# Managing Growth for Social Inclusion in South Asia

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# Outline

- Patterns of Economic Growth in South Asia
- Informal sector
- Regional/ rural –urban disparities
- Changing role of the State
- What do we make out of the data ?
- Inadequate funds for policy interventions
- Outcomes
- The way forward

# Patterns of Economic Growth

- Economic growth does not necessarily or automatically lead to social inclusion
- In most countries in South Asia, economic growth has, in fact, led to greater inequality and social exclusion
- Inequality has manifested in two dimensions: income inequality and regional/rural urban disparities
- Overall unemployment rates have come down but, in many countries,  this is largely due to the expansion of the informal sector and overseas labour migration

# Informal Sector

- Informal sector, as is well known, does not provide regular, stable incomes and offers no social protection in any form. In south Asia, a majority of people derive their incomes from informal economic activities. Out-sourcing of labor by firms has created income opportunities, not regular employment.
- Overseas employment enables migrant workers to earn higher incomes but often provides no long term stability and social protection such as pensions, health cover, insurance against occupational hazards, etc.

# Regional/Rural-Urban Disparities

- Regional and rural urban disparities persuade people of all walks of life to migrate to more prosperous areas, in particular, cities and towns. This has created serious problems such as urban sprawl, rapid increase in urban populations, increase in squatter populations, rapid rise in urban property prices, congestion, public health hazards, urban crime, etc.

# Changing Role of the State

- Taxation; very low tax regimes and their implications
- Increasing income disparities
- Rise of private consumption over public consumption
- Inadequate public investments in education, HRD, health, public transport, housing, etc.
- Lower income groups and marginalized segments of society have few opportunities for upward mobility

# Taxes, Revenue and Government Expenditure

| Country | Pers. tax Max | Corp. tax | TR % GDP | Gexp. % GDP |
|---|---|---|---|---|
| Japan | 50 | 38 | 28 | 42 |
| USA | 55 | 35 | 22 | 41.6 |
| Germany | 45 | 29 | 40 | 45 |
| Australia | 49 | 30 | 25.8 | 35 |
| Denmark | 57 | 22 | 49 | 57 |
| Finland | 61 | 25 | 43.6 | 55 |
| Netherlands | 52 | 25 | 39.8 | 49 |
| Sweden | 59.7 | 22 | 45.8 | 51.2 |
| | | | | |
| Pakistan | 35 | 35 | 10 | 19.8 |
| Bangladesh | 25 | 27.5 | 8.5 | 16 |
| Sri Lanka | 15 | 30 | 11.6 | 21.4 |
| India | 30 | 30 | 17 | 27 |
| | | | | |

# Table 2: Activity Status of Elders in Sri Lanka

DCSC: Demographic and Socio-economic Survey, 1994

| Population by the age group | | | Domestic work | | In Labour Force | | Unable to work/ retired | |
|---|---|---|---|---|---|---|---|---|
| | Male | Female | M | F | M | F | M | F |
| **60-64** | 208459 | 219,352 | 5.2 | 69.1 | 66.9 | 16.6 | 27.9 | 14.3 |
| **65-69** | 162239 | 168,797 | 6.2 | 66.9 | 58.8 | 11.5 | 35 | 21.6 |
| **70+** | 249011 | 253,726 | 7.8 | 50 | 38.8 | 6.8 | 53.3 | 43.2 |
| **Total** | 618279 | 639,983 | 6.5 | 61 | 53.5 | 11.4 | 40 | 27.7 |

# What do we make out of the above data?

- Developed western countries in general maintain higher levels taxation and these states continue to control a large share of the wealth
- By contrast, countries in South Asia have much lower taxes and therefore, have control over only a small part of the wealth. As a result, private consumption is much higher than public consumption even in such important areas as education, health, public transport and insurance.
- This situation is no problem for the rich but it leads to all sorts of deprivation for low income groups

# Inadequate Public Funds for policy interventions

- Due to low level of taxation, governments do not have adequate funds for investment in such vital sectors as education, health, social housing, public transport and social insurance. All these are critical for the poor and other disadvantaged groups. Most of them struggle to survive or leave the country looking for better life chances.

# Outcomes

- Persisting poverty and deprivations in the midst of unprecedented affluence
- Poor public services
- Widening social disparities
- Social and political unrest
- Increasing security expenditure
- Poor governance
- Poor investment climate
- Economic stagnation

# Concluding Remarks

- Neo-liberal policies ( of leaner governments and liberal unregulated markets) have prevented the governments from having access to adequate funds to create opportunities for low income groups to have access to quality education, good health services, efficient public transport, healthy environment, decent housing, etc.
- Higher tax regimes, good governance and evidence based public policies appear to be the only way to promote development and social inclusion in south Asia and elsewhere.