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WAGE BEHAVIOUR IN THE SRI LANKA ECONOMY, 1949 - 1978: SOME OBSERVATIONS

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1. Introductory

What happens to wages is something that directly affects the level of income and living of every household which has one or more members engaged in wage-earning activity - and such units constitute the large majority of households in any modern economy. Wages also constitute a cost of production, and developments on the wages front have their inevitable impact on production and employment decisions in an economy, at the level of the individual decision-making unit as well as at the macro or aggregate level. From another angle, what happens in the wage scene has its repercussions on the level and composition of aggregate demand in an economy, since wage earners and their families represent a large segment of the market for final goods and services. Last, but not least, no serious discussion on issues of income distribution can afford to overlook developments in the wage arena.

Despite this theoretical and practical importance of the subject of wage behaviour in an economy, no research attempt appears as yet to have been made - apart from an ILO-sponsored study on Government pay policies (ILO, 1971) - to analyse in a systematic way the trends and developments in the field of wages and salaries in the Sri Lanka economy from a long term perspective; either in money terms or in terms of their real equivalent. Publicity is sometimes given to ad hoc statements made by trade unions or by successive governments acclaiming credit for victories or concessions at the wages front, but the approach in such presentations seems essentially to be a short term one, based on short term data. Analysis of the wage performance of the economy in a long term context has remained more or less outside the currents of contemporary research in Sri Lanka.

The present investigation represents an attempt in the direction of remedying this research deficiency. It presents a brief bird's-eye survey of the course of wages in the Sri Lanka economy over a span of nearly three decades since independence, together with some comments on certain observed aspects of wage behaviour. The inquiry provides a starting point for further research rather than an exhaustive summary of the developments.

2. Data base and coverage

The coverage of the inquiry and the nature of the data used need to be indicated at the outset. Owing to obvious data limitations, the study is confined to the institutionalised sector of the economy for which published information is available. The statistical material for the investigation is derived from the indices of wages and prices published by the Department of Labour and the Central Bank of Ceylon. Two sets of wage indices are available : one representing the private sector and the other in respect of the public sector of the economy. The indices representing the private sector are in respect of employees in the trades where wages are governed by decisions of Wages Boards.[1] Wages Boards, which number 33 today, have within their coverage the plantations sector as well as a substantial section of the non-agricultural or urban private sector workforce. Their coverage is basically in respect of manual and operative grades. The indices are weighted by employment figures as on 30.06.1953. The large bulk of those bound by Wages Board decisions are employed in the plantations trades; tea, rubber and coconut and, in effect, workers in these three trades receive a weightage of as much as 92% in the index. It may be pointed out here that as an inevitable consequence of this weighting system, movements in the overall Wages Board index are virtually dictated by wage developments in the plantation sector of the economy.

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1. Wages Boards are tripartiate bodies composed of an equal number of employers' representatives and workers' representatives and a specified number of members nominated by the government to represent itself. The determination of minimum wage rates, overtime rates, holidays etc. are among the functions of each Wages Board. For a detailed account of the Wages Board machinery and its working, see G.Weerakoon (1976).

As for the government sector, the available wage indices are in respect of categories below staff rank in government employment. The combined index is weighted by employment figures as on 30.09.1959. Considering the total coverage of our investigation, it is observed that well over a million employees (or close upon 50% of the paid workforce) are estimated as currently coming within the purview of Wages Boards[2] while the government has on its direct pay roll close upon half a million employees - out of whom over 4/5 ths fall into the category of subordinate and minor grades (ILO, 1971, p.15). Thus, in all, our computations may be treated as directly representing not less than one-half of the total paid workforce of the economy,[3] not taking into account the numbers that are engaged outside the above categories on Government or Wages Board rates of remuneration. A deficiency in respect of the data employed in our study should be mentioned at this stage, namely that the indices available are computed on the commencing or minimum wage rate of each grade. Although inclusive of statutory and 'living' allowances, such data do not take into account other supplements such as increments, overtime payments and bonus earnings.[4]

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2. Certain estimates place the figure at 1.5 million (Weerakoon, 1976, p.3).

