuals should be prepared to help themselves. Provide assistance, not welfare.” (CDC 2006).

“To the superficial observer, the Singaporean antagonism towards the welfare state appears to be based on ideological dogmatism rather than evidence-based analysis and research. In particular, the use of loaded terms such as welfare dependency and mutual obligation seems to be sourced directly from western neo-liberal ideology. These terms imply that many poor and disadvantaged people are to blame for their own plight, and are not deserving of assistance.” (Chee 1994, 80).

“There seems to be little recognition that the free market often fails to provide for all, and that a welfare state is needed to compensate those who are poor and unemployed. Left/liberal critics of neo-liberalism would argue that increased reliance on income support payments reflects the growth of poverty and inequality in the community, rather than any individual characteristics. They believe most welfare recipients receive payments because they are poor and disadvantaged, and have little or no other income (Fraser and Gordon 1994; Mendes 2004). There is also considerable evidence that welfare states do not undermine economic growth and prosperity, and in fact play a key role in promoting social cohesion and solidarity.” (Goodin et al 1999; Lindert 2004).

It would be seen that the alternative approaches that societies adopt to provide social protection and ensure the wellbeing of their citizens throughout the entire life cycle have far-reaching implications for the management of the economy and the development process as a whole. In contrast to the Singaporean ideology, the value system that underpins social protection in countries that opted for systems that accepted public responsibility for the social welfare of its citizens is based on rights and entitlements. It could be argued that on all counts; social, economic and political, such a system is better attuned to the values of VHHD.

According to HDR 2014, public spending as a % of GDP stands at 21.4 and government revenue as a % of GDP at 12.4 for Sri Lanka. The capacity to mobilize public resources and to provide public goods and services to its citizens is very far below that of the countries in the VHHD category. The goal posts set for 2025 and 2035 bring Sri Lanka to two levels of VHHD – 2025 brings it to the lower half where countries have higher government spending than Sri Lanka, with the exception of Chile. 2035 brings Sri Lanka to the higher half, where government expenditure and taxation would appear to require a further significant increase in the size of government as a share of GDP, with the exception of South Korea and Singapore. Korea, Chile, and in particular Singapore have substituted individual savings for public welfare systems. Singapore has succeeded in developing the system to provide comprehensive coverage on a scale that approximates to the public welfare systems of the majority of countries in the VHHD category.

The comparative data indicate that Sri Lanka has to travel a great distance before its government acquires the capacity for resource mobilization and provision of public goods and services to its citizens at levels achieved in the countries in the VHHD

category. The choice between various alternatives regarding the role of government is not one which can be made freely. The choice will be determined to a large extent by country-specific conditions. A regime of mandatory savings at the very high level that Singapore was able to impose is not an option that is politically and socially feasible for most countries. Sri Lanka which is at the midpoint of high human development, starts with a level of household savings that is relatively low and tax revenues that are among the lowest in the high human development category. The initial conditions in Sri Lanka indicate that social arrangements of the type made in Singapore are beyond its reach - quite apart from the issue as to whether such arrangements are desirable in terms of their human development outcome. If Sri Lanka is to go in the direction of the Scandinavian model, the challenges are formidable. There has to be a radical re-examination of the concept of "limited government", which has been a part of the prescriptions for development policy in Sri Lanka. The capacity of the Government has to be increased to around 30% of GDP in 2025 and 40% in 2035. Its functions should include all those that are undertaken by governments in the VHHD category, ranging from economic infrastructure to social protection. The tax structure must undergo far-reaching reforms to enable the Government to mobilize the required resources. The tax system would need to be rendered more equitable, and a much larger share of the burden should fall on the wealthy than at present. Consequently, the distribution of income and wealth should move in the direction of greater equality. We could proceed to examine these attributes of VHHD in our next section.

