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EQUAL DISTRIBUTION OF ECONOMIC RESOURCES

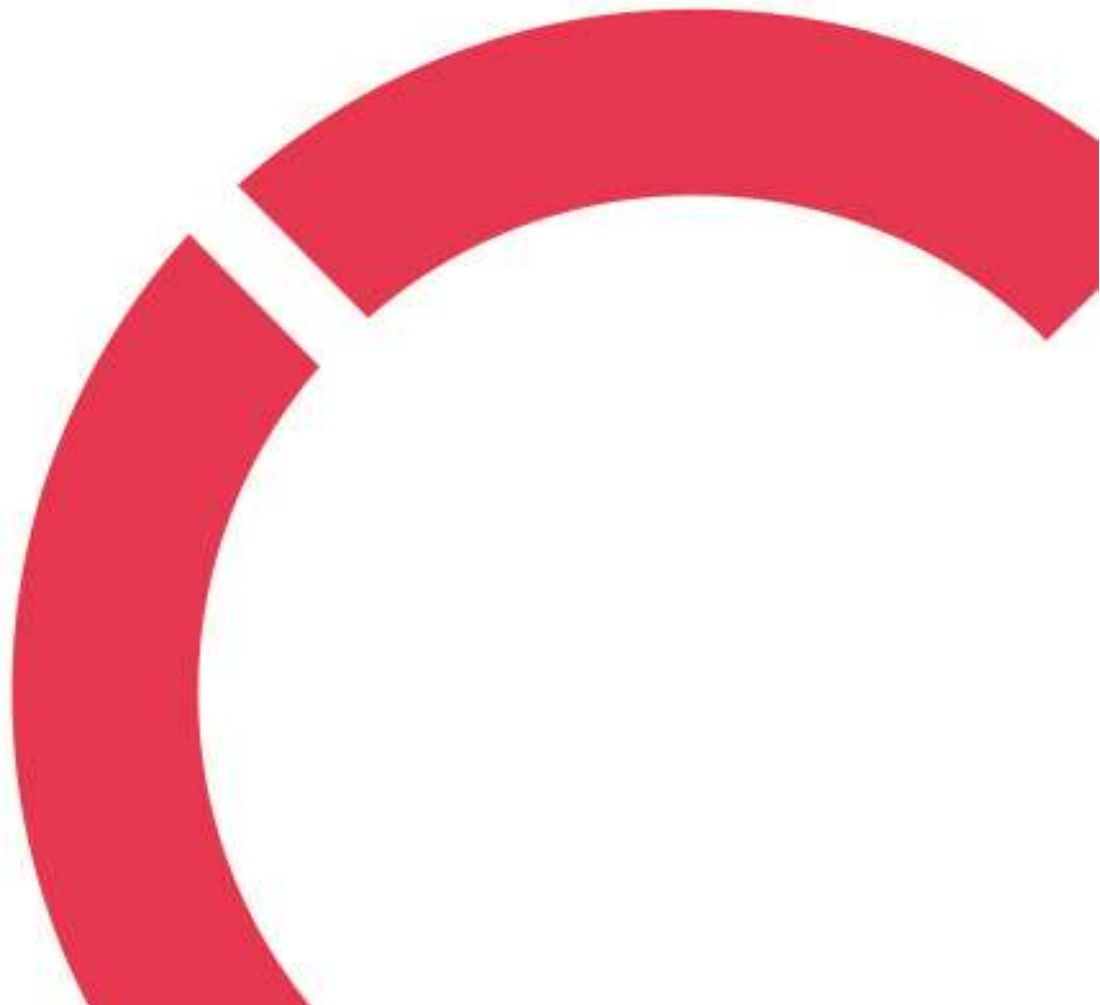
An analysis between Finland and Sri Lanka

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ABSTRACT

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<p>Economies around the world are classified into three groups based on their average level of income, job security and living standards. Developed economies, emerging economies, and developing economies are the three types of economies under this classification. The classification itself makes it clear about the existence of inequality in the world.</p> <p>Economic resources are needed to satisfy needs of everyone. And everyone has a right for a fair share in economic resources. Therefore, it is vital that economic resources are distributed evenly among everyone. Complete adherence to equal distribution seems unrealistic to achieve. But many economies were able to achieve higher standards in equal distribution. Therefore, this study was aimed at identifying critical factors which facilitate and impair equal distribution and the impact of equal distribution on businesses and enterprises in an economy. Tax system of a country plays a major role in reducing inequality together with various other economic policies relating to social welfare, anti-corruption and tax administration among others.</p> <p>This study was conducted through reviewing relevant academic literature written on the subject. Secondary data available in official websites of the respective countries and some international organizations were used in the financial and economic analysis. And data and facts contained in few news articles were used to analyse present status of certain elements which were necessary in arriving at conclusions. Conclusions were reached using theoretical facts and written evidence identified through the study of relevant literature written around the concepts.</p> <p>The findings of this study identify key elements in achieving equal distribution in a society. Comparison of economic policies, taxation system, social welfare system, level of corruption and tax evasion levels in Sri Lanka and Finland provided a great insight into the significance of the above elements and the level of impact equality makes on businesses and enterprises in an economy.</p>		
<p>Key words Direct tax, economic resources, economy, equality, GDP, indirect tax, inequality, macro-economics, micro-economics, policymaking, progressive taxation, social welfare, state revenue, tax administration, tax evasion, taxpayer.</p>		

CONCEPT DEFINITIONS

Balance of Payment

Net effect of international monetary transactions (Export revenue and import expenditure) of a country.

Developed country

A country which has a matured economy with high GDP and high GDP per resident. These country residents will have a high quality of living standards.

Developing country

A country with a lower level of living standards for its residents, with less industrial and technological advancement.

Direct tax

Tax authority collecting tax directly from the taxpayer. Taxpayer cannot pass it to another person.

GDP

Gross Domestic Product = Total monetary value/market value of all the total production (goods and services) of a country

ICT

Information Communication and Technology

Indirect tax

These taxes are paid by an individual or entity and impact is passed on another. Finally, tax is paid by one person but actually borne by another person.

Inflation rate

The rate at which prices of goods and services increase over a period time.

Progressive taxation

This is a tax system which imposes higher rate of tax on high-income earners and lower rate of tax on low-income earners.

Total tax ratio

Total tax revenue * 100%

Total GDP

This also can be interpreted as the proportion collected by the state out of country's total production.

ABSTRACT
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1 INTRODUCTION

Economic resources are essential in satisfying human needs. The main four types of economic resources are land, labour, entrepreneurship and investment. Everyone needs economic resources to satisfy their needs in various proportions according to their requirement. And every living creature has an equal right in accessing economic resources to satisfy their needs. The equal right of human beings to access economic resources is not accomplished in the society. Even resources bestowed by nature are dispersed unevenly between different landscapes. But it is the responsibility of leaders, experts, and policymakers of a country to utilize the available resources in an efficient and effective manner for the growth of the country's economy and provide equal and better living standards for their residents.

Only a few economies in the world were able to accomplish economic growth, reduce inequality, and provide better living standards for their people. While some nations are trying to emerge into this desired state, most of the economies are still struggling to identify the basic elements to achieve equality. Developed nations are more successful in reducing inequality and developing nations are the most ineffective in this part. This raises a few questions as to whether economic development can reduce inequality and whether economic growth and equality are positively correlated.

It can be argued that economic growth has a positive correlation with increasing equity. Economic growth increases income level of residents in a country. Increase in income levels increases the level of living standards. But economic growth should benefit all citizens in a similar manner if equality to be achieved through development. If income levels of certain groups of people alone are increased as a result of growth and less privileged groups are not benefitted from growth, in such situations economic growth will not be a facilitator for equality.

Economic growth is examined in this study as it is a significant aspect for economy of any country. But this thesis is not aimed at identifying the relationship between economic growth and equal distribution of economic resources. This study is aimed at providing guidelines and answers for the following research questions.

1. Significant aspects which promote equal distribution of resources in an economy
2. Significant aspects which cause inequal distribution of resources in an economy
3. Impact of above identified factors could make on business and enterprises in an economy

Finland is a developed country selected for this study. Finland is a country which entered this status after facing various devastations such as the economic recession due to civil war, famine etc. Apart from being a developed country, Finland is also recognized globally as the happiest country on earth, a leading country with least corruption levels, a pioneering country on environmental protection and a leading nation on achieving social mobility etc. Finland has pocketed many more recognitions under its name. Hence, Finland could provide great examples and learning points for an emerging economy in achieving high standards of equal distribution in society and the way such equality elements have contributed towards country's economic growth and trade.

Sri Lanka is a developing nation which is currently experiencing one of the major financial crises in its history after its independence in 1948 from the colonial rulers. Sri Lanka experienced a civil war which ran beyond two decades and had a major impact on country's economic growth and stability. Sri Lanka performed well on social indicators through provision of free education and free healthcare in the Asian region even when the civil war was active in the country. At present these social indicators are deteriorating due to the financial crisis. Therefore, it is vital to identify the key factors which caused Sri Lanka to take a downturn in equal distribution of resources as well as an economic downturn and the impact of these factors on Sri Lankan industries.

It is worthwhile comparing Finland, which achieved as a developed nation with excellent economic strategies combatting many economic setbacks, and Sri Lanka, a country once with rich social indicators now struggling for economic stability. This comparison can pinpoint differences in strategies of two countries which has led to success of one country and failure of another country. This study is performed through a literature review of intellectual writings by various authors, experts, and researchers in the field of economics, sociology, psychology, and any other relevant discipline which became necessary in the circumstances. And secondary data and information from official state websites of both countries are used for the analysis. A few news articles were also utilised to identify present situations on certain matters relevant to this study.

This is a report which is aimed at identifying factors which facilitate equal distribution and factors which deteriorate equal distribution and their impact on businesses and enterprises operating in selected economies. For the purpose of comparison Finland, a developed country with high standards of equality is selected for comparison with Sri Lanka, a developing country. This study will be performed using secondary data and relevant academic literature written on the subject.

2 ECONOMIC RESOURCES AND EQUAL DISTRIBUTION OF ECONOMIC RESOURCES

This chapter illustrates and describes concepts relating to economic resources and theories of equal distribution of economic resources. Further it illustrates the economic techniques used to enhance equal distribution of resources. Taxation and its role in maintaining equal distribution, impact of economic growth on equal distribution and vice versa, elements of equal distribution and their impact on businesses are being examined through review of academic literature.