3. At the Census of 1971 paid employees constituted 2½ million or 67% of the total employed workforce of Sri Lanka.

4. An analysis of wage behaviour, properly speaking, should be based on actual earnings rather than on wage-rate data. Although information is available on earnings in the Wages Boards sector, no comparable time series data are available for the government sector; hence the choice of wage rate indices in this paper. In a subsequent article the author hopes to examine the pattern of behaviour of actual earnings in this sector against the trends that have emerged from the analysis of wage rates in this investigation.

3. Wage Trends and Patterns, 1949-1978 : An overview

3.1 Money Wages

Taking the period 1949-78 as a whole, a comparison of end-year figures points to a quadrupling of the Government unskilled Colombo rate (from an average figure of Rs.2.99 in 1949 to Rs.12.32 per day in 1978) and an over 500% aggregate increase in the Wages Board average minimum-wage (from Rs.1.44 to Rs.9.02 per day). In compounded average terms, these represent an increase of 5% and 6½% per annum respectively for the two groups - an appreciable increase in a labour surplus economy. If, instead of the unskilled wage, a combined wage index of employee grades below staff rank is taken to represent the Government sector, the level in 1978 amounts to more than three times the average for 1949, implying a compound average increase of about 4% per annum.

At the outset, thus, two interesting questions emerge: why did money wage rates increase in this manner, and, secondly, why were the rates of money wage advance dissimilar between the two sectors? Side by side with these increases, some levelling-up process is also observed to have been at work: the premium of around 100% which the government unskilled wage commanded over the Wages Board average minimum in 1949 had narrowed to some 37% by the end of our period.

A clarification may be added at this stage of the analysis before we proceed ahead. Within the sectoral indices examined above, the rate of wage advance would, no doubt, have been dissimilar between different individual worker categories, but, at this preliminary stage, we are concerned with broad aggregates and trends; further disaggregation may therefore be left to a subsequent occasion.

3.2 Real Wages

What is perhaps of greater concern is what these observed nominal wage increases imply relative to movements in prices or cost-of-living in the economy. The official cost-of-living index points over the same period to a 150% increase in consumer prices (or a compounded annual growth rate of 3.2%), suggesting that a substantial part of the gains implied by the money wage figures were eroded away by the upward trend in prices.

Using the Colombo Consumers' Price Index (despite its deficiencies) as the wage deflator, it would appear from end-year comparisons that real wages increased over this 29-year period by 150% in the Wages Boards sector and by a little over half this figure in the government sector. If annual averages compounded from these figures are any guide, these imply a real wage advance of 2 to 3 per cent per annum.[5] The figures, taken on their face value, seem to contradict the contention of traditional theory that in a labour-surplus economy real wages tend to be held down at a subsistence level until the labour surplus is absorbed into employment. The improvement in real wages computed above took place against an average annual growth rate of not more than 2% in per capita real income over the span, and an increase in the numbers openly unemployed to reach the one million mark (or 20% of the total labour force) towards the close of the period covered by the study. In a situation of growing unemployment it is often asserted that the increment to real GDP ought to be used to finance additional employment rather than for improving income levels of those already enjoying employment. We thus have another interesting issue for investigation as to why and how real wage levels in the economy advanced at all in defiance of theory and the massive labour surplus.

3.3 Wage movements: year to year variations

End-year comparisons and growth rate averages derived from them can create a misleading picture if the increases took place at a markedly uneven pace. Hence, the course of wages over the span is traced in Fig.1 in both money, as well as real terms. The path of the Colombo Consumers' Price Index is traced in the same illustration to enable a comparison of wage and price trends at a glance.

The diagrammatic presentation brings out several interesting features. Firstly, it confirms the diversity in the rates of wage advance between the two sectors to which attention has already been drawn. Secondly, the presentation reveals that although the long term trend in money wages has been upwards for both sectors, the tempo of wage advance

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5. i.e. 3.2% per annum in the Wages Board sector and 2% per annum in the government unskilled commencing wage.

has been markedly uneven during different periods. A distinctive feature highlighted by the graphical illustration is the wage acceleration experienced towards the latter part of the period, with revisions coming in quick succession. Money wage rates which in both sectors took two decades to double from their 1949 levels seem to have doubled again within the next 7 to 10 years. In the Wages Board Sector this was followed by a further 50% increase during the last two years of the period.[6]

Another striking feature revealed by the illustration is the similarity in overall trends between wages and prices. Phases of high price increases in the economy also seem to coincide with phases of above-average increases in money wages.