5. Distribution of Income and Wellbeing

The data for the Gini index (ratio) in World Bank's *World Development Indicators* are based partly on income and partly on expenditure or consumption. They are, therefore, not strictly comparable across countries. The measure of inequality based on expenditure does not take into account the fact that the poor tend to be in a continuing state of indebtedness, and the rich save a significant portion of their income. The lower the ratio, the closer is the country to equality. The large majority of countries in the VHHD category have equitable distributions of income and low levels of inequality compared to the rest of the world. According to HDR 2014, Scandinavian countries; Finland, the Czech Republic, Slovak Republic, Japan and Germany have scores ranging from 24.7 (Denmark) to 28.3 (Germany). The next layer comprises a group of countries which have ratios below 40. These include France, Italy, Spain, Greece, Portugal, Australia, Canada, New Zealand, several East European countries and South Korea. The US has a ratio of 40, the highest in the western group of countries. We do not have data for the oil-rich countries except for Qatar which has a score of 41. For all these countries the index has been calculated on shares of income. Singapore, Chile and Argentina have high scores ranging from 42 for Singapore to 52.1 for Chile. It should be noted that these are three countries which have shown commitment to the concept of limited government and score high on that indicator.

The other indicators of inequality - the inequality index used in the HDR, and the shares of income of the lowest quintile compared to that of the highest quintile -

throw light on the structure of inequality. In the countries with low inequality, the share of the lowest income quintile is around 8% and the share of the highest quintile is 35% to 37%. The ratio of the highest to the lowest is between 4:1 and 5:1. The data for Singapore indicates a ratio of 10:1.

Sri Lanka shows a Gini ratio of 48 calculated on the shares of income in the Household and Income Expenditure Survey (2102/2013), and 40.3 on the shares of expenditure (World Bank, World Development Indicators, 2012). The ratio of the highest quintile of income to the lowest quintile is slightly above 10:1.

The analysis in the HDR makes a cogent case for the reduction of inequality as a vital condition for reaching the VHHD condition. Income inequality is intrinsically linked to inequality in health and education. The higher the Gini ratio, the higher the disparities in health and education. The HDR measures the inequality in the three basic dimensions of development – health, education and income, and provides an overall measure of the human inequality in these societies. According to this measure, human inequality is highest in Chile, Argentina, South Korea and the US; all of whom have a coefficient of human inequality above 15. Countries with the lowest coefficient are Norway, Denmark, Sweden, Finland, Netherlands, Slovenia and the Czech Republic; all of whom have scores below 7.

If Sri Lanka's objective is to become a society in the VHHD category with a strong proactive government with a high component of public goods and services, then its development strategy and policies have to be suitably crafted and directed towards this end. On the one hand, government budgetary policies need to ensure that the upper income quintiles are appropriately taxed and that there is an equitable redistribution through public goods and services. On the other hand, policies must result in an equitable, inequality-reducing distribution of the gains of development. This would require policies and action on several fronts. Wages and incomes policy, broad-based participation in the capital market, promotion of the mini, small and medium enterprise sector, and reduction of regional inequalities in development are among a few of the elements in an equity-oriented strategy that is needed to take Sri Lanka in the direction of a distribution of income and wealth that is intrinsic to VHHD. The structure of income distribution would have to improve considerably if it is to reach the same levels as that of countries with moderate inequality, in the range of 30 to 40, and move much further in the direction of equality to be among countries with low equality, in the range of 25 to 30. These targets would have to be effectively incorporated into strategies aimed at reaching the lower rungs of VHHD by 2025 and the higher levels by 2035.

6. Human Capital and the Educational Attainment of the Population

What clearly distinguishes the countries in the VHHD category from those in the lower categories are the indicators relating to human capital. In the computation of

the HDI, these are the mean years of schooling and the expected years of schooling of the population, made possible through the prevailing system.

As per data given in HDR 2014 the mean years of schooling for the VHHD countries are generally between 10 and 12 years and the expected years of schooling are above 15. The gross enrolment in tertiary education for the majority of these countries is over 60%. When these are translated to educational attainment of the population, we find that approximately one quarter to one third of the total population above 25 years of age have had a tertiary education. A high level of educational attainment of the population is therefore an essential precondition of VHHD. It is this level of educational attainment that provides them with the capability – technological, economic, social and political - needed to reach and sustain the VHHD condition.

For Sri Lanka, these indicators - 10.8 mean years of schooling, 13.6 expected years of schooling, gross enrolment in tertiary education of 14%, and the share of the population with tertiary education at a percentage of the total population – indicate the large shortfall in human capital compared to VHHD countries. The shortfall of 3 to 4 years in the Sri Lankan span of schooling is the critical gap; it covers the span of tertiary education that is vital for reaching the VHHD condition.