2.1 Economic resources

Four types of scarce resources are identified under economic concepts. They are land, labour, entrepreneurship, and capital. These resources are essential in creating products and services in order to satisfy human needs. Land includes, many types of land starting from land used for production such as agricultural, mining, forestry, to land used in constructing commercial buildings. And includes oils, gases, minerals, and metals etc. extracted from land. Labour refers to specific skills and physical human abilities which are used in manufacturing or providing services. The investment made to create and maintain infrastructure and facilitation services for production are called capital as per economics. Integrating and managing all other economic resources (land, labour, and capital) while taking on risk is known as entrepreneurship. An entrepreneur also sacrifices his precious time on making decisions for the successful operation of a production process. Technology is treated as a crucial economic resource in today's context, even though it was not recognized under traditional economic theories. (Fernando 2023.)

Human needs are endless while resources available to satisfy such needs are constrained. Scarcity of the resources never allows humans beings to satisfy their needs in full. Therefore, economics is sometimes treated as a miserable discipline which cannot provide solutions for the problems arising inside its own boundaries. (Mitchell, Wray & Watts 2019, 5.)

Natural resources which are available freely for everyone can become limited or scarce due to over usage by an individual or many individuals (The Investopedia Team 2023). Fundamental principle of economics explains how to select best alternative among scarce resources (Dutta 2006, 3). If defined in

simpler form, economics is about distribution of resources which are limited in supply according to need. Air is a fine example to elaborate the meaning of scarce resources. It is not essential to incur a cost to use air as it is freely available. But due to environmental pollutants nowadays, it is essential to incur extra costs to maintain pollution at minimal level and keep the air cleaner. Therefore, cleaner air becomes a scarce resource, even though air is not a scarce resource. (Becker 2017, 1.)

2.2 Theories and definitions on distribution of economic resources

There are two theories concerning distribution of income. Personal distribution theory and factoral distribution theory are the two distinct theories. Factoral theory concerns more on the way income is distributed based on factors of production, labour, land, and capital. (Sinclair & Cairncross 1982, 219.) Countries in the African region are highly rich in natural resource deposits, which were unevenly distributed among each country. So as resources are unequally divided, income and social welfare are distributed unevenly among these countries. (Adekunle, Maku, Williams, Gbagidi & Ajike 2023, 1296.) Personal theory is concerned about finding reasons behind the inequality in distribution of income between people in the society (Sinclair & Cairncross 1982, 219).

Vast disparity occurs in the wealth distribution than on the income distribution. Wealth consists of savings, inherited money and assets, accumulated business wealth etc. which differs from individual to individual according to their living conditions and their own efforts. Disparity in income distribution does exist but at a lower level than wealth distribution. (Andrain 2015, 8.) Inequality in income distribution should be decided after analysing the reasons behind such income disparity. If a person opts for non-development of his abilities and gets a lower income due to his choice, it cannot be treated as an inequality. But if a person receives a lower income even after working extensively for his career growth such is considered as an income inequality. (LeGrand 2017, 86-87.)

A popular definition used until recent past by economists to define equal distribution of resources, is pareto-efficiency which means the optimal state. According to this definition, a resource cannot be allocated between two persons without a trade-off. If one person is benefitted another one will lose which explains the complexity in implementing equal distribution of economic resources. (LeGrand 2017, 1-2.)

2.3 Techniques used in equal distribution of economic resources

Resources which are utilized for a particular need has an opportunity cost of foregoing an alternative product or need. Hence, allocating economic resources among various needs have become significant and crucial decisions as these resources are limited in supply. (The Investopedia Team 2023.) But democratic policymakers identified significant mitigations against these disparities, such as taxation methods, labour market programmes, and by introducing more meaningful regulatory and monetary frameworks. Social organizations promoted social well-being programmes to transfer part of wealth and income from highly privileged to underprivileged. Progressive taxation system was utilised to some extent to level the disparity in income distribution. Independent operations of financial institutions are also considered as a policy for promoting equality. Employees' eligibility for wages, appropriate working conditions, pensions, healthcare facilities etc. were ensured through the growth of trade unions. It was proved that the above policies introduced by democratic leaders, can be successful in ensuring equal distribution of resources among people with continuous dedication of leaders, officials, and community. (Andrain 2015, 29-30.)

Increasing the provision of funds on social welfare expenses were a significant initiative by egalitarian leaders which contributed highly towards reducing inequality. Social scientists identified that public policies contributed highly towards increasing the gross income of employees. All developed nations commenced provision of free healthcare, free education, parental allowances, food subsidies, pensions, unemployment benefits, housing allowances, payments for sick and disable, through their social care policy for the public which greatly helped to reduce the inequality in distribution of resources. (Andrain 2015, 30.)

Assessing the microeconomic effects of macroeconomic policies such as tax systems and public expenditure is an initial step taken by policymakers in designing economic policies to eradicate inequality and poverty in societies. Still, it is vital to understand that these microeconomic indicators alone are not able to pinpoint the real impacts of macroeconomic policies. Further, there may be macroeconomic effects due to microeconomic policies formulated. Hence, more advanced and developed type of techniques are the ones in which micro level techniques are integrated with macro level techniques. This identifies the impact on micro level due to macro level policy changes and vice versa using first and second rounds of data. (Bourguignon , Bussolo & Pereira da Silva 2008, 20-21.)

2.4 Principles of taxation and its role in equal distribution of economic resources

Raising revenue, repricing inadequately priced products, redistributing income and wealth, raising participation in the democratic process to facilitate democracy, and reorganizing the economy through fiscal policy are the 5 Rs explained in the Financial Transparency Coalition as characteristics of a competent taxation system. These characteristics are also the goals of taxation and the purposes of existence of a taxation system. Concepts relating to taxation which are commonly acknowledged are called principles of taxation. These are often used to analyse, comment, and criticise modifications to taxation laws. (Kabinga 2016, 4-5.)

Equity is a significant principle of taxation which requires that taxation should be charged fairly among everyone. Equity is defined in vertical and horizontal terms. Horizontal equity is where everyone is charged a similar tax on similar taxable activities without any discrimination. Vertical equity defines that tax charge should increase with the level of taxable income received. (Kabinga 2016, 7.)

Efficiency is another principle relating to taxation which describes that taxation systems should be such that there are no or minimal loopholes to evade or manipulate taxation. Neutrality principle will ensure that taxes are levied impartially between various taxable activities. Certainty/predictability principle illustrates that taxation systems should not be changed rapidly which will make it challenging for taxpayers to plan their business and other financial activities. (Kabinga 2016, 7-8.)

Progressivity or proportionality principle is another vital element in taxation which suggests that high income earners should pay more taxes than low-income earners and governments should distinctly identify these differing categories of taxpayers in the system. The most effective taxation method in reduction of inequality is the progressive taxation system, which charges more taxes from the high-income earners and wealthiest people and transfers such income to middle-class and underprivileged through social and public services. (Andrian 2015, 9-31.)

Simplicity principle, emphasis that a tax system should be clear for an ordinary individual without expertise in taxation. If taxation system remains unclear tax efficiency will be negatively impacted due to misinterpretations by individuals. And finally, the enforceability principle states that taxation laws should be enforced by authorities in an appropriate way in order for the system to be successful. Even if a tax system maintains all above principles but officials fail to enforce the system efficiently, it would be a major drawback. (Kabinga 2016, 10-11.)

2.4.1 Progressive taxation technique and tax administration

Apart from maintaining equality in the society, progressive tax system provides a significant benefit to the economy as well. It performs as an automatic regulator in the economy preventing unnecessary economic fluctuations. Revenue of taxpayers increase during economic growth and their buying power increases and in turn increasing the demand for goods and services. Increase in demand increases the prices which can cause high inflation and impact the economy negatively hindering further growth. In progressive taxation system taxpayers have to pay higher amounts of taxes to state when their income increases during economic growth and thereby limits the purchasing power of taxpayers and in return preventing high inflation. (Popescu, Militaru, Stanila, Vasilescu, & Cristescu 2019, 3.)

Most critical elements of any tax reform are the policies attached to it and the tax administration which implements and controls the legislations. In a hypothetical condition of ultimate compliance with tax laws tax administration needs to play a minimal role of only providing facilitation services to the citizens who are willing to settle their tax obligations to the betterment of the society. As opposed to this in an extreme non-compliance situation, tax administration has a huge role to play as a watchdog. But in real life situations both the above extreme conditions are not realistic. Rather tax administration needs to act in the regulator mode for tax evaders while encouraging and facilitating responsible and voluntary taxpayers. (Savić, Dragojlović, Vujošević, Arsić, & Martić 2015, 1138.)

2.4.2 Tax evasion and its impact on equal distribution

Concealing and paying lesser taxes than actual amount prescribed by tax law or avoiding payment of taxes are tax evasions. This may even involve extreme levels of manipulations. Evading taxes directly impacts certain principals of taxation. Individuals who earn similar level of income may end up paying varied amount of taxes compromising the principal of horizontal equity. This may also reduce the gaps between tax bases set by policymakers to ensure equality and making it unfair for the complying taxpayers. ((Murshed & Saadat 2018, 15-16.)

Economies have witnessed tax evasion as the most popular economic offence from the commencement of the taxation era. Therefore, a successful tax administration service should be of such a quality which provides obedient taxpayers a simple and fast service in paying their taxes while efficiently detecting non-compliances on a timely manner. Tax administration should ensure maximum level of complying

taxpayers and minimal amount of tax evaders. An adequate tax administration model is the key for its success and this model should consist of two elements. They are attitude to compliance and compliance strategy. This strategy should be designed in such a way that it lessens the pressure on the taxpayers in complying while preventing tax evasion. (Savić et al. 2015, 1138-1139.)

2.5 Economic growth and its impact on equality

Economic growth is the percentage increase of the gross domestic product (GDP) on a yearly basis. GDP is used as the vital statistic in measuring the status of a country's economic activity and overall well-being. (Cerra, Lama & Loayza 2021, 4.) GDP is equal to the total production of a country over a year. This can be calculated in another way where total income of earned in a country by way of wages, interest, rent or profits. In other words it is the total income earned in a country by using factors of production. Factors of production are the four types of economic resources, namely land, labour, capital and entrepreneurship. Massive differences exist between income of countries around the world. Income level of a country has an effect on the economic growth of the country. Hence economic growth of countries differs hugely depending on various factors. It can be seen through historical evidence that some countries grow at a faster pace where some grow slowly. And there are many countries who record a negative growth rate. (Weil 2016, 3-23.)