Turning to real wages, the picture that seems to emerge indicates some improvement in the first two years of our period (i.e. the Korean boom phase) succeeded by a long spell of relative stagnation lasting about two decades, and some picking-up in the late 1970s. Looking at the phenomenon more closely, it appears that in the Wages Board sector the level of real wages even in 1972 was more or less the same as that reached during the height of the Korean boom 20 years ago, and it is only in respect of the mid and the late 1970s that one may speak of some sustained improvement in the real wage. Between 1972 and 1978 the figures point to a near doubling of real wages in the Wages Board sector, and a further breakdown of the manner in which this doubling took place reveals that a rise of some 50% occurred during the four-year period 1972-76, followed by an increase of another 25% or so within the next two years.

In the Government sector too, as in the Wages Board Sector, movements in real wages do not provide evidence of a secular long term trend as such. The improvements seem to have occurred in a jerky fashion with spells of stagnation/deterioration in the intervening years. An interesting feature observed in respect of movements in the real wage in this sector is the pattern of peaks and depressions in the 1960s and the 1970s; namely a deterioration in the first half of

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6. To describe the same phenomenon in another form: the average minimum wage in the Wages Board sector trebled in 25 years and doubled again within the next 4 years.

each decade and a recovery in the second half. (This pattern, incidentally, was not repeated for the 1950s: instead one observed an improvement in the first half of the decade as well). In overall terms, however, it would be of interest to note that even by 1974 the level of real wages in this sector - as indicated by the indices - was not more than 10% above its 1952 level.

In interpreting these figures a word of clarification needs to be added, for, as mentioned already, the basic data used in the computations do not include supplementary earnings such as bonuses, overtime and over-poundage payments, increments etc. enjoyed by different sections of the paid workforce. Such extra earnings would have enabled some wage recipients to arrest - up to a point at least - the periodic stagnation/deterioration in real wages indicated by these calculations and, in the case of some others, to improve their real wage position. However, along with the bias resulting from this deficiency, due allowance has to be made for the distortions introduced in the opposite direction by the deficiencies of the Colombo Consumers' Price Index as an indicator of changes in prices and cost of living in the economy.[7] The downward bias of this index as an indicator of the true nature of inflation in the economy is generally recognised.

The important inference, however, is that contrary to what a comparison of end-year figures seemed to suggest, the long term behaviour of real wages does not assume the form of a consistent (secular) upward movement of noteworthy proportions. The situation could instead be described as one of relative stagnation during most part of the period, with improvements occuring in a spasmodic fashion. Thus, from a comparative point of view, the trend in real wages observed above for Sri Lanka presents a striking contrast to what empirical research investigations have concluded for a

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7. See Weerakoon (1976, pp.12 -13) for some comments on this index. Also, see Central Bank, Annual Report, (1974, p.253). It would be interesting to note here that the wholesale Price index (1974=100) constructed by the Central Bank estimates a 57% increase in wholesale prices between 1974 and 1978 as against the 23% increase implicit in the Colombo Consumer Price Index.

number of other Third World countries.[8] It would thus be interesting to examine why this has been so. The issue may be broken down into two questions: How did Sri Lanka manage to maintain real wage levels within narrow limits for a large segment of the organised sector during most part of the period and secondly, what were the reasons for the observed picking-up in the late 1970s?