There are other very important attributes of human capital in societies in the VHHD category. A significant proportion of those with tertiary education are engaged in research which keeps these societies at the cutting edge of science and technology. The number of research personnel per million population ranges between approximately 3,200 in Switzerland to 6,000 in South Korea, and 7,500 in Finland. Apart from capability in science and technology, the high educational attainment of the population results in a civil society with the intellectual capability to evaluate the outcomes of human development, and sustain a discourse on the values that should guide social, economic, and political development. The educational systems of the countries in a condition of VHHD attempt to produce the required knowledge output for all these purposes. Undoubtedly, there are issues relating to higher learning such as the limits of specialization and the need for major reforms in approaches to learning and curricula. They are complex issues that are still being debated in the VHHD countries, and higher education systems in these countries are undergoing continuous change. But the paramount need for tertiary education in the VHHD condition is not in dispute.

In this context, the country experiences that are relevant for Sri Lanka are those that have developed rapidly and reached the condition of VHHD within the time span of about 20 to 25 – South Korea and Singapore. Both these countries identified the need for high educational attainment as an overriding priority for rapid development. They then undertook the systematic expansion of the tertiary education system and dedicated a massive effort with large-scale resources to achieve this goal. Sri Lanka can learn from the South Korean example:

“In 1980, the Ministry of Education implemented a number of reforms designed to make the system fairer and to increase higher education opportunities for the population at large. In a very popular move, the ministry dramatically increased enrollment at large. The number of high school graduates accepted into colleges and universities was increased from almost 403,000 students in 1980 to more than 1.4 million in 1989. This reform decreased, temporarily, the acceptance ratio from one college place for every four applicants in 1980 to one for every three applicants in 1981. In 1980, the number of students attending all kinds of higher educational institutions was almost 600,000; that number grew almost 100 percent to 1,061,403 students by 1983. By 1987 there were 1,340,381 students attending higher educational institutions. By 1987 junior colleges had an enrollment of almost 260,000 students; colleges and universities had an enrollment of almost 990,000 students; other higher education institutions enrolled the balance.” (Wikipedia)

South Korea also made strategic use of educational facilities abroad and sent large cohorts of students to study abroad. The number of students learning abroad was estimated at approximately 250,000 in 2010.

The available data for gross enrolment in tertiary education give the astounding figure of 103% for South Korea. This means that almost all students in the tertiary age group are in tertiary educational institutions. The figure for Sri Lanka, as computed for the HDR based on national and United Nations Educational, Scientific and Cultural Organization (UNESCO) data, is 14%. The other countries, excluding the oil-rich countries, have gross enrolment in tertiary education ranging from 54% (Switzerland) to 95% (U.S.A.).

Recently, the academic community and other interested groups in Sri Lanka have agitated for a substantial increase in the allocation of resources for education, fixing a target of 6% of GDP. The Government has recently declared its intention to increase the allocation to reach this target. There is some ambiguity regarding the sources of financing (total expenditure on education would include both public and private expenditure) as well as the use of additional resources. The overriding priority in tertiary education is the rapid expansion of enrolment in tertiary education. The present situation is one in which around 150,000 students who qualify for admission to tertiary education annually are unable to obtain a tertiary education for lack of free government facilities and an inability to pay for education in a private institution.

A necessary condition of Sri Lanka's attainment of the VHHD level would be the rapid expansion of enrolment in tertiary education, to reach at least a gross enrolment of 50% by 2025 and 75% by 2035. This would require a long-term tertiary education plan covering a span of about two decades. It would need to identify the financial and human resources, the public-private mix, the academic-vocational mix, and the Research and Development (R&D) component, including the strategic use of foreign educational facilities in two stages, over a 20-year period.

7. The Structure and Quality of the Workforce

Our discussion of the educational attainment of the population in the VHHD category takes us to the structure and quality of their workforce. One set of key indicators that define the VHHD condition are those related to the special characteristics of the VHHD workforce. It is the highly educated, globally competitive workforce that enables the countries in the VHHD category to reach and sustain the state of VHHD. The high educational attainment of the population is reflected in the equally high educational levels of the workforce. On average, the percentage of the working population with a tertiary education in VHHD countries is above 30%. The data available for Sri Lanka shows that the share of the workforce with G.C.E. Advanced Level and above is 19% (2014). A large-scale expansion of tertiary education as mentioned in the preceding section is required to produce the workforce needed to reach the higher productivity and per capita income needed for the VHHD condition.

