

REDUCTION OF UNEQUAL DISTRIBUTION OF INCOME AND THE EXPORT SECTOR - PERFORMANCE

The Need to Achieve the Equal Distribution of Income for the Population

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It is the distribution of income that determines the level of living or living standards of the people (Rasaputram 1972). In recent times at the global level, there is a growing awareness that distributive justice should be considered as a development priority. At international level, concern over the growing internal income inequalities in developing countries was expressed in the seventies by the circulation of the slogan, "growth with distribution" by international organisations. (The plethora of literature that emerged consequently was in fact the turning point in abstract growth-dominated development thinking).

However, reduction of unequal distribution of income is not traditionally considered a macro policy variable in developed countries, perhaps owing to the absence of glaring inequalities of income distribution among the population. For developing countries, the reduction of glaring income and wealth distribution will no doubt provide a conducive environment to accelerate growth, *inter alia*, by increasing income-generating avenues for the bottom strata of income earners and ensuring their participation in development activities.

However, even in the absence of glaring inequalities, compared with other South Asian countries in Sri Lanka policy-makers were from the very outset, concerned about achieving equitable distribution of income. Even in the early

fifties, government programmes included this objective.¹ Subsequently, the ten-year plan which was the first serious attempt at planning, also identified equitable distribution of national income as one of its four objectives. (Fernando, Lloyd 1986). The five-year plan too, *inter alia*, aimed at bridging the disparities of income living standards by raising the income and living standards of low income households. In recent times the issue of "distributive Justice" assumes special significance owing to apparent increases of inequalities of income of the population and the aggravation of unemployment problem in the country. In fact, during the period 1977 to 1987. "The targetting of government expenditure did not have a favourable impact on the poorest segments of the population, real incomes tended to decline while no appreciable reductions were evident in the unemployment rates" (Karunatilake H.N.S. 1991). In this context, the government has accepted the poverty alleviation as the priority human resource investment in the overall development programme. The estimated poverty index of the country (for 1981/1982) shows that 3.1% of total income must be transferred from the non-poor to the poor to eliminate poverty in Sri Lanka (Gunaratne OPCIT). There is no doubt on the society's unanimous commitment to eradicate the poverty of nearly one-quarter of the population (Gunaratne, L. 1987).

Income Distribution and Export Sector

Given the importance of reducing the unequal distribution of income, there are fundamental reasons at macro level, for the necessity of satisfactory export performance to achieve this objective.

Firstly, for an effective redistribution of income in the economy along with the availability of income sources, sufficient quantities of essential commodities must be available on a recurrent basis for the bottom level income earners to translate their newly acquired purchasing power into effective demand. Therefore, a redistribution of income will not lead to an increase in consumption unless more goods including imports, are available. Analysing the wide differentials of average per capita expenditure on essential food items by various income deciles, the Five Year Plan has concluded that "low income per capita, is not responsible for lower consumption levels of the poor. Rather it is a problem of inadequacy of local food production as well."² (Five Year Plan page 3). However, in addition to increasing production, past experience has shown that the country needs a substantial amount of imported consumer goods to satisfy the basic needs of the poor. Even to increase local production, a certain minimum amount of imported materials and machinery are needed. Moreover, the complex facets of poverty also call for making available required quantities of building materials, essential

items needed for sewerage systems and pipeline water facilities for the poorer sections of the community, and these entail foreign exchange. Therefore, the import capacity needed for this could come mainly from higher export performance.

Secondly, the increased exports are needed to de facto elimination of unequal distribution of income of the country owing to the magnitude and the nature of the income transfers, be they in the form of employment or transfer income needed to shift to bottom level income earners.

As per present distribution income pattern, 23.7 per cent of the population belong to income deciles below poverty level, which is defined as per capita food expenditure of Rs. 69 in 1978/1979 prices (Gunaratna 1987 IBID). Basically, a large income source at macro economy level is required to create employment sources for poor households in order to push them gradually to higher income levels. Among the income sources, employment income is the effective and lasting solution for the poor to eradicate their poverty on several counts. (Hewavitharana IBID). First, "a large pool of employment income will allow poor family members to pool their income and meet the various basic needs such as food and rice through a family sharing mechanism." However, welfare transfers in the form of the rice subsidy account only for about one-fifth of the total expenditure on food for the households in the lowest per capita expenditure deciles (Hewavitharana IBID). Therefore, only employment income could increase their effective demand rather than improving their supply base to a limited extent. Second, with increased employment income the households are in a good position to meet the unfilled gaps such as housing construction and educating their dependants etc. Third, strengthening their economic base in the above manner will help them to make better use of facilities which are likely to reorient their attitudes and behaviour patterns as well as participatory abilities.