3.4 Wage movements: A disaggregation into sub-periods

The symmetrical pattern of periodic variation in wage and price movements revealed by the graphical presentation poses another interesting issue for the wage analyst. The span under review can be disaggregated on the basis of the sequence of wage and price movements into three distinct phases as summarised in Table 1 below:

TABLE 1 : Changes in Wages & Consumer Prices, 1949-1978
(% increases per annum)

Period	Prices	Money Wages		
		All Wages Boards	Govt.Unsk. Male(Colombo, daily paid)	Govt.Non-staff grades (combined)
1949-1978	3.2	6.5	5.0	n.a.* (estimated to be in the region of 4% per annum.)
1949-1951 (2 years)	4.5	18.3	7.2	n.a.*
1952-1967 (15 years)	0.9	1.3	2.0	1.8
1967-1978 (11 years)	6.4	12.4	9.3	7.0

n.a.* Not available since the index is calculated from 1952.
Source: Computed from data in Appendix Table A.

8. For instance, Turner and Jackson (1970, p.831) estimate an average real wage increase of 3.3% per annum for 35 Less Developed Countries during the 9-year period 1956-65; Jackson (1971, p.532) calculates an average real wage advancement of between 8 and 12.8% per annum in 4 African economies: Kenya, Uganda, Zambia and Tanzania during the period 1960-67. Knight's calculations (1967) point to a growth rate of 10% in Ugandan real wages, 1957-64. Also see Turner (1965, pp.12-14), Reynolds and Gregory (1965), Smith (1969) and Berg (1966) on this issue.

Following the Korean boom phase (1949-51) during which both prices and money wages recorded a marked acceleration, the economy appears to have settled down to a pattern of price and wage stability (and comparative real wage stagnation) which lasted until the late 1960s. With the close of this decade, however, the economy appears to have entered another phase of marked acceleration in money wages and prices, in the course of which real wage levels of certain segments of the workforce seem to have steered substantially ahead by the close of the 70s.

The middle phase, or the phase of relative stagnation, may be further subdivided as far as the Government sector is concerned into two periods, with the late 1950s as the dividing line (Table 2). The government sector experienced money wage stagnation in the latter half of this phase as against the slow but upward movement observed in the first half of the period. This contrast is reflected in real wages as well, which slumped or stagnated in the second half compared with the slight improvement observed in the early years.

Table 2: Compounded Annual Percentage Rates of Change in Wages and Prices : 1952-1967

Period	Prices	Money Wages		
		All Wages Boards	Govt.Unsk. male rates	Govt.non-staff grades (comb)
1952-58	0.8	1.7	4.0	4.0
1958-67	0.96	1.0	0.6	0.4

Source : As for Table 1.

4. An explanation for the observed trends: A wage-price link?

Having identified the broad trends and patterns of wage behaviour, it now remains to formulate an explanation for the observed phenomena. Following from our observations above, a pertinent question may be raised; namely as to why the two variables - prices and wages - have moved together in the particular fashion indicated by our analysis. This apparent similarity of movement between the two variables could perhaps provide us with a clue to understanding some of the characteristics of wage behaviour which we have singled out for closer study.

Theoretically, a two-way relationship or dependence is possible between the two variables :

(a) wage increases initiating a round of price increases in the economy, and/or,

(b) price increases provoking a round of wage increases.

In the export-import economy of Sri Lanka, factors operating on the domestic price level are of both domestic as well as external origin. Imported goods and services currently receive a weightage of as much as 35% in the official Consumers' Price Index calculations,[9] and include some of the major items such as food, clothing and lighting fuel. Secondly, prices of certain major items in the index are insulated from fluctuations in world market prices and/or domestic costs of production through a structure of subsidies, price controls and import duties. This is not to argue that domestic wage revisions have had no impact whatsoever on domestic prices; in fact, currently, a number of Wages Boards trades in the non-plantation sector are observed to be shifting the incidence of escalating costs either to the consumer in form of price revisions or, in the export-processing sector, back to the primary suppliers by way of higher commissions and other service charges. As against this, however ,

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9. 44% up to 1968.

it is to be noted that as much as one-half or a little more of the paid workforce in the economy are employed in the export sector and in government service. Under these circumstances, the impact of variations in the wage variable on the overall price index appears to be rather limited.

