

Does the Tax System Contribute to Rural Sustainability?

-Case from Sri Lanka-

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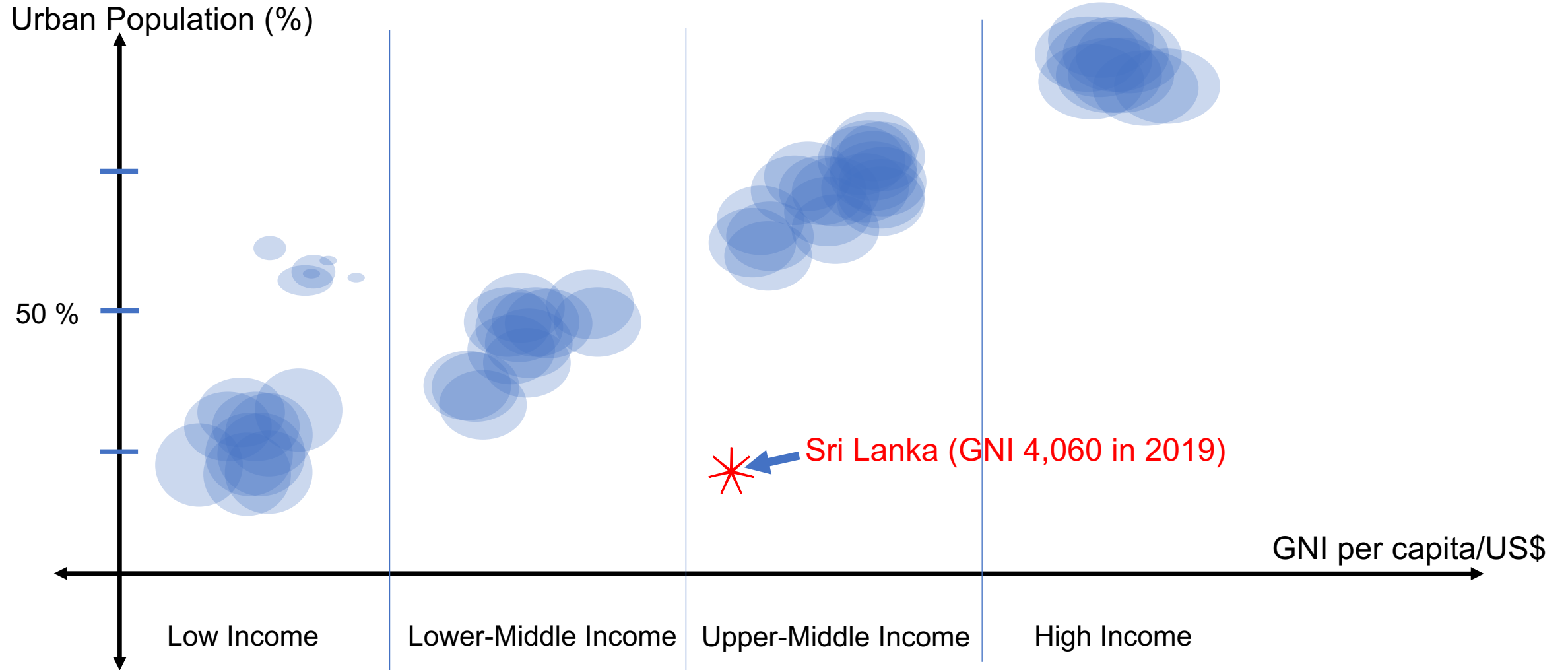
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# Motivations:

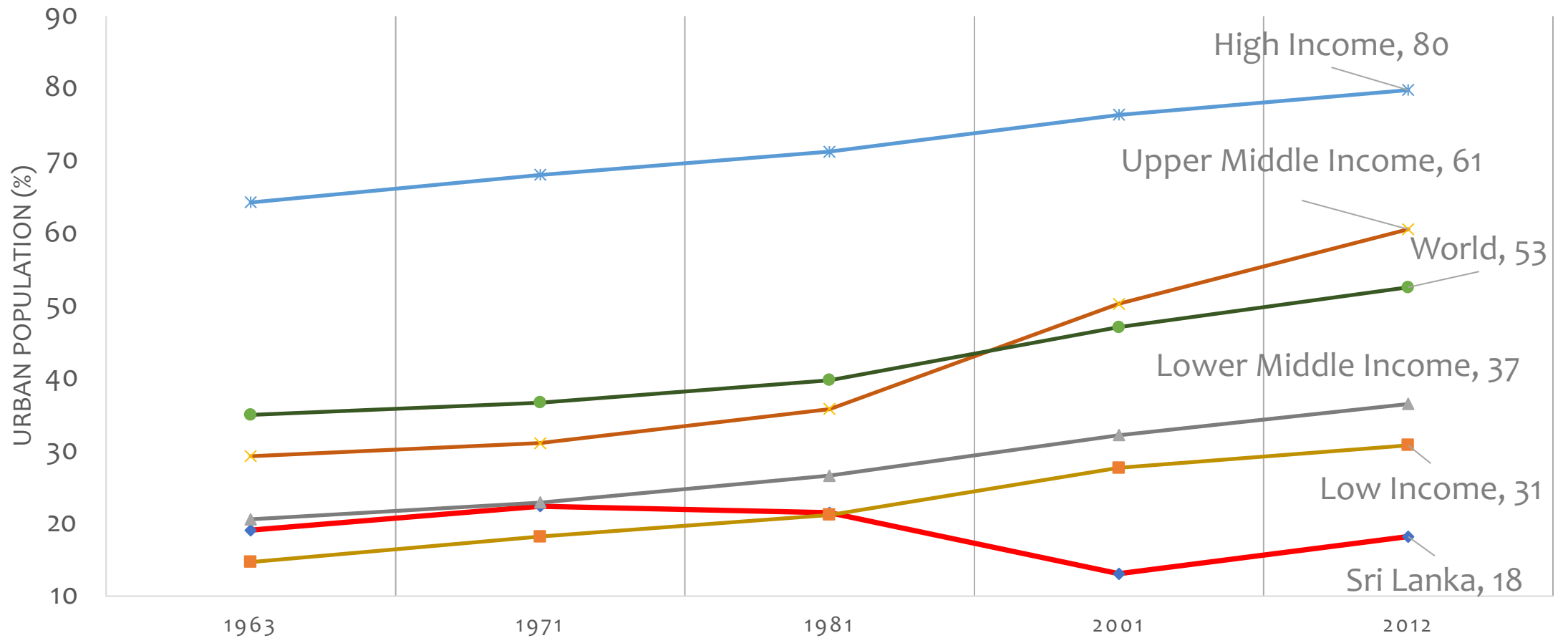
- 1) The traditional pattern of development: **Economic growth with urbanisation.**
- 2) **No countries** ever become middle income status **without urbanisation** (Spence et al 1995, 1).
- 3) **Excessive urbanisation causes problems**  
→SDGs 11: ‘Sustainable City’



