

# CENTRAL BANK OF SRI LANKA RETROSPECT 1950 TO 2010

By W.A. Wijewardena

## Newspapers as Recorders of History

In the modern era, the best recorders of history, as and when the important events occur, are the newspapers. But it is seldom that one attempts at unearthing history by tapping this source. Perhaps the enormous labour which one has to shed in perusing voluminous newspaper articles and the time taken for copying the same would have prompted the historians to shun it. Yet, the Central Bank of Sri Lanka, as one leg of its multi – faceted diamond jubilee celebrations, has very successfully ventured into this unpleasant impossible task. The Bank has painstakingly perused all the newspapers from 1950 to 2010, selected carefully news items on the economy, the Bank and socio – political developments and reproduced in newspaper form a book titled '*Central Bank of Sri Lanka Retrospect – 1950 to 2010*'. The Bank's intention would have been to put this out as a coffee table book so that readers could casually leaf through the pages while waiting in antechambers for meetings or sipping tea or coffee. But, given the valuable information it contains, its proper place should be shelves of libraries. The publication which we can conveniently call *Retrospect* is a handy single source of information for researchers, has been designed beautifully in an appropriate colour to depict its antiquity and attract the readers' eyes and produced in hard cover and thick paper to ensure its glamour, grandeur and durability. The small team of people who have done this wonderful job in record time under the guidance of an advisory panel made up of the Governor and the two deputy governors and whose names are given at the end of the publication deserve everyone's unqualified commendation and recognition.

## Retrospect of the Central Bank

*Retrospect* has reserved one leaf or two pages of a broad-sheet newspaper size for each of the sixty years under its purview. The carefully selected news items, including photographs and advertisements, from different newspapers have been well compacted into these pages making the reader feel like perusing different issues of a single newspaper titled *Retrospect*. The news items reproduced in these pages are informative to general readers but more useful to serious researchers. Certainly, one could write volumes and volumes on central banking and Sri Lanka's socio – political developments in the post – independence history by further analysing them. This is an enterprise for other serious researchers to venture into in the future. The current reviewer will look into some selected news items and analyse them in the context of what is generally accepted as proper central banking today.

## Exter was not the first choice

Many, including the current reviewer, had been under the impression that John Exter, the architect of the Central Bank, was the first and the only choice for the prestigious post of the Governor of the newly established central bank. Many had even criticised J.R. Jayewardene or JRJ, the then Minister of Finance, for selecting an American for this post. But, according to a news item that had appeared around that time, Exter had been invited to be the Governor after the former Chief Justice Sir Arthur Wijewardene had declined the post on health grounds. Either choice, it appears, would

have been optimal since both had the necessary undisputed stature to lead this new institution properly in its formative years.

### **The Humble Birth of the Central Bank**

The lead story in *Retrospect* in 1950 is on the ceremonial opening of the Central Bank by JRJ under an apt title 'Birth of a Great Institution', a remark made by JRJ himself in his speech. It has been a very simple ceremony in the traditions of central banks not to be conspicuously extravagant in the eyes of the public. John Exter had justified it by saying that it was not an attempt at belittling the importance of the ceremonial opening. He has said that they had been sobered by the thought of the great responsibility which they had toward the people of Ceylon. It is a challenging responsibility like the one faced by a student sitting for an examination: you celebrate it only after you attain good results. Hence, Exter's confession that 'shouldering this responsibility does not seem to us to call for any celebration' should be taken both literally and practically. Thus, the Central Bank had a very humble birth without fanfare.

### **JRJ as the Chief Guest**

The precedence in the opening ceremony itself provides much information on the decorum and cultured up-bringing of the rulers of those good old days. Though the Head of the State, Premier D.S Senanayake or DS had been in attendance, the chief guest of the ceremony had been JRJ, his Minister of Finance. JRJ had been credited on this occasion for spearheading the central bank project to fruition. He declared open the new central bank, while the Head of the State was looking on. In his speech, the Premier displayed his maturity by saying that he was happy to see the name of the Minister of Finance carved on the stone which had just been unveiled by JRJ.

