

Article

Macroeconomic Determinants of Income Inequality in Sri Lanka

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Abstract

The aim of this paper is to identify the macroeconomic determinants of income inequality of Sri Lanka, as it appears high in the country for the last five decades. The analysis is done using secondary data from 1978 to 2019. Autoregressive Distributed Lag model (ARDL) is utilized as the main estimation technique. Findings indicate that government expenditure, trade openness, average prices, agricultural share to the GDP, and per capita GDP are the main macroeconomic determinants of income inequality in Sri Lanka among the chosen variables. Moreover, the results reveal that government expenditure and trade openness seemingly induce income inequality, confirming Barro's hypothesis, while average price level and the share of agriculture to the GDP have contributed reducing income inequality of the country. Per capita GDP also shows a marginal significance, and it supports Kuznets' view. The study suggested that policy priority should be given to develop the agricultural sector and to catches the spillover effect of international trade to reduce income inequality. Maintaining a stable price level is also prominent.

Key words: ARDL model, income inequality, openness, trade spillover

JEL code: C32, D63, E60