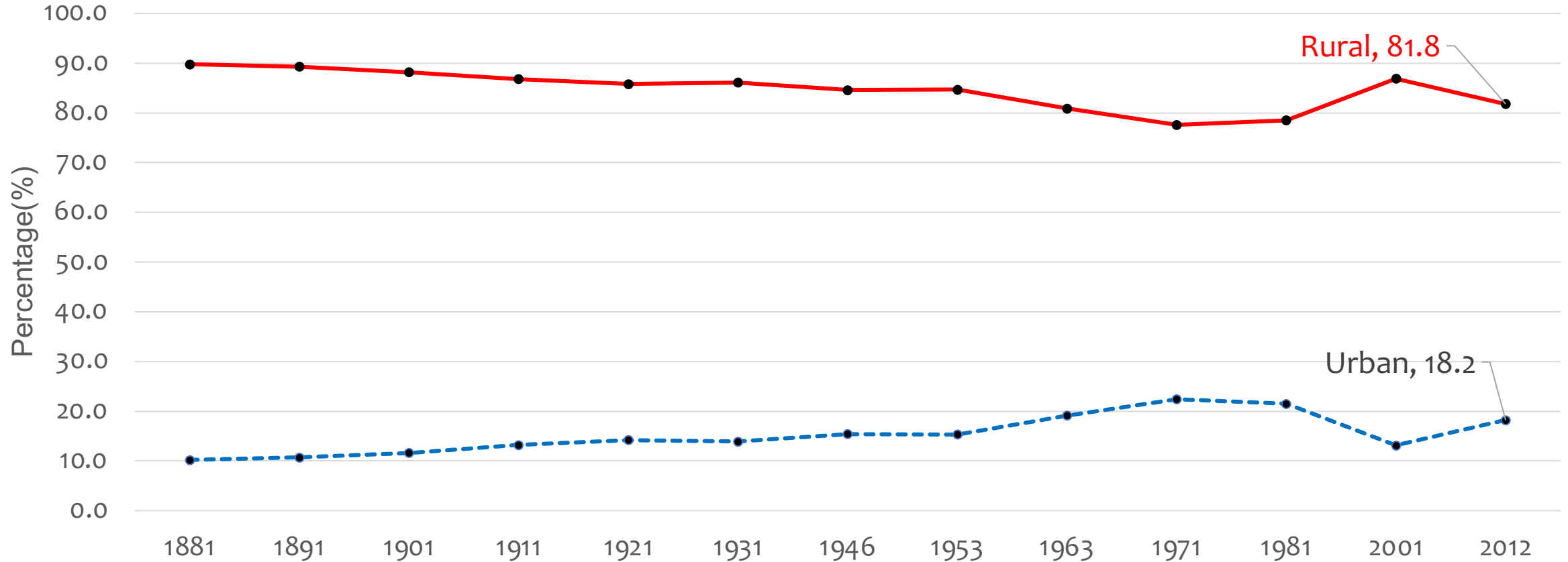
# Economic Growth and Urbanization



# The World Trend: High Income, High Urban Population

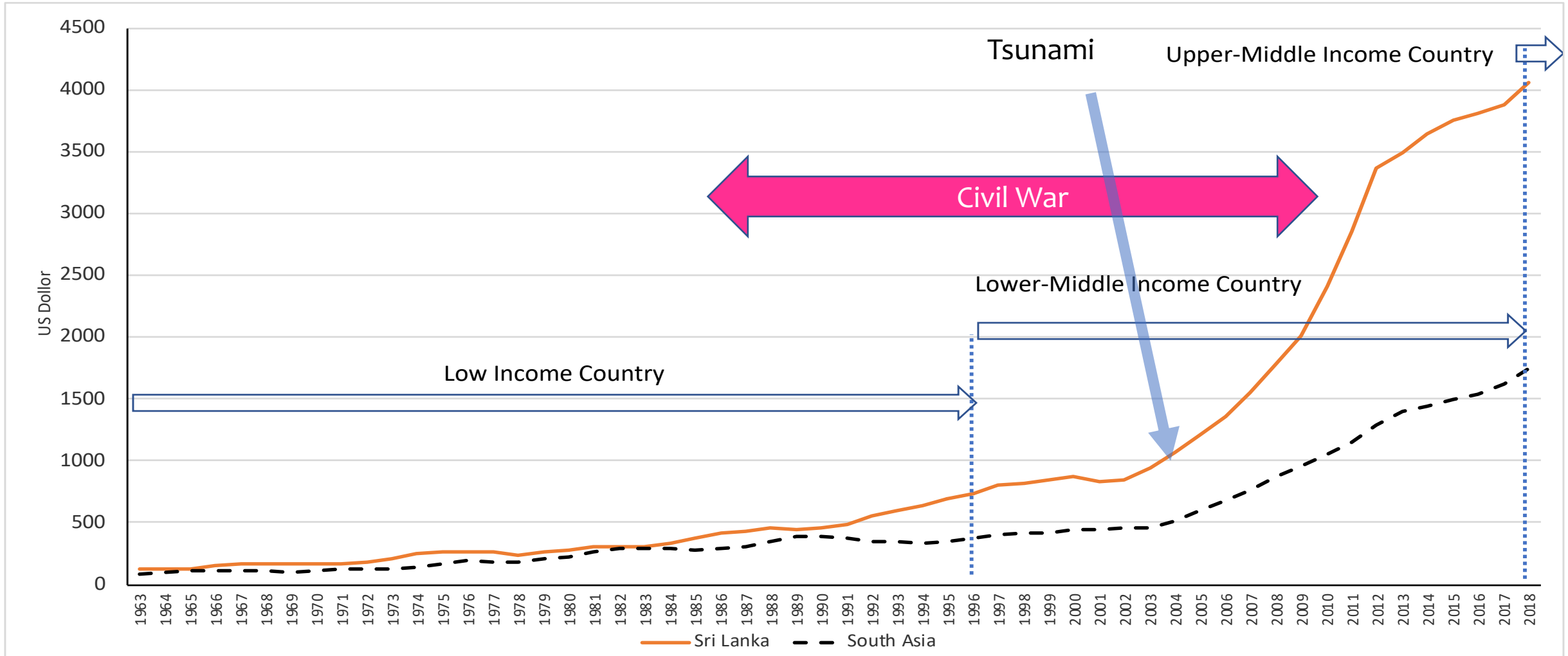


# Sri Lanka: Rural Population > Urban Population



Source: Department of Census and Statistics (2012)

# Sri Lanka: Economic Growth without Urbanization



Source : World Bank Data (Various Years)

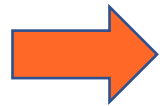
# The Puzzle:

- Is Sri Lanka an Outlier?
- How?

How was Sri Lanka able to sustain its rural population while experiencing economic growth?

# Key Conclusions

- 1) **Development ideology:** “Rural first principle”
- 2) **Welfare policies** [Food, Education, Health and Transportation]
- 3) **Positive perception towards rural areas.**



**Development with Rural Sustainability.**

**“Serendipitous Sustainability”**



# Previous Researchc about Sri Lanka's development

1) Sri Lanka as 'success case on social development.'

2) Sri Lanka as 'failure case on economic growth.'

 Conventional pattern of development: Urbanisation and Economic Growth.

3) Sri Lanka as 'failure case on the political system.'

# The Success: Improved Basic Needs

- A developed country that happens to be very poor (Moore 1992, 30 )
- ‘Best bet in Asia’ (Jiggins 1973, 2)
- ‘Sri Lanka model’ (Sen 1981)
- ‘Outlier’ (Isenman 1980)