What about a wage-price hypothesis of causation running in the opposite direction, i.e. of prices taking the lead and imparting movement to the other? The composition of an average employee's wage packet provides a clue towards establishing a causal relationship of this type. The legal minimum wage in the Wages Board sector comprises what is known as a 'basic wage' and a 'dearness' or 'living' allowance component, with certain items of the living allowance component linked in a number of trades to the official cost-of-living index to provide automatic monetary compensation for each specified unit-rate variation in the cost-of-living index.[10]

Although one could argue both for and against the logic of placing on the employer the burden of an escalating wage bill with each increase in the overall cost of living, this wage-price supplementation or 'indexation' principle has remained an accepted axiom of wage thinking in Sri Lanka since the war years. All Wages Board trades had this mechanism built into their wage formulae at the inception. With the trend towards consolidation of minimum wages since the late 1960s, the principle of automatic variation has been suspended in a number of urban trades but in the remaining trades, including the plantation sector which contains the overwhelming majority of Wages Board employees, automatic indexation remains a continuing feature.

In the government sector too, a similar built-in, wage-price compensating mechanism was in operation from 1941 up to March 1953, when on the recommendations of the Poulier Commission, the variable 'living allowance' component was

10. i.e. for each 1.8 unit change in the Cost-of-living index, a variation of 3 cents in the 'special' allowance for males and a 2 cents variation for females and young persons.

frozen at its March 1953 level. The pay packet of the average government employee, as in the case of the Wages Board sector, comprises a 'base' rate augmented by a combination of allowances designed to insulate the incomes and standards of living of the recipients from upward movements in the general price level.[11] In the government sector during the period under review, overall revisions effected in the 'base rate' component were only two in number: the Poulier Commission recommendations which took effect from 1.4.1955 and the L.B.de Silva Commission proposals implemented from 1.10.69 and 1.4.75. All other major increases assumed the form of revisions to the dearness allowance component, as shown in Table B (Appendix). Having suspended the automatic wage-price compensation mechanism in respect of its employees in 1953, the wage adjustment strategy adopted by the Government appears to have been to make concessions on a periodic rather than on a continuing basis, albeit with the same objective of sheltering real incomes of employees from inflationary price increases.

Here then we see a possible explanation for the acceleration of money wage rates witnessed in the 1970s. As inflation gained momentum and reached a two-digit figure in the 1970s, such periodic revisions in living allowances appear to have come in quick succession and in significant proportions, causing thereby a substantial jump in nominal wages. The concessions, which were generally given by Cabinet directive, were sometimes preceded by employee agitation and, at other times, given by unilateral decision. Thus, in the structure that emerged, the 'cost-of-living' approach to wage issues constituted a major factor shaping the extent and nature of wage adjustments, while also providing an explanation for the observed similarity in

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11. e.g. the C.L.A., the S.L.A., the Devaluation Allowances, the special allowances of the 1970s etc.

behaviour between wages and prices.[12] In the 'cost-of-living' approach, perhaps, one may also look for a possible explanation for the sluggishness/stagnation observed in real wages over most part of the period. Since the objective of the formulae was more or less to sustain individual workers incomes on par with the cost of living, it may be surmised that this policy had some 'toning-down' effect on wage demands and concessions, preventing too assymetrical a revision in money wages in relation to the cost-of-living variable. This agrees with Dudley Jackson's conclusions for India where he argues.

> *'Thus an important source of changes in wages has been the changes in dearness allowance, and overall, such changes appear to exercise a moderating influence on rises in wages due to rises in prices'. (Jackson, undated).*

5. Sectoral assymetry in wage trends

Having examined some of the influences underlying the observed overall trends and cyclical rhythms, there now remains one other related feature to be investigated into; namely, the difference observed in the rate of wage advance between the two sectors - private and government. If a common cost-of-living index computed at the national level provided the anchor or guide for wage revisions, the question may be posed as to why the rate of wage advance was dissimilar between the two sectors. On careful observation one sees a possible clue. It is observed that most of the periodic increases given in the 1970s - to which reference has already been made - were not confined to government employees but extended by government decree to the private sector as well (Table B, Appendix), and this was despite the continuation of the automatic 'indexation' principle in certain areas of the private sector which

12. Our conclusions regarding the relationship between the two variables is confirmed by a regression of year to year percentage changes of money wages on that of the cost-of-living index. The regressions yielded a R^2 of 54 for the Wages Board sector. (In the Government Sector, however, the coefficient of correlation worked out to 38, reflecting the suspension of the wage-price escalating mechanism in March 1953.)

automatically compensated them for these price increases. What this extension meant, in effect, was that a segment of the private sector received - over and above their built-in dearness allowances linked to the cost-of-living index - more or less the same periodic increases that were granted to government employees in consideration of the fact that the latter's variable dearness allowance mechanism was suspended in 1953.

