

The impact of changing economic policies on construction sector performance

Thanuja Ramachandra and Nisa Zainudeen

Department of Building Economics, University of Moratuwa, Moratuwa

The performance of each industry in Sri Lanka is closely related to the set of policies laid down by the government to that sector. The period of fifty six years from 1948 to 2004 after Sri Lanka gained Independence was analysed in nine different policy regimes based on the government that was in power. In finding the relationship change in construction value added was used to represent growth rate while policies of each regime were related to the nearest suitable policy archetype it most resembles. The policy archetype was designed based on two dimensions, one was the extent of government involvement in economic activities, and the other dimension was the bias it had on particular sectors of the economy, called "Specificity". The first dimension was divided as interventionist and non-interventionist while the second was divided based on whether the policies were aimed at one single sector, which was called "pure sector policy", or a number of related sectors, termed "cluster policy" or on the economy as a whole called "general policy". Based on the above two dimensions the model containing six different archetypes was used to analyse the change in economic policies.

A major political change witnesses the birth of a new set of policies, often substantially different from earlier ones. These policy regimes had a significant impact on the construction sector performance. It is observed that at one end when policy archetype moves from interventionist to non-interventionist, the construction sector performance changes from very low to very high. According to the second dimension as it moves from General to Cluster type construction, performance decreases. The period of 1965-1970 was characterised as non-interventionist sector type, there was a high rate of growth (17%) due to the implementation of major development projects such as Maskeli Oya hydropower, road development, and public housing schemes, along with increase in loan limits, large scale land acquisition. It can be observed that the periods of 1977-1989 and 1989-1994 characterised as non-interventionist General recorded 5.2 % and 5.3% growth rates respectively while periods of 1994-2001 and 2001-2004 showed a little lower performance of 4.7% and 2.3% respectively as result of archetype changes to Non-interventionist Cluster.

The periods of 1956-1960, 1960-1965 and 1970-1977 characterised as Interventionist Cluster type showed negative growth in construction with no major development projects except few housing schemes, strict controls relating to import of building materials, property restrictions and rent controls. It can be concluded that government was more involved in economic activities, which neither supported the construction sector nor the overall economy. Less government involvement led to increase in many economic activities thereby achieving high construction growth.

* thanuja03@hotmail.com

Tel: 011-2650738