# The failure: on economic growth

1. Financial resources: **highly dependent on plantation sector**.

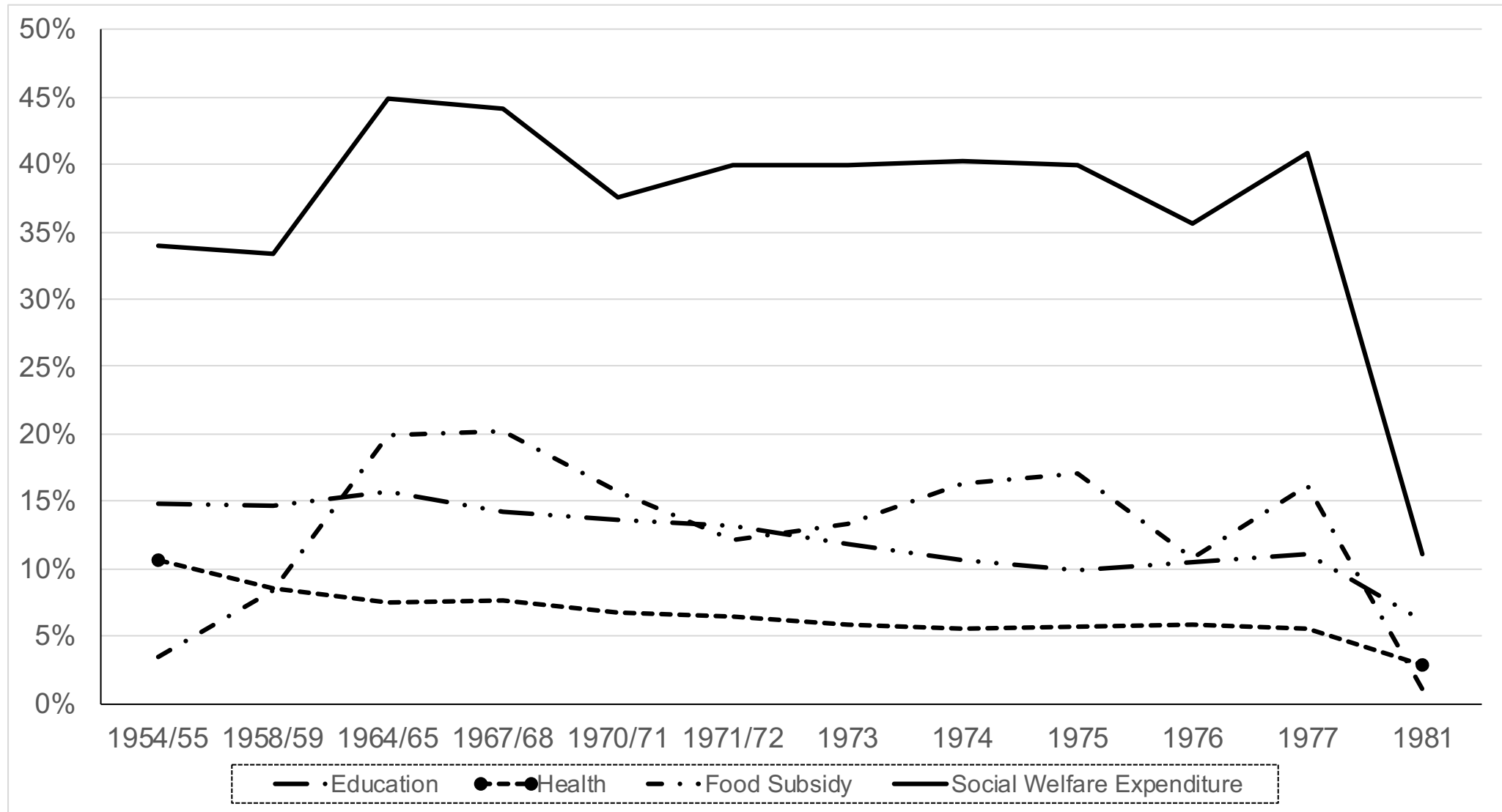
➡ No industrialisation.

2. **Welfare distribution over growth**: 'premature welfarism' (Herring 1987).

➡ Growth rate fell from 2/8% in 1960s to 0.7% in 1970s (Athukorala 2007, Karunatilake 1987 Sally 2006) ➡ **Economic liberalization** in 1977.

