

Impact of Industrial Structural Changes on Income Inequality

Trends in Sri Lanka

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Abstract

Using decomposable inequality measurements, this paper analyzes the impact of industrial structural changes on income inequality in Sri Lanka during the 1963-1997 period. Three main income inequality phases were identified namely, declining income inequality during 1963-1973, increasing inequality during 1973-1987 and, again, declining inequality during 1987-1997. In terms of absolute level and inter-temporal changes, our findings suggest, that income inequality is overwhelmingly a matter of within-industries. Inter-industry inequality was less than 16 percent of total income inequality. However, since the introduction of liberalized economic policies, the contribution of industrial structural changes to changes in total income inequality has been sizable. Since the service industry share is the highest in the total income inequality, attempts must be made to establish a strong manufacturing sector to achieve growth and equity objectives simultaneously. Priority must be given to establishing more manufacturing industries in the rural sector to reduce inter-sector industrial income inequalities. Finally at the aggregate level income inequality can be reduced by implementing an appropriate progressive tax system in Sri Lanka.

Key Words

1. *Industrial Structure*
2. *Income Inequality*
3. *Decomposition*
4. *Sri Lanka*
5. *Trade Liberalization*