The three speeches delivered on the occasion by Exter, JRJ and DS carried three different messages.

### **Exter: No Jubilation now, but later**

According to Exter, the real jubilation of the Central Bank would be after 10 to 15 years when the new bank could look into its achievements and if there were real reasons to be happy about. Exter had added that '...at this moment, we can only be filled with high hopes and good intentions' warning that a central bank could create only the necessary conditions for fostering prosperity in a nation with appropriate policies and the sufficient conditions had to be put in place by the government. It appears that this message has not gone into the heads of Sri Lanka's populace, because many even today believe that it is the central bank which runs the economy and blame the Bank's Governor if there is a slight mishap in economic activities.

### **JRJ: the Keynesian Shadow**

JRJ, on the other hand, had been a recent convert to Keynesianism that advocated money printing and financing government expenditure for creating prosperity, according to his biographers, K.M.de Silva and Howard Wriggins. His speech, therefore, carried a different type of warning to the new central bank. JRJ has said in his speech that 'money which can be of such use to mankind can also be a bane. I trust that you (the central bank) will remember that money was made for man and not man for money'. In other words, he had warned the central bank that controlling money supply for the sake of controlling money and getting the people to adjust to the monetary conditions should not be pursued. Instead, money should be made to serve the people. Hence, he requested the central bank

to work for the welfare and happiness of the people of Ceylon. This indeed was a subtle presentation of Keynesian philosophy which the rulers of independent Sri Lanka followed liberally subsequently.

#### **D.S. Senanayake: the unexpected monetarist**

It was in fact DS who had played the role of monetarist on that occasion, long before the emergence of Milton Friedman, the Monetarist Doyen in the scene. While appreciating the flexibility which the central banking system would give to Ceylon for diversifying the economy from the concentration of tea and rubber into varied industries, he had warned that central banking had been abused in many countries in the past. This has been a reference to the excessive creation of money by central banks in other countries and thereby plaguing them with hyperinflation. He had said 'we need only remind ourselves of how excessive use of central bank credit reduced the real value of currency and resulted in dissipation of foreign exchange reserves in countries like China and Greece after the war'. Referring to the responsible use of the central banking powers in other Dominions like Australia, Canada and New Zealand and thereby making a positive contribution for their prosperity, DS had expressed the confidence that Ceylon government too shall be able to exercise the same good judgment in administering its monetary affairs as these sister Dominions. But subsequent events in Sri Lanka show that the wisdom of DS had been grossly ignored by the country's rulers who carved the path for a high inflation regime throughout the post independence period.

#### **Sri Lanka producing more mouths but less growth**

An important news item that had appeared in 1950 had been about the release of the report on the Census conducted in 1946. Incidentally, the Head of the Government's Statistical Bureau had been Arthur Ranasinghe who later became the Governor of the Central Bank. Ranasinghe had warned in his 340 page report that Ceylon's population had been rising at an alarming rate and it would surpass 10.54 million mark by 1975 if 'the population conscious state ignores or shirks its task of setting up its ideal of the optimum and planning its population with reference to it'. When coming up with this projection, the Statistical Bureau had assumed an annual average population growth of 1.8 percent. However, it appears that the warning had not been taken seriously by the country's rulers because the actual population in 1975 amounted to 13.5 million, almost double the population of 1946. It entailed an annual average population growth rate of 3.4 percent during this 30 year period. In fact during 1950 to 1975, the country's population had grown by whopping 80 percent; in this period, the real economy had grown only by 92 percent making Sri Lanka's actual improvement of prosperity only by dismal 12 percent. But to the relief of the country, the subsequent period saw a rapid population planning and, consequently, its annual average population growth fell to 1.4 percent between 1976 and 2009.