Data on workforce characteristics given in HDR 2014 indicate how these societies organize themselves for economic activity and balance their work with their personal life and leisure.

The rate of participation in the workforce is on average over 70% for most countries in the VHHD category. Their working population is therefore significantly larger as a proportion of the population than in Sri Lanka, which has a total participation rate of only 59%. The larger participation rate by itself would result in larger per capita output in the VHHD countries. One very important reason for the difference is the high rate of participation of the female population which again ranges from about 68% (U.S. 68.4%, Germany 70.8%.) to 76%. (Denmark 76.4%, Sweden 76.7%) of the working age population in the VHHD countries. However, in the south of Europe, Spain, Italy and Greece, the rates of female participation are much lower; ranging from 51.1% to 65.9%. South Korea while ranking 15th in the VHHD category has a total participation rate of 65.8% and a female participation rate of 54.5%. Sri Lanka has a female participation rate which is substantially lower - around 39%.

Another key indicator relating to the organization and nature of work in VHHD countries is the structure of employment. The predominant share of the workforce in VHHD countries is in wage employment in the private and public sectors. The segment in self-employment and in the informal microenterprise sector is quite small. The structure of employment indicates that in these countries in the VHHD category, the share of wage employment is uniformly high, ranging between 75% (Italy) and 92% (Germany). Correspondingly, the self-employed and informally employed are a tiny segment. In contrast, the data for Sri Lanka's workforce show some significant differences in the key indicators. Wage employment is 56% and self-employment in farming and nonagricultural microenterprises account for the balance 44%.

These indicators regarding employment structure and participation raise some far-reaching issues concerning the constraints that Sri Lanka faces, and the choices that it may need to make in regard to the organization of economic activity on the one hand, and the quality of life on the other. In the VHHD countries, the "formalization" of the

economy and the high level of wage employment have facilitated the mobilization of resources for the social arrangements they have succeeded in making – the high levels of government revenue and social welfare programmes for most of these countries or the mandatory savings programme of Singapore. As a result these countries have been able to achieve universal coverage for their schemes of social protection. At the same time the high levels of female participation in these countries have had a far-reaching impact on gender relations and the institution of family, and its capacity for the care of children and the aged - an impact which has both positive and negative elements.

Does Sri Lanka have to travel in the direction of the structures of employment and organization of economic activity as have evolved in the VHHD countries? Does the technology that is currently available present different alternatives? For example, the economies of scale and location do not apply to the new technologies in the same manner as they did in the past. Microenterprises can operate at very high levels of technology, producing high levels of per capita output and income. This would be particularly true of the service sector which dominates the postindustrial economy. The low level of female participation in the workforce implies that Sri Lanka has a labour reserve that may work to its advantage as the labour market tightens. But is female participation at the high levels we observe in VHHD countries desirable, if other alternative social arrangements and patterns of economic activity that promote the status and rights of women are available? For example, in Sri Lanka, women are making an important contribution to the micro and small-scale nonagricultural sector. In the concluding section, some of these issues will be revisited in reviewing the choices and options that are available for Sri Lanka on its path to the VHHD condition.

8. The Population Dynamics of VHHD

Many of the indicators that have been discussed are organically linked to the population dynamics of the VHHD condition. Almost all VHHD countries have ageing populations with near-zero rates of population growth. As per HDR 2014, in all these countries the proportion of the population over 65 years ranges from 18% to 25%. The trends for ageing in Japan prefigure the typical age composition that could be expected as countries move into the VHHD condition. In this context, the conventional calculations of the burden of dependence, on the basis that the population below 15 years and over 65 years are dependent on the working population between the ages of 15 and 65 need radical revision. Increasing proportions of the population between 15 and 29 (estimated at an average of 48% for OECD countries) continue in tertiary education and a significant proportion of people over 65 years, continue in the workforce.