GDP identifies the return received by individuals for employing their factors of production such as capital and labour in a country based on that country's economic activities. Hence, GDP shows the economic resources a country has, and these are the resources which are distributed among countrymen for their well-being. And a growth in GDP proves a growth in country's economy. Hence, economic growth of a country will contribute towards increased state of well-being of individuals in a nation if resources are distributed equitably among them. But, when resources are distributed unevenly, economic growth of a country will not assist in eradicating poverty in the country. On the other hand, poverty and inequality will bounce back by hindering the growth of the economy as a whole. (Cerra et al. 2021, 4.)

Human capital was the critical power which empowered the fourth industrial revolution. If capable and brilliant human capital are forbidden from the society, it will impact economic growth of such society in a negative manner. Inequality decreases social mobility and thereby hinder economic growth.

Equality and social mobility have a positive and binding connection and are vital in a country's economic growth. (World Economic Forum 2020, 11.)

Lower economic growth and inequality has a great impact on the well-being of the society and controls the communal behaviour. Low-income earners tend to work hard and for long hours which produces mentally depressed people in the society. Thefts and robberies increase due to insufficient income. Lack of free education produces uneducated and indecent humans in the society. Lack of free healthcare promotes an unhealthy society. Poverty strikes society. (Andrian 2015, 8.)

2.6 The impact of equal distribution on businesses and enterprises

Organizations have unique structures, cultures, policies and their own norms integrated to them. Therefore, an organization can be seen as a smaller version of society. The differences within employees in an organization due to social inequalities will impact organizations in the same way it effects the society as a whole. Inequality in society is displayed parallelly in organizations through differences in pay scales, hierarchical disparities etc. These disparities can impact outputs or end results in organizations. And lower living standards and health issues cause higher rate of absenteeism and employee turnover in organizations. (Mir, Willmott & Greenwood 2016, 444.)

Literature on management depicts inequality as a possible threat to businesses from its outer environment. But same literature also expresses the opinion that values of firms are created by innovative and skilled entrepreneurs and managers and other stakeholders provide only a supportive role in the process which facilitates inequality internally within organizations. (Rygh 2021, 89.)

Increased levels of inequality cause many economic consequences apart from poverty and social issues. Inequality reduces economic growth, discourages innovation and investment in an economy. Research conducted using data of OECD countries obtained proven evidence that higher level of inequality can hinder economic growth of a country. A country with minimum inequality level could have achieved at least twenty percent economic growth according to the findings of the said study. (Polacko 2021, 348-349.)

Inequality in income distribution causes more income transmission to the wealthier community in the society who has a tendency towards savings than spending. Poorer groups in the society who get a

minimum income has to spend all their income on essential goods and services. This reduces demand for goods and services in the economy. Less privileged groups in the society are more prone to obtain loans from lenders for their livelihood. Increased debts increase financial instabilities in economies. Results of a study has proved that countries and states with high inequality levels are the ones that have recorded minimum level of innovations within them. (Polacko 2021, 350.)

2.7 Characteristics of equal distribution among developed and developing countries

Inequalities in income distributions are much higher in developing countries compared to developed countries apart from few exceptions. According to the research finding by Balseven & Tugcu, unequal distribution of income is reduced through tax revenues in developing countries and by higher level of social benefits in developed countries. Developing nations commonly have a narrower tax base, lower amount of unregistered employment and lesser equality in distribution of common resources in contradictory to the characteristics of the developed countries. Previous studies on inequality of income distribution have been centred around developed countries. Fewer number of research which examined the developing countries was not successful due to unavailability of data. (Balseven & Tugcu 2017, 377.)

3 A REVIEW BETWEEN FINLAND AND SRI LANKA

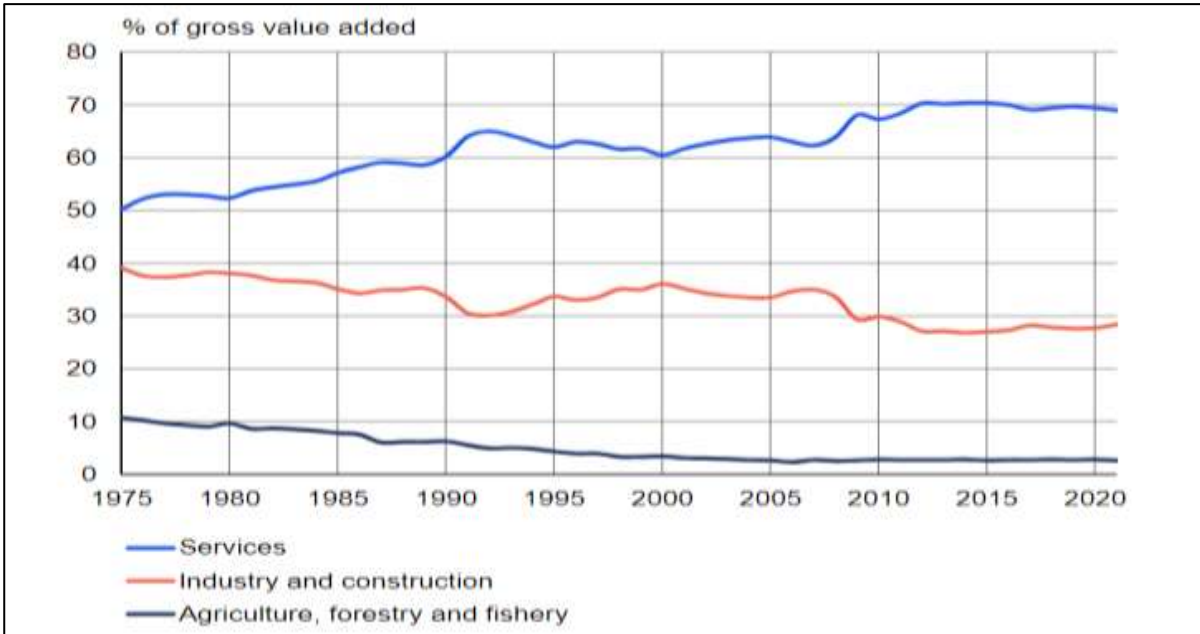
This chapter identifies economic characteristics, taxation systems and social welfare systems in Finland and Sri Lanka, through a review of related academic writings and research papers. This can be utilised to gather evidence for the intended findings of this study.

3.1 Economic facts about Finland

As per the World Happiness Report 2023, Finland has been topped as the happiest country in the world for the 6th consecutive year, according to a survey conducted using six criteria. Research was carried out using following criteria, gross domestic product per capita, social support, better life expectancy, freedom of residents, generosity of the population and general perception on corruption levels. (World Population Review 2023.)

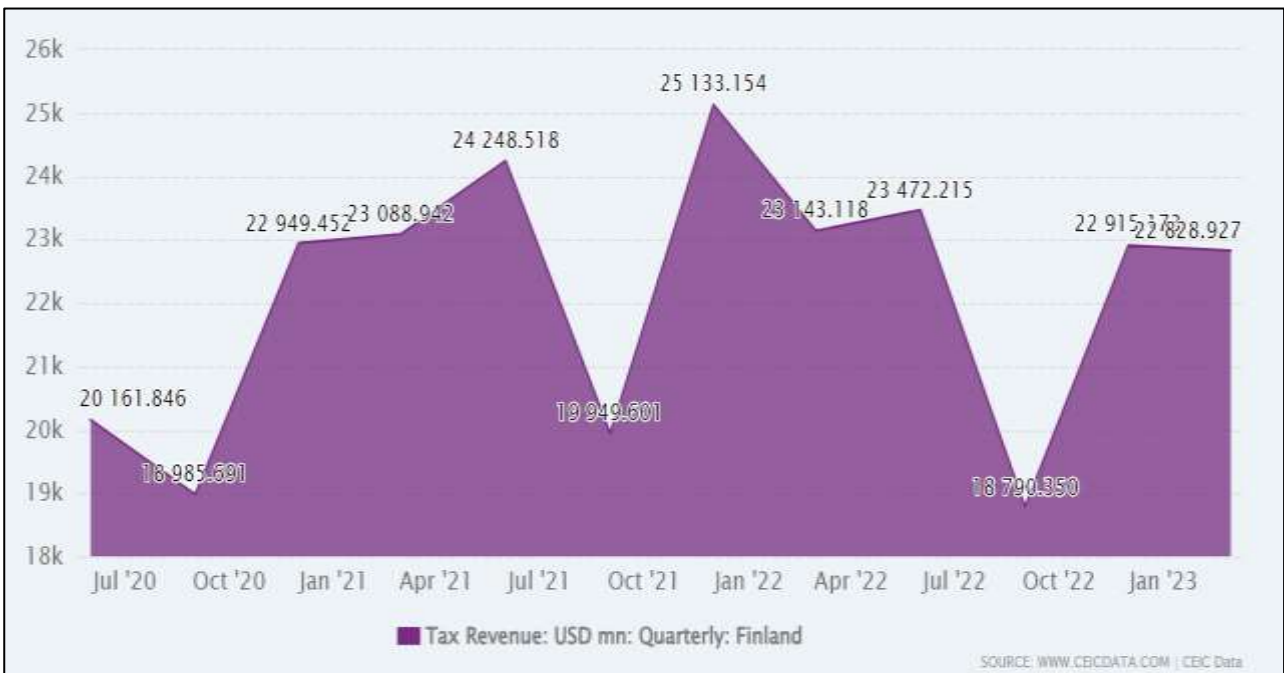
As opposed to the current economic stance, Finland experienced terrible economic conditions during early 1990s. Unemployment rates were risen to a highest level of 15%, government debts were at their worst of 60% of GDP and a resulting crisis in the banking sector which hindered the economic stability of the country in this era. Inflation rates, interest rates and unemployment rates were at the highest, overwhelming the public governing bodies with huge welfare expenditures which had to be compensated with lesser tax revenues. (Dahlman, Routti & Ylä-Anttila 2005, 2.)

This experience of severe recession forced the country to develop as a knowledge-based economy. Finland successfully implemented knowledge and innovation driven methodologies as opposed to resource-driven approach to achieve revolutionary changes in the economy. As a result, Finland is ranked as one of the most prominent countries in achieving economic development integrated with ICT. Finland is a country which was successful in achieving transformation through learning. (Dahlman et al. 2005, 1.) Following graph shows the structural changes taken place in the Finnish economy over the years which is extracted from Statistics Finland.



PICTURE 1. Structural change of the economy in Finland 1975-2021 (Statistics Finland 2023).

According to the picture 1, services sector is the main contributor to national revenue while industry and construction being the second highest and agriculture, forestry and fisheries contributes the least to the national economy. It also shows the comparatively high growth in the services sector relatively to industries and agricultural sectors (PICTURE 1). Further the below picture illustrates the quarterly tax revenue in Finland over a certain period.