Built-in 'wage-price compensation' clauses (or escalator mechanisms as they are sometimes called) were a feature not only of the Wages Board pay formulae, but also of the major collective agreements negotiated during this period. On one or two occasions this feature was recognised and adjustments were made in extending certain government-decreed periodic allowances to the private sector but, on most occasions, - as Table B (Appendix) indicates - such considerations were overlooked, and flat, across-the-board extensions were made in the1970s notwithstanding the protests of employers affected adversely by such decisions. From the government's own point of view, the extension of government sector wage awards to the private sector may have been the way out of a sensitive dilemma, but what is important to note here is that under this policy certain worker categories in the private sector appear to have been compensated not once but twice for the same increase in the cost-of-living index ! Thus, part of the explanation for the comparatively faster gains indicated by the private sector wage index seems to lie in this anamalous situation.

This anomaly, however, explains only part of the story. 'Permissive' influences also played their role. The recovery of export prices in the second half of the 1970s following a long spell of adverse price trends facilitated the payment of additional wage allowances in the plantations sector, including a wage supplement related to sale price, payable in tea and rubber plantations above 100 acres in extent. This price-wage supplement which was introduced in 1975 reached a record level of over Rs.5/- per day per worker in rubber plantations by the end of 1978, while in the tea industry which had an upper limit to the allowance imposed by law, it remained at a level of 30 cents per day during most part of the late 1970s.

The private sector wage indices used here, as already pointed out, are employment-weighted and, with an overwhelming weightage of as much as 92% assigned to the three plantations trades, it hardly needs to be repeated that the behaviour of the overall index is conditioned, by and large, by what happens in the plantations sector. One striking feature of the local labour market which got established with the very advent of plantation culture and which continued into the current century was the compartmentalisation of the market into a plantation enclave and a non-plantation segment. The dichotomy between the two segments was maintained, and labour mobility between the two sectors was constrained, by a variety of influences including ethnic factors, differences in cultural and social traditions and life styles, the traditional attitude of reluctance of local labour to commit themselves to plantation work, and recruitment policies which insisted on citizenship qualifications for employment in the public sector.

A silent transformation, however, has been taking place in the recent years. The Sirima-Sashtri Pact of 1964 which provided for the repatriation of a section of the immigrant Indian workforce and the conferment of citizenship to the remaining persons on an agreed formula contributed (along with its supplementary legislation of 1968 and 1971) to bring about changes of a far-reaching nature in the composition of the estate workforce as well as to remove certain disabilities (such as the citizenship problem) which had hitherto placed the estate worker in a weak bargaining position. The repatriation programme initiated by the Pact was also contributory in some degree to labour shortages experienced in certain plantation localities, which, together with the increase in the recruitment of local labour for plantation activities, constituted a source of upward pressure on wages in this sector in the current decade. Coinciding with these developments came another legislative measure - the Land Reforms of the 1970s. The land reform had similar far-reaching consequences, for it signified the transfer of the ownership and management of a substantial slice of the acquired estates to the State sector as well as the transformation of the status of the workforce in such establishments to that of State employees. Parallel developments observed over the recent years in social welfare services, education and trade union activity as well as in the attitude of the native workforce towards plantation employment have also played their role in reducing the segregation and the barriers.