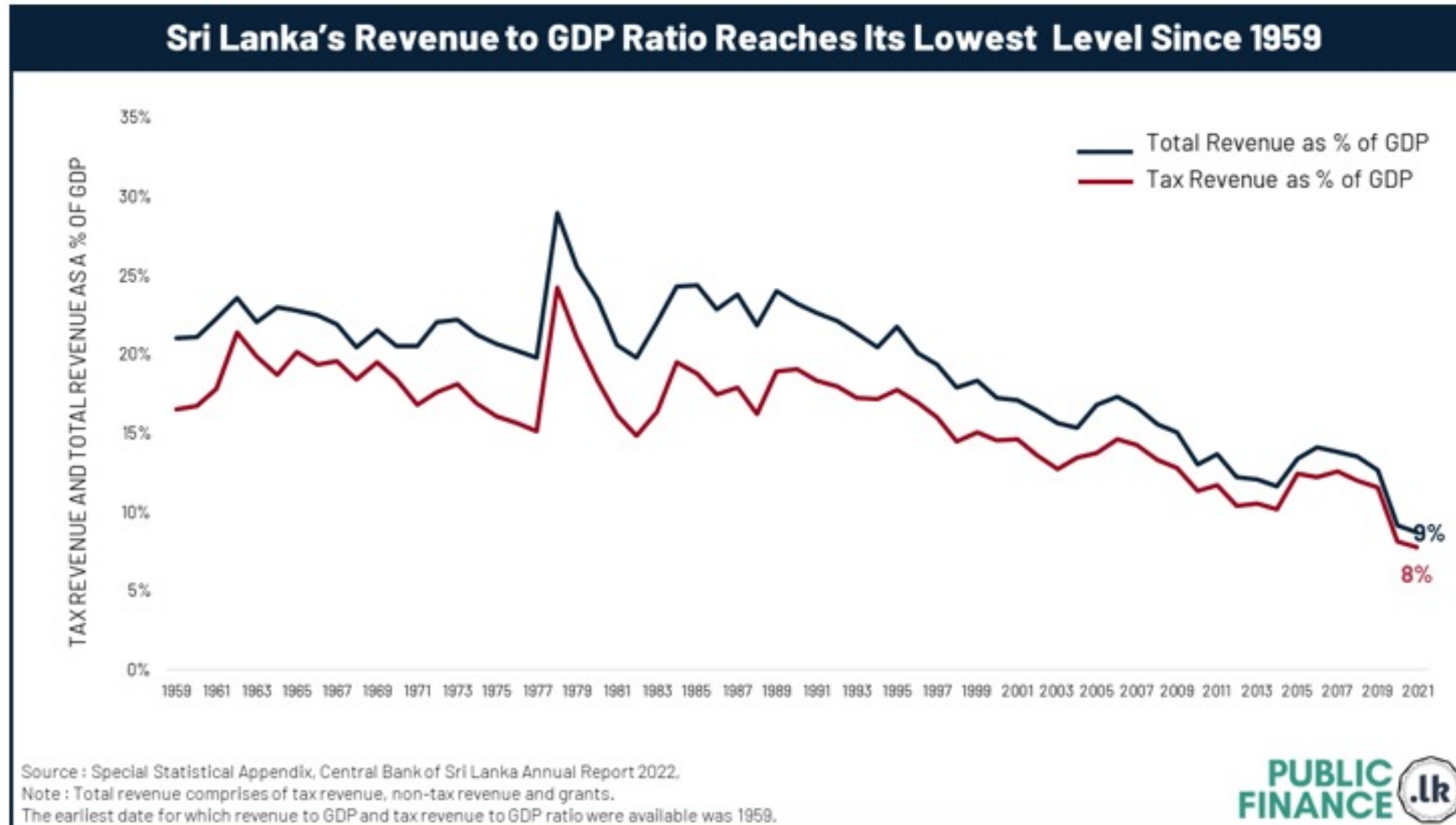
3. Ethnic conflict started in 1983: increased military expenditure.