PICTURE 2. Finland's Tax revenue from March 1999 to March 2023 in USD mn (CEIC data 2022).

Finland records a quarterly tax revenue approximately around 18mn-25mn USD. Tax revenue fluctuates between quarters and highest tax revenue was recorded Jan 2022 during the period depicted in the graph (PICTURE 2).

3.1.1 Taxation system in Finland

Tax laws in Finland are regulated by Ministry of Finance Finland. Taxes are levied and collected by the Finnish Tax Administration from all people who are living in Finland and all enterprises and corporates who are doing business in Finland. These taxes are not solely utilized by the state, but part of it distributed to the local municipalities, Lutheran and Orthodox churches in Finland and also to 'Kela' the social insurance organization of Finland. Vehicle taxes are separately levied and collected by Finnish Transport Safety Agency. (Ministry of Finance Finland.)

There are two types of taxes. Income tax is always a direct tax while consumption taxes are indirect taxes. Country's tax structure is used to enhance economic development as well as manage the production and consumption patterns. After 1990s Finnish tax system began to emphasize more on consumption taxes rather than income taxes. Total tax ratio of Finland is 44% and it is the fourth highest tax ratio among the OECD countries. Tax ratio is the proportion of tax charge on the total production. (Ministry of Finance Finland.)

Legislative decisions regarding taxation are made by government and municipal authorities respectively. Taxes on earned income are levied by the state while other public levies and duties are implemented by the municipalities. Contributions to social security fund are treated as compulsory and necessarily deductible from the salaries. But pension and housing allowances paid as social benefits are not taxed if such income are the only sources of the respective household. Tax legislations are not changed frequently in order to ensure consistency. Tax rate schedules and real taxation are maintained consistently while only adjusting the tax code parameters for inflation. (Moisio, Lehtelä & Mikkilä 2016, 32-34.)

3.1.2 Personal taxation (the dual taxation system)

Personal income tax is charged from every individual separately regardless of their marital status or family status and from the estates of deceased individuals. Finnish taxation follows a schedular system in which income is separately identified as earned income and capital income for taxation purposes. Income such as capital gains, rental income and dividend income which are earned by an individual as a result of his/her own assets or properties, are called 'capital income'. All other income earned by an individual is called 'earned income'. (Finnish Tax Administration 2023.) This is called a dual income tax system and Finland is a pioneer country in establishing this system together with another 3 Nordic countries, Denmark, Norway, and Sweden. (Pirttila & Selin 2006, 1.)

Tax rate on capital income is 30% if the income is €30,000 or below per annum. The excess of capital income over €30,000 threshold will be taxed at an increased rate of 34%. Income received as dividends, rental, share of profit, capital gains, capital portion of the entrepreneurial income, specified portions of interest income, income earned through reserves extracted out of land and income from timber sales are treated as capital income. Any expenses incurred in the production of these income and losses on source are allowed to be deducted against the gross income to arrive at the taxable capital income. In a situation where the allowable deductions exceed the gross capital income it is called a deficit of capital income. In such a situation a credit is granted in relation to deficit of capital income which will be deducted against the taxes payable on earned income. The amount deducted as such can be calculated either at 30% or at the capital income tax rate (applicable in the circumstances) of the deficit. This credit amount is subject to a maximum threshold of €1400. (Ministry of Finance Finland.)

The dual taxation system has many advantages, and it provides an efficient methodology in taxation of capital income. Multiple concessions granted to various types of capital income sources in usual taxation systems are prevented in the dual tax system. All capital incomes are treated in a fairer basis through this system. But dual system has its disadvantages too. This provides loopholes and paves way for various manipulations. High income earners may tend to shift part of their income into capital category to avoid being taxed at progressive rates. Achieving goals of progressive taxation may become difficult due to this. (Pirttila & Selin 2006, 1.)

Many types of income are recognized as earned income. Wages and pension income are such income types. Earned income includes part of the income of an entrepreneur and certain taxable welfare benefits. State tax system and municipal tax system identifies 'Taxable Income' distinctively taking gross income and allowable deductions as a basis of calculation. (Ministry of Finance Finland.)

3.1.3 Municipal taxes and other taxes in Finland

Municipal tax rates are decided by individual municipalities in Finland and average municipal tax rate throughout the country is 7.38% (Ministry of Finance Finland). Primary healthcare services are a eligibility of all residents in Finland and municipalities provide this services for their residents (Actuarial Publication of KELA 12 2015, 11). Church tax is another tax apart from above which is levied only on the registered members of the Evangelical Lutheran church and Orthodox church, and it is approximately 1%-2% (Ministry of Finance Finland).

Medical care insurance payment is deducted from earned income (other than pension and other benefits) and remitted to the social welfare institution, KELA which amounts to 0.60%. The same deduction is made from pension and other benefits at the rate of 1.57%. The tax base used for calculating Municipal tax is used for calculating medical care insurance payment. Apart from above earned income insurance payment is also deducted at the rate of 1.36% of earned income and remitted to KELA. Entrepreneurs who are insured under Self-employed Persons Pension Act should pay 1.59% of their earned income to this purpose. These health insurance payment tax rates and legislations are imposed by Ministry of Social Affairs and Health in Finland. (Ministry of Finance Finland.)

Individuals must contribute 1.4% of their earned income as unemployment insurance premium and 7.15% as pension contribution. Pension contribution increases to 8.65% during the age period of 53-62 years. These deductions from earned income are distinct from the withholding tax reflected in individual tax cards of personnel and are calculated and deducted directly from the gross income. These payments are allowed as deductions against taxable income in the annual tax return and calculations. (Ministry of Finance Finland.)

Value Added Tax is collected from businesses, but they are allowed to pass it to the end consumer. Finally, tax is borne by the end consumer, but businesses are treated as collecting agents. Hence, Value

Added Tax is called an indirect tax. Finland has imposed a standard rate of VAT at 24%, while granting 14% reduced rate on food, restaurant and catering services and 10% reduced rate on various goods and services including, Books and other reading channels, medicines, sports and wellness services, public transportation, Art, cultural and entertainment services including television broadcasting and copyright payments etc. (Ministry of Finance Finland.)

3.1.4 Taxes on investments, properties, inheritance and gifts

If an individual or an estate of a deceased individual, receives interest income from funds deposited in a scheme available for public deposit with a bank, co-operative savings or loan associations or financial service organizations or receives interest income from bonds available for public subscription, such interest is liable for income tax at source. The payer is responsible for collecting tax on the accrued interest income at 30% remitting to state tax authorities. This deduction at source will not be liable to any more taxes in recipient's tax return. (Ministry of Finance Finland.)

Inheritance tax is charged on inherited assets or properties received by an individual if value of such receipt exceeds €20,000 or more. Tax rates vary according to the inheritance tax schedule based on family ties between the owner of the properties and recipient and the value of inheritance. Inherited assets are valued as of the owner's date of death, after deducting reasonable funeral expenses, debts owed by the deceased and inventory cost of the estate. (Ministry of Finance Finland.)

If an individual receives gifts amounting to €5,000 or more at once or €5,000 or more in total during a period of 3 years from a same donor, it will be liable to a gift tax. Such individual should file separate tax return to declare such receipt of gift within three months from the receipt. The family ties between donor and recipient and the value of gifts received at the date of receipt will decide the applicable tax rate. (Ministry of Finance Finland.)

An asset transfer tax is charged on individuals who purchase real estate or securities. But if an adult who is below the age of 40 years purchases his/her first permanent residential property it will be exempt from asset transfer tax. In real estate purchases 4% of the purchase value or the total value of instalments is charged as tax. When purchasing shares and securities 1.6% of the purchase value is charged as tax. This rate will be 2% of the contribution (which includes purchase price and share specific proportion of debt owned by the company) if the shares of housing or real estate company are

purchased. Shares of quoted companies purchased through stock market trading are exempt from this tax. (Ministry of Finance Finland.)

Real estate tax is charged annually from owners of real estate properties. This tax was legislated in 1993, as an alternative to land tax, street charge and income from housing which were effective prior to 1993. Real estate tax is charged and collected by municipalities. Real estate tax is charged on all and buildings other than on land used for agriculture, forestry and waters. This tax is treated as a tax credit in income taxation if the land or building is used for the purpose of earning income. And also municipalities are exempt from the tax on municipal land. This tax is charged on the taxable value of the real estates used in the prior year, according to the provisions in the 'Act on the Valuation of Assets in Taxation'. Municipal authorities are the decision makers in deciding real estate tax rates. Tax laws identify two types of real estate tax rates. These are tax rates on permanent residential properties and other real estate properties. Municipalities are authorised to impose real estate tax rates in their area complying with certain regulations and limitations laid down by law. (Ministry of Finance Finland.)

3.1.5 Social welfare system in Finland

KELA, the Finnish Social Insurance institution acts as an independent institution which is supervised directly by the Finnish Parliament. KELA operates pension scheme for retired residents of the country. They are of two types, guaranteed pension and earning related pension. KELA provides income security for all residents who are living permanently in Finland regardless of their country of residence, if such individual is not covered by any other unemployment fund. Residents who do not get earnings-related pensions are supported with national pension to ensure that they receive a reasonable pension amount for their living. And if the pension income of a person goes below a considerable income limit a guaranteed pension is provided to such person by the Social Insurance scheme. (Actuarial Publication of KELA 12 2015, 11-14.)

Benefits paid to veterans who were involved in the war for the country, housing benefit for pensioners and disability allowances paid to retirees are some of the various social security payments initiated by KELA. Sickness allowances paid to employees in lieu of income loss due to illnesses, maternity, paternity and parental allowances are paid out of national health insurance fund. Child benefits are paid to all children who are under the age of 17 years and are living permanently in Finland. Additional child-care allowances are paid to children under the age of three years if they are not being looked after in a

municipal day care. Maternity grant is given in cash and as package of maternity items in case of a childbirth in Finland. (Actuarial Publication of KELA 12 2015, 16-23.)

Unemployed jobseekers registered with the employment office, who are eligible to work in Finland and are willing to work but are looking for employment are paid unemployment allowance and labour market subsidy until they are in employment. KELA also supports residents who do not have sufficient and reasonable income with an allowance for housing. Postsecondary students are granted financial aid, housing supplements, interest free loans and many more benefits by the Finnish social security system. (Actuarial Publication of KELA 12 2015, 21-24).

