

Achieving national economic growth: global challenges, economic and social equity

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This probably is a different topic. The theme of the conference is on development of hubs, and one would wonder how this issue of equity would affect on national economic growth and development.

The important issue is that what is meant by 'Development'. Development is for the people. If people do not get benefits of development there is no need to have such development because the purpose of developing a nation is to give the benefits fully to the people in that particular country. What has happened is that over the past decades, global output has grown more than 3% a year and inflation has slowed down in most of the regions. The fruits of the growth have not been shared equally; which will never happen. However, income disparity has grown in many countries in developed and in developing. This is a problem because if we don't keep equity in a society, that society will develop its own problems. That is what we have seen in 1971 and in 1978. And perhaps these are important issues for us to look at. So, any socio-economic and general development, what we look at basically is to make an equal situation as much as possible. Equality is not a possible concept. There was an Italian economist called Pareto. He was looking at the general distribution of wealth. He said the 80% of the wealth was borne by very few people whereas 20% go to the others. If you now look at 80% of the business, you get it from very few people like 10-15% of the population, if you try to increase into 100% you have to get another 60% which is costly and there is no point in doing that.

The subject that we are dealing today is finding development hubs for Sri Lanka and that is the newest concept developed by *Mahinda Chinthanaya Idiri Dekma*. There, one is the maritime hub; the others are the aviation hub, commercial hub, energy hub and the knowledge hub. We are in the higher education sector and are looking at that particular one. If you look at all these things, these are long gestational period type of projects. None of these would bring short term benefits to an economy. If you bring benefits, they are long term. So we have to live with it. So what we are looking at, as His Excellency the President has presented in the budget, is a poverty-free upper middle income economy. That is the vision of that 2013 budget – 'A country with food, water and environment security and approaching a path to a technology revolution development through quality education and skills development, because you need the last two to bring a change in the environment. (Basically, the technological revolution) This is not easy but

this is something that we are looking for.

This is what the Central Bank report 2012, the last one, says, "*As Sri Lanka aims to be a regional economic hub driving GDP Growth through increased and diversified export of goods and services requires harnessing of full potential of infrastructure development.*" So that is what those first four hubs of the five hubs concept are targeting. We are basically looking at the infrastructure development; this is for the long term development of the country. The last one refers to a strong human capital base; you can't do anything without having a strong human capital base. That is the last one, the fifth one that we have mentioned that is based on an enabling institutional environment. Human capital itself is not sufficient but you need to have an environment, an institutional environment to use that human capital and infrastructure.

So what is economic inequality? Economic inequality is both wealth and economic differences which have existed in a wide range of societies in historical periods. It is nothing new. It comes with country's economic structure or systems, like capitalism, socialism, closed economy, open economy, ongoing and past wars, civil context and differences in individual abilities to create wealth are all involved in the creation of economic inequality. You see, when the American election results were announced, when Obama contested for the first time, his wife was asking, "*Do you believe in that America is a free society?*" Because a black man was never expected to be the President of US and he is not even rich; so that is the opportunity of the individual's ability to create both wealth and positions in society. Those are very important things to look at.

What we are looking in our ecology, in our economic policies in general would be equal life chances. Everybody in this society should be able to acquire certain things, irrespective of his position. There should be differences in outcome based factors for which people cannot be held responsible. Equal concern for people's needs—Some goods and services and necessities should be distributed according to the level of need. You see, Sri Lanka is considered as a welfare state. In the 1950's, during Dr Gamini Corea's time, we invited almost all of Nobel Prize winners of economics to visit Sri Lanka and to make recommendations. One of the things that one of them, a professor said was that "*Sri Lankans ate the fruit before they plant the tree*". We did not have resources but we distributed what we had. This

is what was called as the food stamp, actually it was the food rations. If you go to the ration shop, surrender your coupon card you get two measures of rice free. And this is the only country where education is entirely free. You can go up to the medical college, get your degree and go to Washington D.C. and practice. They don't catch the man and they are doing it. And this is the only country on earth where it is still being done. And when you go to India for various discussions they say, "we envy you because we cannot do it in India". The third one is getting things on merit. People should get things on merit. So those are the three things philosophically one can look at.