# Nearly 50% of Public Expenditures for Social Welfare (as Percentage of Total Government Expenditure)

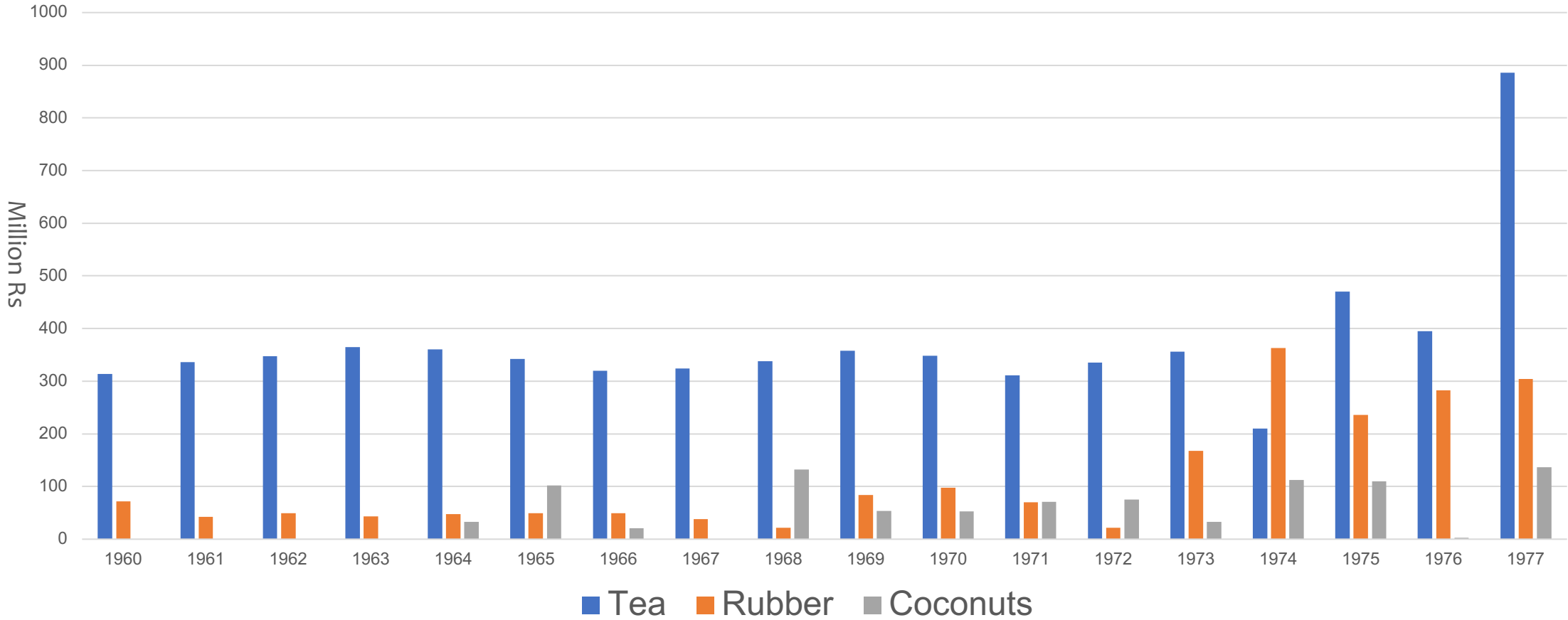


Source: Asada (2021)