3.2 Corporate taxation in Finland

All companies who are treated as resident companies in Finland are charged company income tax annually. And a permanent establishment in Finland, formed by any company who is resident in another country is also liable to tax in Finland on its world income. Standard rate of taxation is 20% in 2023. All other taxes such as real estate tax, transfer tax, excise duties, carbon tax etc. are payable by corporates well. Apart from this all companies are liable to pay social security contributions on behalf of their employees. (PWC 2023).

3.3 Economic characteristics of Sri Lanka

Economic policies in Sri Lanka were liberalized by end of 1977 with the aim of developing agriculture as well as industrial production thereby creating more employment opportunities in the country. As a result, investments and domestic savings were increased, improving balance of payment in the country's economy. Sri Lanka encountered an ethnic conflict from 1983 which continued for more than two decades. (IMF eLibrary, 3-5).

Sri Lankan economy conventionally relied on agricultural income since its independence in 1948 (Ambuldeniya 2015, 2). Sri Lankan economy continued to concentrated on the export of traditional agricultural produce until 1990's (IMF eLibrary, 3). But an industrialization strategy was identified by the governing leaders, as an essential need for the development of the country (Ambuldeniya 2015, 2). As

a result during 1990s apparel industry started to emerge as a major foreign income generator in the country (IMF eLibrary, 3).

Accordingly, industrialization had a boom in the year 2014. Ambuldeniya highlights the statistics from the Annual Report of the Central Bank of Sri Lanka for the year 2014 where the services sector makes the highest income contribution to country's economy while agriculture is the lowest contributor. Industrial sector's rapid growth in this period made it the second largest income contributor bypassing the once dominant agricultural sector. Nearly 75% of the export income has been achieved through industrial sector while agricultural exports only contributed to lesser than 25% of total export earnings in year 2014. As per the Export Development Board, apparel industry brings highest export revenue to the country. (Ambuldeniya 2015, 2-7.) PICTURE 3 below illustrates the gross national income of the country in 2021 and 2022 in real terms, as a percentage of GDP and also the relevant growth rates and the contribution to growth.

According to latest statistics of 2022 published in the Annual Report of the Central Bank of Sri Lanka, country's gross national income constitutes three main income streams. They are, agriculture (including forestry and fishing), industries and services. Services sector income which constitutes 56.9% and 60.5% of GDP respectively in 2021 and 2022, is the largest contributor to the national income. Wholesale and retail trade, transportation, storage, accommodation and food services are the main contributors while information and communication contributes the least in the services sector. Industrial sector and agricultural sector take second and third positions respectively. Industrial sector produces approximately 27% - 30% income as a percentage of GDP. Agricultural sector produces around 7.5% income as a percentage of GDP. Gross national income has been recorded at LKR 11,713.6 billion for year 2022 and recorded a negative growth of 8.1% compared to year 2021. (Weerasinghe 2022a, 5.)

When the civil war ended in 2009, country's economy experienced slight rise with increased investments and infrastructure developments. But these developments were short-term and started to deteriorate from 2010. Country went into bankruptcy in April 2022, defaulting in its debt obligations. Financial insolvency situation in Sri Lanka caused inflation and shortages in fuel, paper, food, and many other essential supplies in the country which created huge unrest in the society. Country's president was forced to step down in 2022 by the frustrated citizens. Country is now relying on assistance of International Monetary Fund (IMF) to overcome the situation. (Agarwal 2023.)

Country's leadership is obliged to increase direct and indirect taxes and spend only within its resources according to restrictions imposed by IMF on underlying financial assistance. Increased rates of taxation, especially indirect taxes such as Value Added Tax on goods and services is expected to affect the less-privileged citizens of the country. Restrictions on government spendings will eventually reduce social benefits of citizens which will deteriorate the living standards of people together with inflated prices of commodities. IMF also demands to increase the usage of renewable energy instead of fossil fuels as their third condition. As the final demand of IMF, high corruption levels in the society need to be eradicated. (Agarwal 2023.) Sri Lanka is placed in the 126th place in the world happiness indicator (World Population Review 2023). Further the picture below illustrates the tax revenue of Sri Lanka over a period of time.



PICTURE 3. Sri Lanka's tax revenue from 1990 to 2022 in USD mn (CEIC data 2022).

As per picture 3, it is observable that Sri Lankan tax revenue has drastically dropped after 2018. In the recent past highest tax revenue was recorded in 2017, thereafter a slight decline in 2018 and a huge decrease in year 2022 which recorded the least ever annual tax revenue (PICTURE 3).

3.3.1 Taxation system in Sri Lanka

State of Sri Lanka imposes taxes on individuals on two distinct bases. Resident individuals who live in Sri Lanka permanently or who reside in Sri Lanka for more than 183 days continuously or work in a

Sri Lankans are taxed on their world income. Non-resident individuals other than the personnel specified above, are taxed only on the income they derive from or within Sri Lanka. (PWC 2023.)

A resident individual's Assessable income for tax purposes includes employment income, business income, investment income and other sources of income. Income from employment is taxed at standard income tax rates according to the applicable income slabs. Total and gross income received by an employee from his employer in the course of his/her employment is treated as employment income. This includes any monetary or value of non-monetary benefits paid to the employee, spouse, child, or parent of the employee other than the salary. This also includes any retirement benefits received by the employee from his employment. (PWC 2023.)

Income earned by renting out real estate properties are treated as rental income, and this forms a part of assessable income after allowing deduction for actual repair and maintenance cost or 25% of the total rent as allowance for repairs and maintenance of such property. The net rental income is taxed at standard tax rates together with other income. Interest income is a part of the assessable income if it is not considered as exempt under tax legislation. Dividends received through shares held by an individual is treated as dividend income and it is a part of assessable income which is taxed at standard rates. Royalty income and foreign income received by an individual forms part of assessable income. (PWC 2023.)

Changes to income tax legislations and tax rates are frequent in Sri Lanka. The latest income tax rates applicable on personal income range between 6% to 36%. Prior to this recent change the highest tax rate was 18% on personal income. Retirement benefits received by an individual is subject to a reduced rate between 0% to 12% depending on the total sum of retirement benefit received or receivable during a tax year. Pensions paid to government employees, retirement benefits paid from state provident and state trust funds, capital gains received which is less than LKR 50,000 (€ 141) (if it is non-recurring) or less than LKR 600,000 (€ 1,698) (if it is recurring) per annum and various other income sources are exempt from income tax as prescribed in the tax legislation. (PWC 2023.)

Employee Provident Fund and Employee Trust Fund are regulated state-maintained funds where employees and employers (on behalf of their employees) must contribute monthly a prescribed percentage from employee's salary. Employees can withdraw the funds and interest thereon lying to their credit at the time of retirement. Inheritance tax, estate tax, gift tax and net wealth taxes are not charged in Sri Lanka. (PWC 2023.)

The VAT rate has gone through many fluctuations in recent times and the current standard rate is 15%. Export of products and specified services provided to persons outside Sri Lanka are treated as zero rated supply for VAT purposes. Simplified VAT system is in operation to expedite on VAT refunds to zero rated suppliers. Specified products and services are exempt from VAT Excise duty is charged on alcohol and tobacco products as well as specified petroleum products and various household equipment. (PWC 2023.)

3.3.2 Social welfare system in Sri Lanka

In Sri Lanka education is provided free from primary until university level. This has increased the level of literate population, educated community and living standards of people. Women are given equal importance and acceptance in education. All these facts have contributed positively towards the country's health system as well. Education level of health workers has increased, child and maternal health arisen due to women empowerment etc. (Perera & Perera 2017, 6.)

However, participants of a study conveyed following dissatisfactory factors about the free health care system in the country. Insecure nature in hospitals, lesser number of female staff and nursing staff, high patients per doctor ratio and equipment and facilities in hospitals and laboratories are not being improved according to the population rise and few quality aspects visible in medical officers' activities are few of those factors among others. (Perera & Perera 2017, 42.)

A few social and economic indicators of Sri Lanka over a period of years have been analysed using information published by Asian Development Bank shows Sri Lanka's key economic and social indicators from year 2000 to 2022. This provides evidence for the economic crisis in the country and also about some areas that are overlooked in the government expenditure that bears significance in the socio-economic indicators. Net operating deficit and gross operating deficit have increased at a greater margin during the last three consecutive years. Environmental protection has been completely ignored by state. And social protection has been taken care by state until 2016 and omitted thereafter. But it is satisfying to observe that health and education are still taken care by the state despite the crisis. It is observable that Sri Lanka's state revenue has increased over the years, while main source of income being tax revenue. It is evident that Sri Lanka's tax revenue does not consist of taxes on property own-

ership after the year 2003. State expenditure is highly attributed and spent on public services and economic affairs. Economic affairs include payments of interest on loans taken by the state. (Asian Development Bank 2023.)

3.4 Corporate taxation in Sri Lanka

Corporate income taxes have changed rapidly within the recent history and present standard rate of taxation is 30%. And some businesses such as tobacco, liquor, betting and gaming are taxed at a higher rate of 40%. Export of goods and specified services, provision of healthcare and educational services were taxed at reduced rates previously but are taxed at the standard rate of 30% for the current year of assessment. All other taxes applicable in Sri Lanka such as transfer taxes (stamp duty) and excise duties are also applicable on companies. Apart from these all organizations are liable to contribute to the state regulated 'Employee Provident Fund' and 'Employee Trust Fund' on behalf of their employees. (PWC 2023.)

4 RESEARCH METHODOLOGY

A humanistic approach can be used to research on a phenomenon relating to a political, economic, ideological or cultural nature which is affected by certain facts. In these type of researches it is a common feature and also vital to explain historical facts, information and occurrences relating to the phenomenon discussed on the research topic. Research which is aimed at identifying historical circumstances, relevant processes and people's perceptions on a selected fact or phenomenon falls under this category. These studies also focus on the factors which has a impact on the said phenomenon and this studies can be performed using present and past data. Data for the purpose of these type of studies can be collected using various methods and using information collected and used by other researchers previously is a commonly used method in this type of studies. This is a qualitative research method. (University of Jyväskylä 2010.)

Accordingly, this thesis was performed as a systematic literature review of intellectual writings by previous researchers on the subject matter. Opinions and writings of the original authors were expressed in this thesis in a similar meaning and with due care. Rights of the original authors were protected as per ethical guidelines.

4.1 Selection criteria

Scholarly articles, journals, books and other materials written by previous researchers on economics, social sciences and behaviours, psychology and other relevant disciplines as it became necessary in the circumstances of the study are selected for this purpose. Further secondary data available in official state websites of the relevant countries and independent international organizations are used for analysis. And a few news articles are used to further elaborate significant facts in the thesis.