The final outcome of the VHHD condition as it has evolved at present is one in which societies educate and train a large proportion of their young population up to the age of about 29 to produce a highly skilled and educated workforce which in turn should produce an output sufficient to support a large population at the two ends of

the life span. What demographers term the income deficit at the two ends has to be met with the high-income earning capacity in the middle. The World Bank examines these shifts of intergenerational transfers and their implications in its study *Sri Lanka Demographic Transition*. The most successful VHHD societies have succeeded in developing a value system that accepts and fulfils the intergenerational obligations that this distribution of income demands.

With an average life expectancy of 75 years and with 13% of its population over 65 years of age, Sri Lanka is already advancing into the stage of an ageing society. By 2025, it would have already arrived where many of the VHHD countries are at present, and by 2035, it would be in a stage similar to that of Japan. Sri Lanka's capacity to manage these processes successfully would depend not only on a steady and relatively high rate of growth, as has been projected but also on two other concomitants - its capacity to mobilize resources and allocate them to the development of a highly educated workforce on the one hand and the social protection of its ageing population on the other. The issues that arose in the preceding three sections on the role of government, the distribution of income and the structure of employment assume critical importance in this context.

Another key indicator of VHHD is the process of urbanization and the share of the urban population in the total population. For the large majority of these countries, the share of the urban population is in the range between 70% and 90% of the total population. A high level of urbanization appears to be an important indicator of VHHD. The spatial distribution of the population and their concentration in locations with high density has been an invariable and essential feature of the process of industrialization in VHHD countries. This distribution of population has also facilitated the provision of public goods and services on an efficient and economic scale. Urbanization also determines the quality of life in various ways. The location of work place and residence, the amount of time consumed in travel, the balance between work and home-life, rest and recreation are all governed by the man-made environment. Here, the VHHD countries have some negative outcomes in terms of ecological criteria and the quality of life.

Sri Lanka presents a very intriguing and unusual case in respect of urbanization. According to the statistics that are available, the proportion of the urban population is only round 18% - one of the lowest in the world. This low figure may be due partly to the fact that the estimate depends on the administrative classification of areas as "urban". Consequently, "urban" as defined in Sri Lanka may not include areas that are not administratively classified as such, but yet have the urban characteristics of population density and enjoy a wide range of urban amenities. But even if adjustments are made for such areas and the estimate of the urban population raised to 30%, the level of urbanization remains very low. This seeming lag in urbanization would imply that Sri Lanka has a major demographic constraint that it must overcome. It would seem that Sri Lanka would have to undertake a rapid and large-scale programme of urban development to reach the condition of VHHD.

But these conclusions that are drawn from Sri Lanka's low level of urbanization may not be valid in the Sri Lankan context. They need to be examined closely and critically. It should be noted that despite this low level of urbanization, Sri Lanka has sustained a high rate of economic growth and reached a state of high human development. The provisions of public goods and services - healthcare, education and a wide range of government programmes have reached every part of the country. The social welfare programmes which were implemented from the pre-independence period resulted in the development of townships and a thin layer of urbanization that was spread widely throughout the country. The housing stock was upgraded and permanent structures replaced the semi-permanent rural housing. Electricity has been provided to more than 90% of the households.

The rural roads have been improved and connected to the main transport system. Mobile telecommunication is available to the large majority of rural households. Access to the Internet and global centers of information and knowledge is expanding rapidly. In this process, the rural to urban migration that is normally associated with modern development has been mitigated and controlled. The steady expansion of the economy and the economic activities that sustained high economic growth in Sri Lanka did not require the agglomeration of population in megacities. The country's relatively small manufacturing sector which has been limited to light industries contributed to this pattern of moderate urbanization. Therefore, in planning the urban development for the next phase, we need to examine whether the pattern of urbanization we have in Sri Lanka offers a more eco-friendly, community-centered alternative to what has taken place in the VHHD countries. What may be required would be the improvement of the small towns and urban centers that are widely distributed at the different subnational levels, and the provision of urban type amenities and facilities to the human settlements as they are. This would be very different from the urbanization process as it took place in the VHHD countries where there were large movements of population, leading to unevenly distributed high-density population centers with all their concomitant problems. The alternative pattern of urbanization that has developed in Sri Lanka is also made possible by the technological revolution in which, as stated earlier, the economies of location and scale have diminishing value and application.