In the context of these developments, a trend in the direction of narrowing certain 'generation-old' disparities maintained hitherto between the estate and non-estate segments of the labour market has been more or less inevitable. The faster rate of increase observed in the plantation sector minimum wage - and hence in the aggregate Wages Board minimum wage index - hardly seems surprising, when interpreted in this perspective. It must be added however that, notwithstanding these developments, the government unskilled wage rate continued, even by the end of 1978, to command a premium over estate money-wage rates for parallel grades. This premium is partly a reflection of 'geographical' considerations - or differences in cost of living between regions - and partly intended as a compensating adjustment for certain fringe benefits such as Provident Fund contributions by employer, termination benefits, free accommodation, holidays with pay etc. which plantation workers enjoy over casual government employees (Sessional paper No.3, 1974)

6. Some policy implications

Following from the above observations in respect of wage determining procedures, we may, in conclusion, touch on one or two pertinent issues which seem important from the policy maker's point of view. Our investigations pointed to a new development in the wage scene in the recent years in the form of direct State intervention in wage determination in the private sector. Direct government involvement in the form observed since the turn of the 1960s reflects a deviation from the policy followed hitherto of leaving wage determination in the private sector, by and large, to the established wage-fixing machinery of Wages Boards, Remuneration Tribunals, Collective negotiation and Industrial Court procedures. When the government made concessions to its own employees in 1951 by the introduction of an additional allowance termed the SLA (Special Living Allowance) and in 1957 by way of revision in this allowance and in the CLA (Cost of Living Allowance), there was no deliberate extension of these awards by government decree to the private sector, although these government sector awards did set the pace or wage targets for employees in the private sector. Demands for the extension of these allowances were canvassed by worker representatives before individual Wages Boards, at the collective bargaining table, and before other industrial dispute settlement bodies, and, in a number of instances, they were successful in winning their demands, albeit with varying lags. Starting from the 1970s - or rather the Devaluation Allowances of 1967 - a somewhat different trend is noticed away from this pattern towards more direct State involvement. Government-decreed pay adjustments seem to have become a feature of the contemporary private-sector wage scene, including Ministerial extension of individually negotiated Collective Agreements (such as in 1967 and 1972) to cover establishments which were not a party to the original agreements.

In a set-up where government sector pay awards generate a general expectation that such awards will be extended to the non-government sector, such extension may have helped on occasions to avert an immediate threat to industrial peace, but, in a structure with 'dual' or overlapping wage-fixing arrangements, indiscriminate generalisation of this nature could result in anomalous situations such as what we have observed above. What is more, such flat, 'across-the-board' extensions could raise critical problems relating to viability of enterprises and ability to pay, particularly when the wage adjustments so imposed on employers assume substantial proportions.

Paying capacity, though a controversial aspect, diverges from sector to sector, industry to industry, and from establishment to establishment as well. The advantage in a pattern of decentralised or industry-wise wage determination is the opportunity that such an arrangement affords for individual paying capacity to be assessed at a disaggregated level and taken into account before arriving at wage decisions. As against such decentralisation, a national system of wage revisions is said to have an advantage over a sectoral system in that it facilitates coordination of wage developments with general or overall development policies. Other arguments often cited in favour of wage-fixing at the aggregated or national level as against the sectoral level are ease of administration and avoidance of anomalous wage differentials. These arguments, however, should be assessed in the context of the realities of each individual case.

In a production structure which embraces employers at very different levels of prosperity, sophistication, and capacity-even within the same industry-complications arising from uneven paying capacity do come up, albeit on a limited scale, at the sectoral or individual Wages Board level as well. This is particularly so when the more 'sophisticated' employers make use of the Wages Board mechanism as an instrument for 'eliminating unfair competition' within the industry. When the approach is at an aggregated or national level, the problems are obviously magnified !

We may conclude our investigation on a constructive note. If industry-wise or decentralised wage determination is to be superceded by centralised wage fixing and/or a system of flat, across-the-board wage adjustments, careful assessment needs to be made, in advance, of the differential burden or impact that such legislation is likely to place on undertakings functioning at different levels of operation and productive efficiency. It would also require well-informed judgement in respect of the possible repercussions that such legislation could have, above all, on the general employment situation. Unless cost increases are recouped through upward revisions in sale prices or increased productivity/worker-efficiency, the reaction to 'externally-imposed' wage increases could as well take the form of a cut back in employment through substitution of machine power for human power in the long run, retrenchment of less essential labour, and/or outright bankruptcy of marginal establishments.