I told you the programmes that we are having in the long term gestation. So you do not expect very short term results. But obviously two things would emerge. One is high inflation. Because when you spend more money today; if you don't immediately produce goods, there will be inflation. So see the differences. But of course we are lucky that we do not belong to Pareto's 80% rule.

I mean this can happen because the reason for that is the wealth distribution. You can't equalize income; those who are having resources can get more. So this is what we have right now, so what we are trying to do is to change it gradually. We can't change equally but we can improve the conditions of the bottom 40% that is the lowest and low mid. That is one of the policies that the government is interested in persuading. Now we have three or four types (timelines) of development.

The first one is the 1940-1959. That was the first time as we were trying to get an international loan to buy things. You know there was the '*Project Galoya*.' Entirely we hired an American company to do that with Sri Lankan money. Because during the war time in the 1940's we could spend our money and we exported things and we could import and the reserves we had could be used develop Galoya Scheme that was entirely funded by the Sri Lankan government. Look at the growth patterns. The first one is 1940's to 1959 what we call as the '*welfare economy*'. Then you have the 1960 to 1972, that's the time that we use both industry and agriculture as a tool to develop the country. Large industrial projects like '*Kanthale Sugar*' then various other large projects came during that period. Then of course from 1972 to 1978 we did not have enough food to go around. We faced all sorts of problems, we caught up with an international oil price hike and we could not afford. There were no exports during that time. And it is called the '*Inward looking Economic Policy period*'; we didn't have enough food to go around. Then of course in 1979 we opened our economy and there were little modifications since.

Now what are we looking at; there are equities in two forms, one is personal income and the other is regional

economic disparities. If you happen to live in a place like Anuradhapura, Polonnaruwa or Monaragala, your chances of getting into an engineering faculty or a medical faculty in a university are extremely slim. That is because we still produce after 60 years of free education, 60 years of independence 2012-2011, all students to the Medical College came from 2211 schools out of 10000. There is not much of a difference today. Only engineering, there were about 312 schools. So this is concentrated in urban areas, but of course it has penetrated to non-urban places as well. Poor students used to come to the university to study medicine.

Today we have much better economic growth in the Western Province compared to Monaragala and other areas. So there is a disparity within the country. All the industries are located within the Western Province and poverty declined very quickly in the Western Province compared to the poverty in other sectors. So you have rural urban stage disparity, you have provincial disparity. So these are the things that you need to look at when we think of economic growth of a country.

In 2005, Colombo, Western Province contributed 50.8% to the GDP in the country. It got reduced to 44.5% in 2011; meaning, there is nothing changed in the Western Province. But other provinces have got more. Look at the Northern Province 3.0%-3.7%, and it will grow more, and in the Southern province 8.9%-11%: maybe that is due to the airport, harbour and various other infrastructure developments. So this is happening. So, Eastern Province 4.7.to 5.7% and North Western 8.9% to 10%, the reason for that is because it is adjoining the Western province.

Look at Sabaragamuwa; not much of a growth. Central Province, a little, but not much. Uva Province is the worst, 4.5 in 2005 and even today it is the same. These are the other things one has to look at when you are talking about the growth scenarios in the country.

Most of the numbers over here would not translate into personal income because mean and median are statistical concepts. These are 2012 surveys and there are about 25,000 households, only 5,000 are included here. The urban which is 17% of the population, the 'Mean' income is SLR 25,783, 'Median' income, that is basically the statistical income; (people won't get this sort of money). The rural 24000 population is better off. Median 15000 disparity is high that could be soon after state sector 15000-11000. So average monthly income; obviously our mean per capita income rupee increased from SLR 26,000 to SLR 46,000 during the last 6 to 7 years, but if you look at the real income , if you take the inflation out, its 26000 to 27000 rupees and it is less than 5 %.