9. Growth, Consumption and Lifestyles

Countries which have arrived at the VHHD condition are confronted with certain fundamental problems which they have not succeeded in solving. The most striking negative indicators are the following: high rates of youth unemployment; high levels of household indebtedness reflecting a long-term imbalance between income and consumption; urban environmental problems of congestion and pollution; overconsumption and overnutrition resulting in high levels of obesity; high prevalence of substance abuse and drug addiction; a heavy burden of psychiatric diseases arising from lifestyles and non-economic causes. The abundance of material goods is accompanied by various forms of psychological and spiritual deprivations which are not clearly recognized or adequately addressed. The state of VHHD that Sri Lanka eventually achieves should be as free as possible from these maladjustments.

Immunity against these maladjustments would require an alternative style of development for Sri Lanka.

There are many lessons to be learnt from the experience of VHHD countries. On the one hand, the structure of demand in these countries has undergone a radical transformation with the ageing population. All the structural trends inherent to the process of ageing are driving these societies to a stabilized population, a declining or stationary workforce and near zero economic growth. On the other hand, high youth unemployment is demanding the creation of new jobs, stimulation of demand and consumption, and economic growth adequate to meet these objectives.

These problems have not been overcome by the macroeconomic policy prescriptions that the VHHD countries and the international agencies have prescribed up to now. In almost all these countries, high levels of gross household debt often exceeding the gross disposable income have sustained levels of consumption and expenditure well above the levels of income and output, according to HDR 2014. The macroeconomic adjustments that are prescribed which focus on public expenditures, public debt and fiscal imbalances have not been effective. The VHHD condition has simply failed to adapt on a long-term basis to conditions of zero growth and ageing, and seeks a long-term equilibrium at a reasonably high level of consumption with zero or near zero growth. The excessive consumption that has been sustained in the VHHD countries has created endemic problems for their own economies, problems which are continuously spilling to the rest of the global economy and impeding world development. Simultaneously, these countries are producing the ecological outcomes that are damaging the environment on a planetary scale.

The VHHD condition has therefore raised fundamental issues concerning the sustainable equilibrium of consumption and output – issues which have been examined by a minority of economists such as Herman Daly and Robert Skidelsky. These have great relevance for Sri Lanka and the policy choices that it makes in its path to the condition of VHHD in the next two decades. To what extent should the rate of economic growth dictate these policies and shape the long-term goals of the good society which Sri Lanka should seek to realize? Adam Smith predicted that the process of growth would come to an end in 200 years and John Stewart Mill in *Principles of Political Economy* had this observation to make:

“The end of growth leads to a stationary state. The stationary state of capital and wealth would be a very considerable improvement on our present condition.”

Keynes’s approach to economic growth is reflected in the following comments:

“Avarice is a vice, and the exaction of usury is a misdemeanor, and the love of money is detestable. We shall once more value ends above means and prefer the good to the useful.”

“The day is not far off when the economic problem will take the back seat where it belongs, and the arena of the heart and the head will be occupied or reoccupied, by our real problems - the problems of life and of human relations, of creation and behavior and religion.”

Skidelsky in his recent book on Keynes has some enlightening observations on the larger ethical and moral frameworks within which Keynes did his economic thinking:

“Keynes’ ethical approach offers considerations which have acquired a fresh importance in the context of the present ‘crisis of capitalism’ it keeps alive the importance of having an idea of the good life, it brings out the relevance of philosophy for economics. In advocating state sponsorship of the arts and the beautification of cities, he provided an ethically based argument for public action to influence the composition as well as the level of demand; he kept alive the idea of a just price; and finally he raised the question whether morals can survive without religion.”

The community of ecological economists led by Herman Daly argue that long-term sustainability requires the transition to what is described as a steady state in which economic growth is zero and total GDP remains more or less constant. They argue that most of the ills of the developed economies and the world economy are due to the inability to make an orderly transition to this state. They point out that increases in economic efficiency and technological innovation will keep on increasing aggregate consumption, whereas it is unrestrained consumption and lack of frugality that is at the root of the over-riding ecological problem that the human species faces, collectively.