# Government Revenue from 1950-2020

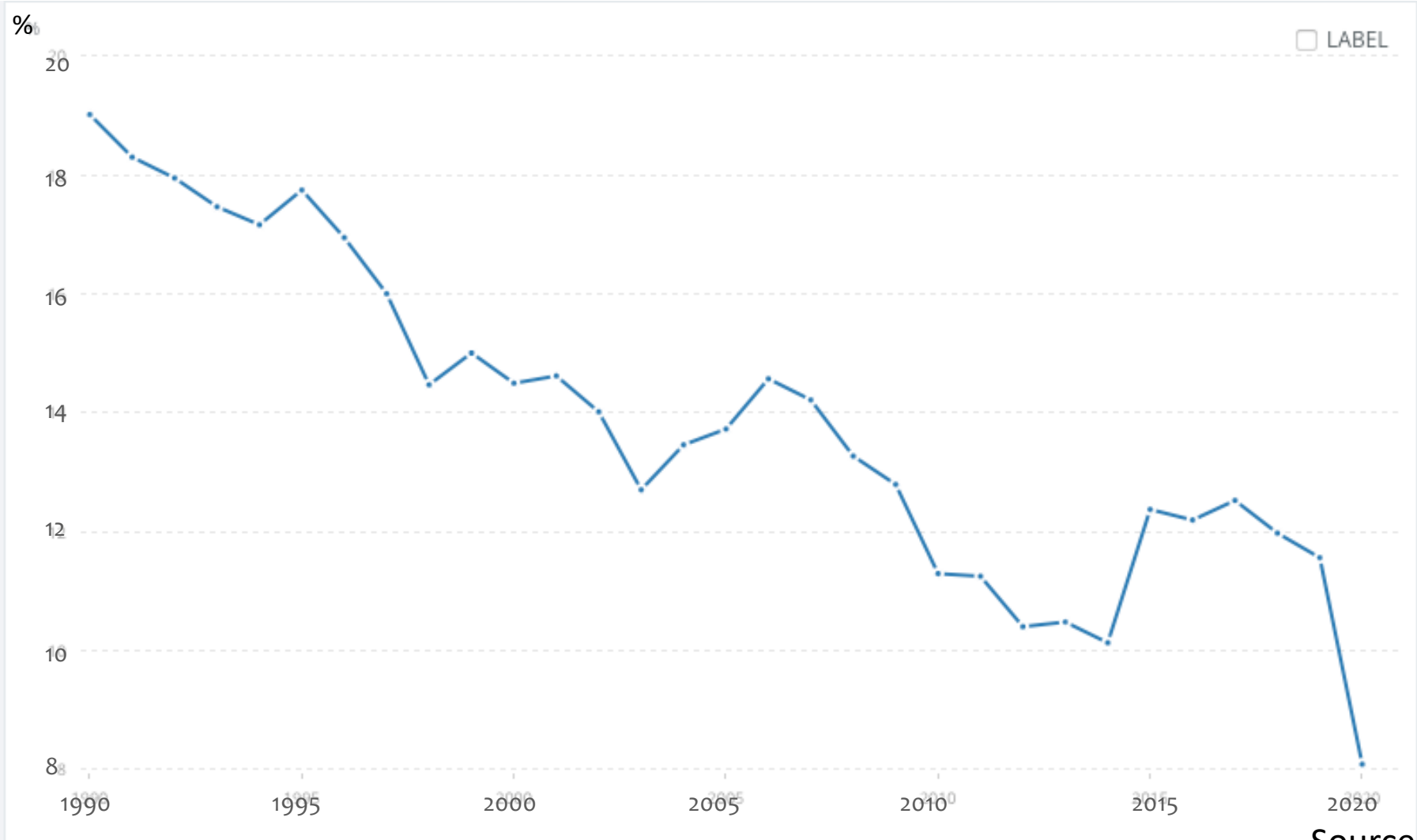


# Taxes on the Plantation Sector (1960-1977)



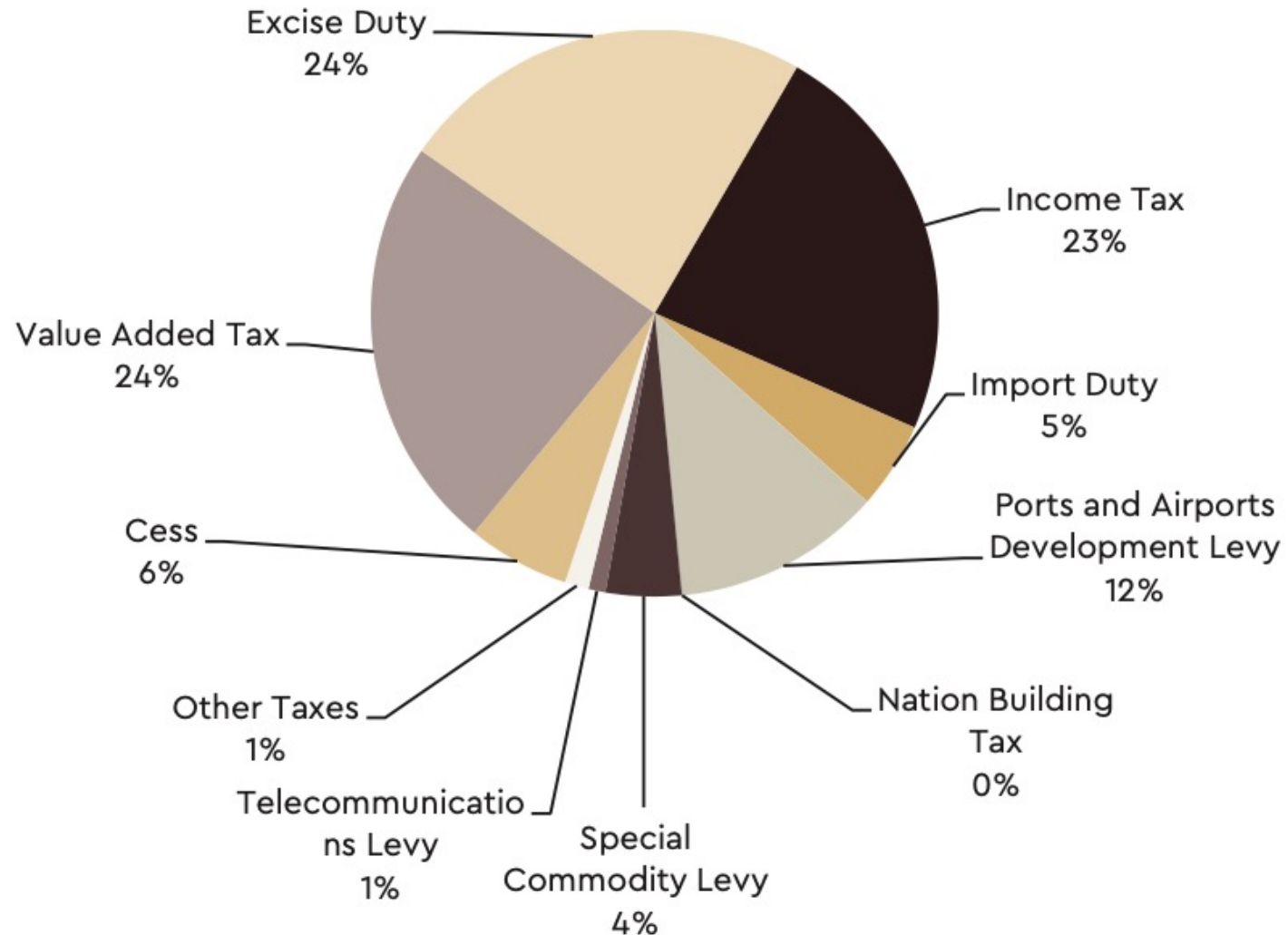
Source: Asada (2021) using the data from Throbecke and Svenar (1987) and Esho (1996)

# Tax Revenue (% of GDP) Sri Lanka



Source: World Bank Data

# Compositiion of Tax Revenue 2021



Source: Department of Fiscal Policy, Ministry of Finance in Sri Lanka (2022)



# The Practice of Rural-First Principle: Welfare Policy

- 1) Food rationing, subsidy and poverty alleviation
- 2) Education welfare
- 3) Health welfare
- 4) Transportation welfare



Kurunegala Bus Terminal

# 1) Food Welfare / Poverty Alleviation

- -1977: Food rationing, benefited everyone.
  - 1977-: Food Stamp Program
  - 1989-: *Janasaviya* Program
  - 1995-: *Samurdhi* Program
  - *Samurdhi* covered  $\frac{1}{3}$  of population.
- Provided basic foods.  
Reduced poverty.
- Reduced poverty from 28.8% in 1995  
to 4.1% in 2016.
- **Criticism: Politicisation. Dependency.** (Gamage 2006, World Bank 2002).