4.2 Search

Comprehensive report of all references used in the thesis including the web search addresses are listed at the end of this report under 'References' section. 'Google Scholar' and Centria's e-library are the major sources used to access relevant academic writings.

4.3 Data collection and analysis

Main purpose of this review is to identify the principals related to equal allocation of economic resources which are essential for a healthy society. There are various related topics discussed in this paper such as, state revenues, taxation systems and social welfare systems of the selected two countries, their impact on equity and economic and social history of both countries. Studies and research done pertaining to levels of corruption, tax evasion, social stratification, specific economic and political circumstances and any other relevant topics about the two countries are utilised for this study. Research reports and case studies performed by experts involving data and information about Finland and/or Sri Lanka are reviewed for this study. Only information relevant to the topics covered in this thesis are extracted from the said academic writings. This information, data, opinions formed by respective writers and their findings are used in this thesis as per their relevance. Some secondary data are extracted from official state websites of Finland and Sri Lanka and independent international organizations for comparison purposes. Further a few news articles are utilised to assess the present status of some significant matters highlighted in this study.

4.4 Study quality and risk of bias

Research and academic articles used for this review are selected from reliable academic sources published by reliable academic publishers after careful review. And some are extracted from official state websites of countries. Reliability of these information and opinions expressed in these writings can be relied upon as fair and unbiased. The data and information extracted from two news channels in Sri Lanka are not the facts or opinions of those channels. That information is conveyed by responsible state institutions and state officials in their public press conferences. Therefore, information can be relied upon as unbiased.

5 FINDINGS

According to the evidence obtained through the above literature review, certain similarities and huge disparities can be observed in economic and social characteristics among the two countries. This provides fascinating facts about achieving high level equality in distribution of economic resources. And this study also provides empirical evidence on the factors which could hinder equality in a country.

According to data published by World Population Review, evaluated using various criteria Finland has been ranked as the happiest country in the world where Sri Lanka stands in the 126th place (World Population Review 2023). Finland is a country which encountered various social and economic shocks in the 20th century and also a successful nation to overcome such situations within few decades with excellent and unique policy decisions such as progressive tax reform, land reform and educational reforms. Social welfare institutions established in the country served as mitigating factors of social risks while country is on the path of economic growth. A country once prone to social and economic devastations and high inequality in income distribution is now one of the best countries in the world with high economic development and highest level of equality in income distribution. (Jäntti, Saari & Vartiainen 2006, 28-41.)

5.1 Economic policies and characteristics of Finland

Various factors can be identified through the study which complemented Finland to achieve higher standards in equal distribution of economic resources. Effective and efficient policy reforms by the Finnish leaders seems to be a key element of success in this regard. Further according to Andrian (2015, 29-30), there are three vital requirements for attaining equity. They are progressive taxation, social wellbeing and independent operation of financial institutions. Andrian (2015, 29-30) further emphasises that progressive taxation as the most effective taxation system in reducing inequality. Finnish policy reforms included all vital characteristics explained above which are illustrated below through analysis of relevant literature as evidence.

5.1.1 Successful policy changes implemented in Finland

Change in population pattern in Finland from 1860 depicts the socio-economic devastations the country was experiencing during this era. The major setback was the famine during the years 1867 to 1868 and thereafter the civil war in 1918 which had vaster effects to the country than the second world war. Country experienced another population decline when citizens tended to migrate to Sweden at large in 1960. (Jäntti et al. 2006, 2.)

After the end of the civil war leaders in the country took the initiative to introduce various measures that were capable of reuniting and balancing the residents of the country during 1920's and 1930's. One such measure was to introduce land reforms which gave the opportunity to 'Crofters' to buy their own piece of farmland. In 1922 another law reform was introduced to expand the crofters' lands which were in smaller scale to bigger farms. (Jäntti et al. 2006, 5-6.) This can be seen as a great measure to empower farmers in the country. This was an element which can increase equality in the society as well as boosting factor for the development of agricultural trade in the country.

Progressive taxation and wealth tax were some other demands put forward by the socialists who led the civil war. Leaders immediately implemented these taxation schemes after the war ended. Women's rights were extended in 1920. (Jäntti et al. 2006, 6-7.)

Welfare state institutions were established to administer social security while negotiating and influencing profitable economic instruments to achieve prosperity. Country's economic policy decisions were taken in a neutral model between public and private sector neither sector taking dominance. Rather it can be seen as a participative strategy by different sectors of the society and economy. These policies did not fall under either 'fiscal policy', 'monetary policy' or 'industrial policy'. Policies were formulated by government officers, industrialists, working community and public etc. with the aim of economic growth. For example, when a subsidy was granted on an essential commodity in order to maintain market competition, workers agreed not to demand salary hikes and this strategy does not fall under either fiscal, monetary or industrial policy, but finally became beneficial to the whole economy. (Jäntti et al. 2006, 7-13.)

Significant changes were visible in the economy. The public sector has been encouraged to increase savings and capital accumulation. Huge investments were made in the country's primary industries such as paper, pulp, and metal manufacturing industries. The state maintained lower interest rates as an

administrative decision and did not allow the interest rates to float on demand and supply. Loans were granted to necessary industries and businesses. Finally, this resulted in individual depositors' money accumulated in financial institutions being granted as loans to businesses. Interest paid by businesses earned interest income for households. Ultimately households acted as lenders and businesses borrowed from households. Country achieved a high growth through an unpredictable economic strategy. A trade-off policy was adopted to accept a moderate return today for a better future return. (Jäntti et al. 2006, 13-24.)

Finnish policy reforms which were implemented after the end of civil war, facilitated increase in equality in the society and simultaneously facilitated trade and enterprise in the country to achieve economic growth. Land reforms enhanced agricultural trade in the country. Extension of women's rights paved way for a strong and bigger workforce in the country which facilitated businesses and enterprises in the country and it is evident by facts from the literature review. Implementation of a successful progressive tax system together with state welfare system which facilitated building a participative strategy involving state institutions, private organizations and employers and employees. This enhanced employee wellbeing and also the developed trade and business organizations in the country. Public savings were increased and businesses were provided loans from these savings. It facilitates in increasing income level of public while providing entrepreneurs needed capital investment through loans to expand their trade. This facilitated economic growth in the country which in turn benefitted society and increased equality. Some of these factors are further explained in detail with evidence obtained through literature review.

5.1.2 A progressive taxation system with a social welfare system

Finnish state government charges income tax on a progressive tax rate system (Ministry of Finance Finland 2023). Progressive tax systems and social welfare systems when used together improves the living standards of the less privileged people in a society. This system will enhance horizontal equality (fair and unbiased treatment of individuals in the similar income level) and vertical equality (transfer excess income of wealthier community to poorest in the society). A progressive tax system is always admitted as a system which ensure equality in income distribution as opposed to flat-rate tax system where tax is charged at the same rate regardless of the level of income. (Popescu et al. 2019, 1-2.)

According to Popescu et al. (2019, 3) as illustrated in the theoretical framework to this study, progressive taxation has various roles to play in an economy. Firstly, this mechanism collects higher taxes from high-income earners and such tax revenue is used by governments to provide social benefits and assistance to the society. Through this everyone in the society can fulfil their basic needs. In this way progressive taxation reduces unequal distribution of income in the society. Secondly, progressive taxation is a great mechanism to control the purchasing power of high-income earners in an economy. By reducing purchasing power of consumers, demand for goods can be controlled which eventually reduces the risk of rapid inflation. This becomes highly useful in a growing economy. This also places restrictions on wealth accumulation by certain groups in society, reduces social stratifications based on wealth and hence promotes equality in society.

Finland has spent 9% of its GDP (2019) on public healthcare on its population of 5.5 million people with a USD 48,619 GDP per capita. Life expectancy rate and healthy life expectancy rate in Finland as of 2019 are 81.6 and 71 years. (World Health Organization 2023.) According to the data and information obtained through this review which are illustrated in the theoretical framework to this study, it is provable that low-income earners, unemployed, people with disabilities, elderly residents and pensioners are supported by the Social Insurance Institution KELA for a reasonable living in society. Education and healthcare are provided to every child. Country also operates an effective and fair social welfare system which reduces inequality and acts as a facilitator for a successful tax system.

Progressive taxation increases equality and equality in society enhances the lifestyles and health of the workforce. Welfare systems in a country facilitate healthy and educated workforce. These workforce conditions are highly favourable for business organizations in the country.

5.1.3 Social mobility

Social mobility is a massive and dynamic concept. Though mobility is explained mainly on economic terms it can be also measured in terms of education and health. Social mobility refers to the upward or downward trend a society moves in terms of economic and other living standards from one generation to another generation. For instance, the possibility and chances of children from uneducated and unwealthy parents being educated and wealthy in future refers to upward mobility. Upward mobility is the desired state for a healthy society. Upward mobility reduces inequality. (World Economic Forum

2020, 9.) The social progress index rankings which are based on social mobility which are depicted below further prove the economic and social progress Finland has gained throughout the recent years.

Social Progress Index Rankings for 2022 extracted from an independent website named Social Progress Imperative, illustrates the progress Finland has recorded in social mobility. Finland is one of the leading socially progressed countries in 2022 only being second to Norway and Denmark. Sri Lanka ranks at the 74th place according to the said rankings. There are twenty leading countries in tier 1 category where Finland stands at the third place after Norway and Denmark. Sri Lanka is placed in the tier 3 category. (Social Progress Imperative.) Therefore, it is worth examining the dissimilarities in policies, systems and circumstances between the two countries. This will reveal learning points for successful implementation of policies to achieve equality.

In some societies a negative correlation can be seen between social mobility and inequality and this negative relationship is fostered mainly due to the resources available in early childhood for children in the society. In equitable societies all children receive similarly standardized education facilities and hence social mobility rates are at its highest. (Polacko 2021, 352-353.) This shows the significance of social mobility in achieving equal distribution in society as well as creating an educated and psychologically healthy workforce for the country's business organizations.

5.1.4 Strong tax administration

Several tax administration strategy models are developed, and the most significant strategy models are created by the European Commission in coalition with various international regulatory bodies. DEA is assessment model which uses data to assess the efficiency of any tax administration. Tax administrations which are capable of collecting highest amount of tax revenue, through taxpayer compliance and using minimal resources are treated as efficient according to this model. (Savić et al. 2015, 1139-1146.)

In research conducted, 13 selected tax administrations of various economies have been measured for efficiency using DEA model and regression analysis. Researchers concluded that the quality of Finnish Tax administration provides a benchmark for other economies to follow. (Savić et al. 2015, 1146.) Another study was conducted using 15 transition economies and 2 developed economies, Finland and Denmark in order to identify the ethical factors and human beliefs surrounding tax evasion. According

to this study many possible factors have been identified which has an impact on the level of tax evasion. Demographic characteristics such as gender, age and family conditions are some of these factors which influences tax evasion while country's political environment also plays a huge role here.