The need for the export increase in the redistribution is also connected with the need to spend a considerable amount of local and foreign resources to provide the transfer payments along with employment opportunities. These transfer payments include food subsidies, education, health

expenditure, etc. which add to the real income of the lower income earners, and therefore, has an equalizing effect (Rasaputram 1972). "In Sri Lanka where rigidities exist in every sector of the economy the built-in natural law leading to greater equality through growth cannot function." (Rasaputram IBID page 63). The experience after 1977, which indicates that there was a tendency to increase inequalities and a serious deterioration of the living standards of the poor also clearly shows the need for greater government intervention to guarantee the purchasing power of the poor to push them from the subsistence level. In this context, transfer payments such as the food subsidy, which is both a nutrition supplement and an income supplement scheme, can be very effective in the redistribution of income to the poor. In fact, during the period 1953 to 1973, there was a greater equality of income, and the major weapon of redistribution was the rice subsidy. However, when employment income cum transfers are shifted to the poor there will be an immediate rise of marginal propensity to consume among the low income deciles, thereby generating inflationary tendencies through increase of aggregate demand which result in reducing the purchasing power of the poor. Therefore, what is required at macro level is not only a large income source to compensate the poor on a recurrent basis but also an income source that is capable of providing required purchasing power for the poor, for a sustainable period through imports or local production. In this context, it is only the export income that can satisfy these two conditions and solve the unequal distribution of income in the country.

Fourthly, the income accrued to the export sector itself, has the potential to provide a number of income avenues to lower level income earners through its spread effects and direct effects. At zonal level since the bulk of the plantation crops are found in the wet zone, which is also the region of acute rural unemployment and under-employment in the country, increased productivity resulting in higher export performance may directly provide income sources for the bottom level income earners in this zone. Higher export performance also invariably helps to reduce the inequalities by strengthening the income of a large number of small

holders of traditional and minor export crop sub-sectors. In Sri Lanka, among tea, rubber and coconut holders, 20%, 31% and 50% respectively are smallholders.³ (Dissanayake A.B. 1984, Tilakaratne 1984). Owing to low levels of profits derived, a considerable number of these owners fall within the lower income earnings levels. For example, the net profit derived from a acre of tea smallholdings, yields only 3,000 kgs of green leaf, which is equivalent to Rs. 540/- per year (Dissanayake A.B. 1984). Similarly, average monthly profits of per acre for rubber smallholders in 1984 was only Rs. 150/- (Dissanayake IBID). Therefore, increased production/productivity in export crops may directly help in increasing the income of the poor smallholders, and thereby reduce the unequal distribution in the country.

Finally, it is not to be forgotten that although the country experienced major export booms in 1950/1951, 1954/1955 and 1984, and a number of minor booms, only the 1950/1951 boom resulted in strengthening the inequalities. (See Corea 1975). Even in 1950/1951, the inequalities would have been marginal had it not been for the 1949 devaluation. The 1984 tea boom is noteworthy for equalizing effects. In fact the tea boom in 1984, which was instrumental in introducing employment guarantee and higher wages for employees in the estate sector, ensured a fair share of export income to lower income earners in the plantation sector. (See Fernando 1988). Generally, the export income generated during a boom directly helps to augment earnings of lower income deciles, and thereby reduce inequality due to multiplier sources of income available to them. In a boom, therefore, poorer classes increase their earnings from all these sources, and in a slump they can suffer decline from all these multiplier sources of income. (Kuru-kulasuriya 1985). The multiplier sources of income available for poorer classes are given in Table 1.

The analysis proves that export performance of a high order is necessary to achieve greater equality of income distribution in the country.

The available evidence does not suggest that export booms result in inequality of income. Even if there are tendencies towards inequalities during a boom, as

TABLE 1
Sources of Average Household Income 1981/1982

<i>Sources of Income (Selected Items)</i>	<i>Percentage of Total Income: Poorest Decile</i>	<i>Percentage for all Deciles</i>
Main occupation	41.80	59.31
First subsidiary occupation	5.01	8.52
Rent for immovable property	6.45	5.62
Transfers - (a) from government	11.00	2.92
(b) from friends	13.96	6.68
(c) abroad	0.31	3.03
Income in kind	16.94	6.28

Source: Survey of Consumer Finances 1981/1982.

Footnotes:

mentioned earlier, the export taxes are very effective in reducing the inequalities.

1. In the early 1950s, while recognizing the need to bridge the inequality gap, the

government relied on increased private sector competition for better distribution of income. (See Rasaputram 1972).

2. Thus the Five Year Plan has aptly argued the case of increasing local production for effective redistribution in the following words: "if social justice is to have any meaningful impact in raising the standards of living of the poorest sections of the community, there must be economic development. In practical terms this means producing more milk, developing of the fishing industry, growing new types of food crops, rehabilitating the coconut industry, producing vast range of mass consumer goods and generally raising the level of production." (Five Year Plan p. 3).

3. Smallholders have been defined as the owners of land below 4 hectares.