#### **The Sad Decline in the Value of Money**

A newspaper item in 1951 says that, in reply to a question raised by Dr N.M Perera, Leader of Opposition, Premier DS had revealed the salary of the Central Bank Governor as \$ 11,875 per annum or \$ 989 per month. This salary amounted to Rs 4710 per month and had a high purchasing power at that time. For instance, an advertisement in the newspapers in 1950 had announced the price of a brand new modern Austin A 40 van at Rs 7300. This meant that if the governor so wished, he could have purchased an Austin A 40 van with just one and a half months' salary. Over the years, it appears that

the salary of the Governor has also been devalued along with the devaluation of the US Dollar in the international markets and the rupee in the domestic market. Though Governor's salary had been raised from time to time since 1950, it is so low today that he has to wait for more than 68 months to acquire a 'van of equivalence'. If one goes by a more mundane criterion, in 1950, the Governor could have purchased 19000 measures of rice; today, he could buy with his salary only 900 measures of rice.

The dollar value of the Governor's salary in 1950 has also declined drastically over this period. The US Consumer Price Index which stood at 26 in 1951 has risen sharply to 214 in 2009 recording a decline in the purchasing power of the dollar in USA by about 723 times. Hence, even if the Governor is paid a salary of \$ 989 today, its current US value is just slightly over one US Dollar compared to what it could have purchased in 1950. So much so about the change of the value of money and the real value of salaries over this 60 year period.

### **Swabhasha Policy: Boon or Bane**

A report on a news item in *Retrospect 1956* relating to a speech delivered by Dr N.M Perera on the education policy of the government has been prophetic today. He had criticised the government's move to abandon the English education and introduce compulsory Swabhasha education 'as a sheer madness'. He has said that Ceylon could not translate all books in English into Swabhasha; though the objective of the education policy had been to help the poor, it would hit them more than the rich. According to NM, the rich would be able to go abroad, study English and employ private tutors, while 'the poor had to be satisfied with the shoddy education provided by the government'. This policy pursued by Sri Lanka for over four and a half decades has polarised the rich from the poor, stunted the growth of human capital and impeded the country's ability to create wealth and prosperity. Today, the problem is looming so large over the government, it is planning to make a quick reversal of the trends by practically revolutionising the education system through the establishment of foreign universities of repute, allowing the private sector to venture into higher education and so forth.

### **EPF: Reduction of the Bank to the status of a government department?**

A report in the same page reveals a piece of advice given by N.U Jayawardena, former Central Bank Governor and now a Senator, that the government should not reduce the status of the Central Bank to the level of another government department by 'making the Central Bank a collecting and recording department of the proposed Employees Provident Fund'. NUJ's objections had been based on the conflict it would entail on the Bank's prime objective of taming inflation in the country. However, Premier S.W.R.D Bandaranaike had replied that the arrangement was only temporary and soon permanent arrangements would be made to take those functions away from the Central Bank. The alleged temporary arrangement has now become so permanent and so rooted to the system that it is practically impossible to take it out from the Central Bank without doing much harm to the EPF and Bank itself. In hindsight, one may surmise how nice it would have been had the government listened to the wise counsel of NUJ.

### **NM to the Bank: be objective, dispassionate and independent**

Dr N.M Perera as Minister of Finance in 1971 had seen it necessary to advise the Central Bank that the Bank 'should make independent reports on economic subjects to the government and not make reports merely to suit the political complexion of the government in power'. According to the newspaper report, he had said so at a party to bid

farewell to Mr J. Tyagarajah, who had served as the private member of the Monetary Board since 1950 and now retiring from the position. NM had further said that as Minister of Finance, 'he would value reports made dispassionately and objectively'. This guidance by a leftist minister who believed in the state sector functioning as the engine of growth of a country appeared to be a real consolation for the researchers of the Central Bank who yearned for intellectual autonomy and independence. But the same cannot be said about the subsequent ministers of finance who tried to impose their personal and political will on the thinking of the central bank researchers.

**Retrospect: a must reference for everyone**

It is suggested that *Retrospect* should be converted to digital form with facilities for readers to download relevant sections and posted to the Bank's web. This will ensure its availability many readers on a real time basis.

In summary, *Retrospect* is a valuable collection and collation of news items relating to the Bank, economy and socio – political developments of the country for six decades. The Central Bank should be congratulated for bringing out this publication in time. The small team which had worked tirelessly day and night to make it a success should receive an all out commendation.

The reviewer recommends that it is a book which every researcher should have with him or her within easy reach for constant reference.

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