(McGee 2008, 84-94.) The attitude of country residents towards tax evasion is depicted in the following table.

Results of a study conducted to identify perception of people about ethicality of tax evasion revealed the average number of citizens who accept tax evasion as ethical and not ethical in the countries selected for the study. Overall mean scores of persons accepting tax evasion as unethical were calculated where mean score of 1 indicates that tax evasion is never acceptable and score of 10 indicates it is always acceptable. According to this only fewer people (mean of score of 2.46) in Finland accept tax evasion as ethical. (McGee 2008, 86.)

A strong tax administration in a country facilitates reduced tax evasion. This enhances equal distribution of income in a society. State government receives sufficient revenue to provide public services and to develop and maintain needed infrastructure facilities in the country. Enhanced infrastructure facilities support smooth operation of businesses in the country.

5.1.5 Other taxes, charges and policies to facilitate equality principles

There are many tax charges and other legislations which facilitate the successfulness of progressive taxation. Real estate tax, transfer tax, inheritance tax etc. can be used as facilitators in achieving equity together with progressive taxation. Finnish taxation system imposes real estate tax, transfer tax, gift tax and inheritance tax which are described in the theoretical framework to this study.

About quarter of the Finnish population occupy in rental homes. Only half of the Finns live in their own houses. (InfoFinland.fi.) It can be understood that the above property related taxes can discourage property and wealth accumulation and reduce inequity gap in the society to a certain extent.

5.2 Taxes and policies for environmental protection and sustainability

Another critical aspect can be identified from this review according to above explanations are the environmental protection and sustainability. Environment and its resources belong to all living beings on this earth. This includes past, present and future generations of human and other living creatures. As ancestors protected nature for the present generation, it should be preserved for the future generation too. This represents equal rights of all living organisms for nature, natural resources as well as healthy living conditions. Therefore, it is vital that an economy focuses on environmental protection and sustainability if equality is to be maintained.

Excise duty which is charged indirectly from end consumer on consumption of certain products is a main source of revenue in the government finances. But in Finland excise duty on specific products are also used to achieve environmental and health related goals in common. Energy content tax and carbon dioxide tax is charged on the usage of traditional fuels in transportation, power generation and heating in order to discourage and minimise the usage of such fuels. (Ministry of Finance Finland.)

Charging of waste tax has made a huge impact in the reduction of wastages and excise duty of beverage containers has inspired the manufacturers to come up with innovations on recycling and reusing used containers. Energy tax has been recorded as the highest contributor in excise duty category and excise duty on alcohol and tobacco products the next largest contributions. Total excise duty income in 2022 was euro 7,338 million. (Ministry of Finance Finland.)

Road transportation taxes are imposed on the purchase of a vehicle and also charged annually on vehicle users. Taxes vary depending on the level of emission of the vehicle in order to encourage the usage of low-emission vehicles (Ministry of Finance Finland 2023). Finland took the initiative to legislate a tax charge on carbon dioxide emissions in 1990s and many European countries followed the footsteps of Finland. (Vehmas 2004, 2175.)

Carbon taxes are key policy tools used by regulators in order to reduce carbon emissions and thereby reducing climate change. Carbon taxes are charged from energy providers, transportation mediums etc. which will be indirectly passed on to the end consumer, who is an average taxpayer. This will reduce the income of a taxpayer. Therefore, Finland has taken steps to decrease the tax rate percentage of individuals and set it off against carbon tax revenue. This advantage from reduction of taxes may be seen as a minimal impact on taxpayers. But the environmental benefit achieved through this tax is very crucial to the entire society. Country's carbon emission percentage was reduced by 30% compared to

when the tax was not in place, especially the huge reduction in the usage of coal, the most polluting fuel. ((Khastar, Aslani & Nejati 2020, 735-742.)

Finland spends highly on environmental protection and acts actively and efficiently on this matter. Research and developments are utilized to identify environment friendly activities and methodologies, environment friendly energy creation, preserving the natural forests, water resources etc.

Finland's 89% of the electricity production in 2022 did not use fossil fuels. Wind power is used to generate 14% of the country's electricity production. Nuclear power usage for power generation has been increased in 2022. Hence country has reduced usage of fossil fuel for electricity generation in huge way. (State Treasury Republic of Finland 2022.) Environmentally friendly policies followed in Finland have encouraged more innovation among the country's entrepreneurs.

5.3 Advanced ICT infrastructure

Vast development in information technology can be seen as a vital advantage for an economy. Advanced ICT systems and applications assist the processes of businesses at large and also a smooth functioning of tax collection and tax administration. Finally, this enhanced computerized systems work as facilitators for taxpayers, successively increasing tax compliance.

According to the research article by Dahlman et al. (2005, 3), as illustrated in detail in the theoretical framework Finnish economy is a knowledge-based economy built on ICT developments. Further according to Dahlman et al., Finland is a prominent country which uses advanced ICT infrastructure. Country uses this advance technology in tax administration according to further evidence gathered from the literature review. This improves tax compliance by being a facilitator for complying taxpayers and also facilitates monitoring of tax avoidance by non-complying taxpayers. Tax evasion can be minimised through this, and it helps equality principal. Advanced ICT infrastructure is a significant tool in development and businesses and trade too.

5.4 Economic policies and characteristics in Sri Lanka

Sri Lanka, the tranquil island surrounded by the Indian Ocean has been seen as one of the most democratic nations among the third world countries. Country has achieved huge accomplishments in education, health and nutrition even with a lower level of per capita income which made it extraordinary among the other developing nations. Though Sri Lanka has achieved success in social welfare of the citizens, country is still lacking in economic growth. (Amirthalingam 2008, 1.) Further a comparison of economic and social indicators of selected countries including Sri Lanka are provided in the below table.

A research paper shows (using information extracted from World Bank) some of the economic and social indicators of Sri Lanka in comparison to some Asian countries within a period of time. Life expectancy rate in Sri Lanka which was 61 in 1962 was increased to 74 in 2004, infant mortality rate which was 83 in 1962 was decreased to 13 by 2004 and unemployment rate was decreased from 18 (in 1981) to 9 (in 2002). But Average GDP growth rate, gross capital formation and gross domestic savings showed only slight growth throughout the years. Other countries such as South Korea, Malaysia, Indonesia and Thailand which recorded lower life expectancy rates and infant mortality rates than Sri Lanka in 1962 increased these indicators almost equivalent to Sri Lanka while multiplying their economic indicators by higher rates. Information according to this study reveals that other countries achieved economic growth with social indicators to some extent when Sri Lanka has achieved highly in social wellbeing while recording a very lower growth rate in economy. (Amirthalingam 2008, 3.)

Sri Lanka has spent 4% of its GDP (2019) on public healthcare on its population of 21.7 million people with a USD 3,939 GDP per capita. Life expectancy rate and healthy life expectancy rate in Sri Lanka as of 2019 are 76.9 and 67 years. (World Health Organization 2023.) Family Health Bureau attached to the Ministry of Health in Sri Lanka has pointed out that the malnutrition rate among children has increased at a high rate in 2022 with the financial crisis in Sri Lanka. This has been revealed through a report compiled by the said bureau with latest data. According to this report around 42% of Sri Lankan children under the age of 5 years are affected by malnutrition in the form of either, faltering, wasting, underweight or stunting in both rural and urban districts of the country. (News First 2022.)

There is evidence in the theoretical framework of this paper that Sri Lanka is at a huge financial crisis and it has immensely affected the living standards of the people in the country which cannot be considered a healthy factor in promoting equal distribution of resources. Therefore, it is vital to analyse the evidence obtained through the study to identify the factors which effected the present situation prevailing in the country and increased inequality among residents.

5.4.1 Drawback in the taxation system

Sri Lankan tax authorities use progressive taxation where higher taxes are imposed according to income levels. But various drawbacks in the taxation system and taxation policies were identified through the study. They are illustrated below.

Sri Lanka's taxation system has various drawbacks in it. Sri Lanka has been categorised as a lower middle-income country as per World Bank. However, Sri Lanka's tax ratio remains significantly low compared to other countries in the same category since year 2005. Many countries such as Ghana, Thailand and Ukraine who are also in the lower-middle income category have successfully increased their tax ratios. (Amirthalingam 2013, 15.)

Another drawback in country's tax system is the overreliance on indirect taxes. Component of direct taxes are higher than indirect taxes in developed countries. But in developing countries this position seems relatively opposing where indirect tax portion dominates direct taxes. Therefore, when a country walks towards its growth to be a developed nation proportions of direct and indirect taxes should change vice versa at a rapid level. This characteristic is missing in the Sri Lankan economy. (Amirthalingam 2013, 18.)

Another significant drawback is that no evidence or information could be found during the study about the social welfare institution in the country. Sri Lankan government do provide free education and primary healthcare to its citizens. Still, dissatisfactory elements are visible in these social services. Free education in Sri Lanka has contributed immensely towards development of the society, but leaders have neglected the planning on creating employment opportunities for the educated youth in the country. This has increased the unemployment rate and poverty even within the educated society. This situation impacts inequality and social differences among people. Social and economic differences in the

country have unfavourable impacts on the country's labour force and thereby on business organizations in the country.

5.4.2 Weak tax administration and increased tax evasion

Tax evasion in Sri Lanka is estimated to be LKR 144.5 billion in 2021 according to the sources of the Department of Inland Revenue in Sri Lanka (Business Times 2021). This amount is equivalent to €422 million. Finland's tax evasion is estimated to be €80 million per year (Finnish Tax Administration 2023). It is clearly evident that Sri Lanka's tax evasion rate is huge comparatively to Finland when considered as a percentage from the total tax revenue of each country respectively.

Using information technology for the tax administration in Sri Lanka to increase its efficiency is an important suggestion made by many authorities (Amirthalingam 2013, 21). Revenue Administration Management Information System (RAMIS) was introduced by the Sri Lankan tax administration in 2014 as a digital platform for all tax matters in Sri Lanka. But they faced a huge challenge to familiarize Sri Lankan taxpayers to this system for all their taxation matters. (National University of Singapore.)