## 2) Education Welfare and Health Welfare

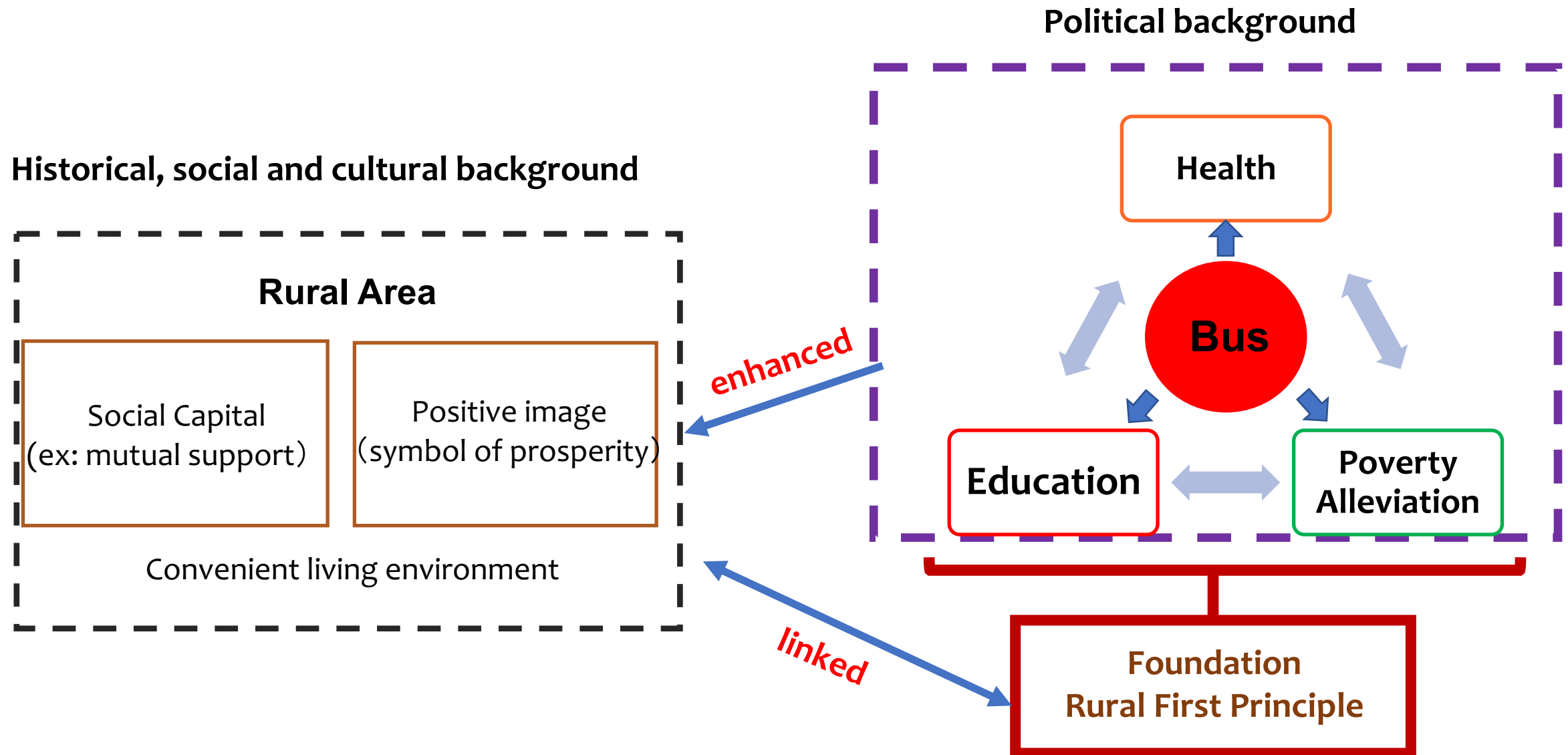
	Education	Healthcare
Started	In 1945 (Free Education Policy)	In 1951 (Free Health Policy)
Objectives	Provide equal opportunity to rural students.	Ensure equal distribution to all populations.
Main contents	<ol style="list-style-type: none"> <li><b>Free</b> education from elementary to university level.</li> <li>Introduce <b>Central School Scheme</b> &amp; Grade 5 <b>scholarship programme</b>.</li> <li><b>Widely distributed</b> the different types of schools</li> </ol>	<ol style="list-style-type: none"> <li>Nationalise until 1977</li> <li><b>Free</b> medical service both preventive and curative aspects.</li> <li><b>Widely distributed</b> the different types of medical institutions</li> </ol>
Outcome	Literacy Rate: 58% in 1956 → 96.7% in 2016.	Life expectancy: 43 in 1946 → 77 in 2015. Infant mortality/1000 lives birth 141 in 1946 → 7.5 in 2015 Death rate /1000 : 37 in 1946 → 6 in 2015.

# Transportation welfare (bus network)

- Nationalization until 1978.
- Expansion of rural bus network.
- Maintains low fare with subsidy.
- Increased inter-rural and rural-urban mobility than urbanisation.
- Bus network: enhanced welfare policies, ensures access to welfare facilities and expands people's choice.



# Mechanism of 'serendipitous sustainability' in Sri Lanka



# Lessons from Sri Lanka's Development Path

1. Long term state intervention of welfare.
2. Rural Sustainability rather than Urban Centric Development
3. Rural public transportation (low-technology) has provided mobility.

# Welfare Expenditure and Debt Trends

- Social welfare programs **are not the main drivers of unsustainable debt trends** at present (Abesinghe 2021)
- Sri Lanka's Default: Result of the Political Failure (long term)