The HDR has been grappling with the problem of giving an appropriate value to per capita income in calculating the HDI. In the early reports, it drew attention to the diminishing utility of income as it increases, and adjusted per capita income by using the logarithm of income and setting a maximum of 40,000 PPP US\$ arguing that “human development does not require unlimited growth”. In the HDR 2014, it has raised the maximum to 75,000 PPP US\$. But nowhere has the HDR explored the full implications of this position and the policies it implies. Ecological economists on the other hand have developed a policy framework to guide the transition to a steady state. A final word, however, needs to be said about the theoretical work on zero growth. Much of this work approaches the limits of growth through the supply end – the limits to the factors of production – land, labour and capital. Not sufficient attention is paid to the demand end and the impact of collective ageing of a society on aggregate demand. Will the ageing of society act independently on collective human behavior to reduce aggregate demand, and temper the avarice and greed that drove unbridled consumption in capitalist societies?

There are important lessons that Sri Lanka must learn from the maladjustments that have occurred in the VHHD countries. If Sri Lanka is to avoid these maladjustments, it would have to make choices that address their root causes; this means that Sri Lanka would have to move on a path that enables it to adjust better to the ageing of the population, the decline of the workforce and low or near zero growth. In such an

approach, the rate of economic growth cannot become the overriding objective as it is now. Individual self-interest directed at maximization of profit must not become the driving principle of society. Sri Lanka must guard against outcomes that push the country in the direction of a consumerist model leading to immoderate consumption. The growth objective must be tempered by the concern for the distribution of growth and its benefits, concern for equity in growth outcomes. The states of subjective wellbeing, psychological and spiritual, must have a central place in VHHD as much as physical and material wellbeing.

There are many features of Sri Lanka's development as it has evolved that may enable it to find such a path. One set of indicators that has been discussed demonstrate that there are major gaps that have to be filled - strengthening government capacity for provision of public goods and services, raising the educational attainment of the population and workforce, and processes that reduce inequalities and produce a much more equitable income distribution. Ongoing policies may have to be tested against these needs. On the other hand, Sri Lanka has some unusual indicators in regard to urbanization, participation in the workforce and the structure of employment. These initially appear as shortfalls but in fact they may provide alternatives that can ensure a higher quality of life, a better balance of work and personal life, of material and spiritual needs, and a more people-centered pattern of economic activity and governance. The dominant Buddhist value system supported by the other major religious and spiritual traditions may have an important part to play in shaping such a lifestyle.

10. Conclusion

This paper provides only a rough sketch of Sri Lanka's path to VHHD. An exercise in much greater detail and depth is needed to test some of the underlying assumptions as well as the conclusions. What is presented contains some of the skeletal elements of a Sri Lankan model of development that have to be further defined and given flesh and body. As stated earlier, the estimates of sustained high economic growth of per capita incomes would have to be verified in relation to the potential of the Sri Lankan economy and the sources of growth. In the VHHD condition, the service sector based on knowledge and high technology accounts for over 70% of GDP. The ongoing processes indicate that Sri Lanka could move in the direction of an economy with a strong service sector that might be capable of such growth. We can imagine a Sri Lanka with a service sector in the region of 70% of the economy, a soft economy with low levels of pollution.

An economy of this type has implications for other facets of Sri Lanka's development. The prevailing structures of employment could be strengthened to build a modern small-scale and microscale enterprise sector of considerable size - a sector which is knowledge-based, operating at a high technological level and globally competitive. The character of urbanization is also linked to the solution of other sociopolitical problems in Sri Lanka. It can be the economic infrastructure of a system of government

in which the tier of government closest to the people is given prime importance in the devolution and decentralization of power.

The paper also argues that to address the root causes of the present maladjustments of VHHD countries, the VHHD model has to be non-consumerist and better adjusted to the structural characteristics of ageing societies leading to near-zero growth. Such an approach calls for lifestyle changes of a far-reaching character; it calls for an approach fully sensitive to the life cycle and the needs at every major stage of life. These changes must help to achieve the equilibrium which contains consumption and growth within sustainable limits. Above all, these changes require an overarching value system which defines “the good life” and directs growth and consumption to that end. The intrinsic working of the system must be such that in Keynes’ words society and its members “value ends more than the means and the good more than the useful”. We have to see whether the intellectual moral and spiritual resources that Sri Lanka can draw upon can enable it to develop such an overarching value system that can guide it to the VHHD condition.