Finally, if centralised wage legislation of the form observed recently is to be a permanent feature of the private sector wage scene, it would also imply a need for a redefinition and reappraisal of the role and scope of the established, private-sector wage-determining machinery, including the Wages Board mechanism, in the light of the new developments.

Table A.

Indices of Wages and Prices in Sri Lanka, 1949-78

(1952 = 100)

Year	MONEY WAGES Wages Boards (a)	MONEY WAGES Government Sector Unskilled male (b)	MONEY WAGES Government Sector All Govt. Employees (c)	PRICES (d)	REAL WAGES Wages Boards (a)	REAL WAGES Government Sector Unskilled male (b)	REAL WAGES Government Sector All Govt. Employees (c)
1949	70.6	86.7	n.a.	91.2	77.4	95.1	n.a.
1950	80.9	92.7	n.a.	96.1	84.2	96.5	n.a.
1951	98.5	100.0	n.a.	100.7	97.8	99.3	n.a.
1952	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1953	101.5	101.4	101.6	101.6	99.9	99.8	100.0
1954	102.5	101.4	101.9	101.1	101.4	100.3	100.8
1955	105.9	105.8	108.7	100.5	105.4	105.2	108.2
1956	106.4	107.2	111.0	100.2	106.2	106.9	110.8
1957	107.8	110.4	113.8	102.8	104.9	107.4	110.7
1958	110.8	126.7	126.7	105.0	105.6	120.7	120.7
1959	112.3	126.7	126.7	105.2	106.7	120.4	120.4
1960	111.8	126.7	126.7	103.5	108.0	122.4	122.4
1961	112.3	126.7	126.7	104.8	107.2	120.9	120.9
1962	113.6	126.7	126.7	106.2	106.9	119.2	119.2
1963	115.2	126.7	126.7	108.8	105.9	116.4	116.5
1964	117.8	126.7	126.7	112.2	105.0	112.9	112.9
1965	118.2	126.7	126.7	112.5	105.0	112.6	112.6
1966	118.1	126.7	126.7	112.3	105.1	112.8	112.8
1967	122.2	134.0	131.3	114.8	106.4	116.4	114.5
1968	141.2	165.8	152.6	121.5	116.3	136.3	125.7
1969	141.2	167.8	157.3	130.5	108.2	128.5	120.4
1970	142.7	173.9	171.3	138.2	103.4	125.7	124.0
1971	145.6	173.9	171.3	141.9	102.3	122.5	120.8
1972	151.9	173.9	171.7	150.8	100.7	115.2	113.8
1973	169.9	178.3	180.1	165.4	102.7	107.7	108.8
1974	212.4	204.3	202.8	185.8	114.3	109.9	109.2
1975	263.8	224.6	224.2	198.3	133.0	113.3	113.0
1976	306.3	236.5	237.2	200.7	152.6	117.8	118.2
1977	319.1	241.4	240.4	203.2	157.0	118.8	118.3
1978	442.2	357.1	275.2	227.8	194.1	156.8	121.0

Notes

(a) Combined minimum-wage index for workers in agriculture, industry and commerce
(b) Unskilled daily-paid labour, Colombo.
(c) Combined index for Clerical and Technical employees and Minor employees. (commencing wage)
(d) Colombo Consumers' Price Index for 1952-1978. For 1949 to 1951, the Working Class Cost-of Living Index for Colombo (1938/39 = 100) adjusted.

Sources

Wages Boards sector: Money wage indices for 1952-78 from Department of Labour, Labour Gazettes. Figures for 1949-51 computed by author based on data on minimum wages obtained from Labour Gazettes. Real wage indices calculated using Col. 5 as deflator.

Government Sector: Government unskilled money wage index for 1949-1974 calculated from Labour Gazettes. Figures for 1975-78 computed by author in accordance with Ministry of Public Administration: Establishment Circular Letters No.176 of 14.2.1975, No.194 of 7.1.1976, No.251 of 6.12.1977 and No.292 of 29.12.1978. Real wage index computed as in Wages Board sector. Indices for all-Central Government employees from Central Bank of Ceylon: Annual Reports.
Index of COnsumer Prices: For 1952-78, from Central Bank of Ceylon, Annual Reports, For 1949-51, calculated as explained in notes above.