According to an independent estimation done using available data shows that Sri Lankan tax administration was able to collect only 50% of the personal income taxes out of the estimated actual personal income taxes. This shows that Sri Lanka's tax collection efforts are at a critically lower standard. (Mudiyanselage, Rammohan & Chen 2020, 178.) The total taxes not collected by Sri Lankan tax administration by June 2022 amounts to LKR 773 L (Approx. €2.2 billion) as pointed out at a press conference by Committee of Public Accounts. This committee also mentioned that the proper functioning of RAMIS system adopted by the Department of Inland Revenue of Sri Lanka for tax administration is vital in collecting these taxes in arrears, but the RAMIS system has not been functioning as expected. (Adaderana.lk 2022.)

Above evidence shows that the ICT developments are not adequately utilised by Department of Inland Revenue in increase tax collection efficiency and reducing evasion. Further, Sri Lankan tax administration is not sufficiently efficient and effective to collect expected tax revenue from taxpayers. As mentioned above ICT infrastructure relating to tax system are not efficiently functioning and this contributes towards weak tax administration. Secondly, Sri Lankan taxpayers do have a perception that

their tax money is not being utilized honestly and adequately by the leaders. Therefore, tax evasion is high in the country. This is further illustrated in the next section below.

5.4.3 High corruption and dominance of elites

During the post-pandemic era, corruption became a significant cause for political and economic crisis in many countries throughout the world. Sri Lanka, a developing nation is not an exception in this, where corruption is a huge component when compared to its gross national product. The research conducted in this regard identifies three propositions by analysing five case studies in Sri Lanka. The governing leaders followed a monopolistic governing model, and this greatly restricted proper functioning of independent government institutions which is a key factor in increased corruption which led to economic crisis. Then, political leaders, their families and connected persons were given the privilege of obtaining confidential information regarding government dealings and they were protected when involved in financial and other crime. It is essential to have a transparent international mechanism and intervention at large to identify and reduce democratic malfunctions in such vulnerable nations which was completely ignored. (Abeyagoonasekera 2023, 765.)

Dominance of elites has become significant in every aspect of social and economic activities in Sri Lanka. This political and social structure has been created and integrated into the society by political parties throughout many decades. Corrupters with political influence were never detained or punished by the law. Authoritarian model in leadership followed by the president which embodied signs of military rule and centralised power among his own family members, brought the corruption to extreme levels. Precautions and prior advisory from International Monetary Fund and local experts regarding the financial crisis was ignored by rulers and the situation was managed inadequately. (Abeyagoonasekera 2023, 765.)

The Central Bank bond scam was one of the biggest and most publicised corruptions ever happened in the country's economy. This happened due to an insider dealing activity by a former governor of the Central Bank of Sri Lanka, the ultimate institution in Sri Lankan economy, involving a family member of the said former governor. This scandal came to light in 2015 but culprit was not punished or no action was taken to recover the cheated money until now. Political influences have even paralyzed the

activities of an organization which needs to be operated completely independently, The ‘Bribery Commission of Sri Lanka’. The extreme protests raised among country’s citizens was a clear indication of dissatisfaction of social and economic injustice in the country. (Abeyagoonasekera 2023, 766.)

A study conducted to reveal the opinions of Sri Lankan taxpayers on tax evasion identified the following factors which induce citizens to evade taxes. These factors are, the usage of tax revenue on inappropriate investments or projects which do not bring sufficient advantage or benefit to the countrymen, usage of tax revenue by politicians for their personal well-being and tax system appear to be biased or unfair. (Wijerathna & Perera 2019, 43.) The tax-GDP ratio of Sri Lanka was recorded as the best among the South Asian countries previously has deteriorated immensely in recent times. According to a study it was identified that good governance practices which are lacking as of now are essential in increasing tax compliance levels in South Asian countries including Sri Lanka. A stable political situation, healthy public investments by the state and provision of satisfactory social welfare to the citizens are also crucial factors which can help reduce the tax evasion. (Murshed et al. 2018, 18-29.) Corruption indices worldwide shows that Finland is the 2nd least corrupted country in 2022. Sri Lanka is placed at the rank of 101 according to this indicator. (Transparency International 2023.)

Above empirical evidence reveals the level of dominance of elites and the resulting high corruption level in the country. There are numerous effects due to this. It discourages genuine taxpayers, hinders operation of independent institutions and finally reduced equality hugely.

Societies with increased inequality and lower income creation opportunities tend to place more importance on achievement of individual financial success. According to strain theory this creates stress on people in the society to attain financial success by any available means. Therefore, people in these inequal societies are more prone to financial crimes, theft, robbery etc. These types of crimes are rare in equal societies where such social importance on wealth creation are not promoted. (Polacko 2021, 352.) Above literature clearly illustrates the theory through which individuals become prone to financial and other crimes to attain financial success in societies with inequal distribution of income. This type of atmosphere in a society is unfavourable for economic growth and business operations. Financial crimes can enter into organizations as well and hinder the success of the business organizations too.

5.4.4 Inadequate policy decisions

Just after the independence Sri Lanka recorded the high per capita income in Asia only being next to Japan and Malaysia. This was achieved by the country due to the huge and successful plantation industry inherited from the colonial regime which existed prior to the independence. Trade surplus in Sri Lanka increased from LKR 94 million in 1948 to LKR 415 million in 1955 due to the prosperous plantation industries. This provided a finest opportunity for a rapid economic prosperity for the country which was forbidden by the leaders due to inadequate policy formations. (Amirthalingam 2008, 2.) Sri Lanka started its social welfare well ahead of its independence in 1948, where great emphasis is placed on free education for citizens of the country. Country was on the correct pathway to achieve the United Nations Millenium Goals. Due to this state policy the education level of labour force increased drastically throughout this period. During the period of 1998 to 2008, the employed people with only primary or lower-level education decreased and people with secondary level education increased. Labour force with upper secondary qualifications increased rapidly. Women were given equal importance in the workforce as education levels of women workforce was seen higher than men. (Gunatilaka, Mayer, & Vodopivec 2010, 21.)

Education level rose to an accepted standard and simultaneously the unemployment rate of educated youth climbed up. Regulators have neglected highly required planning for the most important part of the society. Educated youth are left stranded without jobs as per their requirement, leaving them in unemployment and poverty. (Gunatilaka et al. 2010, 224.)

British rulers who governed the country before independence, expanded the export related plantations while discouraging the farming and other food industries. Hence, country relied on food imports while exporting tea, rubber, and coconut products. Country's own leaders subsequently elected after independence, followed the footsteps of the colonial leaders by providing extensive food subsidies, health and educational welfare compromising the economic growth, just for the sake of their political advantage. (Amirthalingam 2008, 13.)

Some attempts to reduce unemployment were taken by few succeeding leaders by introducing foreign employment opportunities and introducing garment industry sector. The civil war which existed in the country for more than two decades was another significant factor in lower economic growth of the country. (Amirthalingam 2008, 13.) After the end of the civil war in 2009 industrialization strategy showed great heap in the year 2014 (Ambuldeniya 2015, 2).

Sri Lanka faced the worst economic catastrophe in its history during the year 2022. Country's economy was already seen to be of a downward trend before the Covid-19 pandemic era due to the drawbacks in economic and social growth country recorded during the half a decade prior to the pandemic. Country's leadership administered restricted international trade, weak and carefree monetary policy and exchange rate policy and unhealthy investment atmosphere in the country. Above factors together with heavy tax concessions and weak administration of revenue collection drove the country to this historical crisis. (World Bank 2022.) Some of the huge scale investment projects made during this period with finances obtained from foreign governments were not correctly assessed for its return on investment. And these projects were conducted bypassing reports on environmental effects. (Abeyagoonasekera 2023.)

5.4.5 Extensive state welfare system

State welfare system was so extensive compared the per capita income and investment ratio of the country. The fact that welfare expenditure should have a positive correlation with the per capita income and investment rate was ignored by policymakers which halted the further economic growth of the economy throughout the five decades after independence even when the social indicators were at a higher side during this period. (Amirthalingam 2008, 2.)

Some economists have supported social welfare approach by admitting that increased social indicators will have a positive impact on economic growth. But the opponents of social welfare claim that spending extremely on welfare will hinder the economic growth as major part of the welfare expenses are completely consumption oriented. Even though a developed country can sacrifice certain level of economic growth for the welfare of people, a developing country like Sri Lanka should not afford it. It was too early for a developing country to emphasise more on social welfare at the expense of economic prosperity. (Amirthalingam 2008, 3.)

5.4.6 Negligence in environmental protection and sustainability

For the year 2022 (upto September) Sri Lanka has used 58% of renewable energy and 42% of fossil fuels for production of electricity in the country. Fossil fuel for this purpose include coal and thermal oils imported to the country. Hydro power generation amounts to 35%, wind power amounts to 4% and

solar power also amounts to 4% out of the total power production. (Ministry of Power & Energy Sri Lanka 2022.)

Huge advantage is available on using renewable energy sources such as wind, sunshine and water due to the geographical conditions of the country, in producing electricity which was not fully utilized by the island nation. Rather fossil fuels are imported and used at a huge cost. It seems that adequate research and development activities are not carried out regarding the usage of renewable energy sources which are freely available in the country. And Sri Lanka has not concentrated or provided funds for environmental protection in its budgetary provisions according to the data available at the Asian Development Bank. These facts show that Sri Lanka is reluctant on environmental protection measures.

5.4.7 Social stratifications

Social stratifications in the societies illustrate the economic and cultural differences between people in a society or country. Upper class, middle class and lower class are the most common social layers in society. There are four social classes visible in Sri Lankan society in the present century and this division is mainly based on power and wealth. Sri Lankan upper class is the smallest proportion which includes entrepreneurs, senior executives, and governing party's parliamentarians. They possess the largest amount of wealth in the society, which they have obtained through inheritance or self-earning. Upper middle class in Sri Lanka consists of educational professionals in various professions. The largest social group in the society includes people who are working in a white-collar job and who earn for a reasonable living standard and are called lower middle class. The poor class in Sri Lanka mainly has a lower living standard, lower income and mostly rely on government benefits. (Riswan 2014, 40-43.)

As per literature evidence illustrated in the theoretical framework to this study, organizations are smaller versions of society itself. Societal norms, practices and stratifications will be depicted in an organization's workforce too. This creates negative impacts on output of the organization and also increases absenteeism and labour turnover within an organization. Therefore, such social stratifications are not favourable conditions for businesses and enterprises in a country.

6 CONCLUSION AND DISCUSSION

This study was conducted to identify vital aspects which causes increase or decrease in equal distribution of resources in an economy and impact such factors can make on trade and business in the economy. Therefore, this study examined the principals of economics, equal distribution of economic resources and how various techniques are used by various economies for this purpose. And also the significance of these elements and techniques of equal distribution on entrepreneurship. Economies of a developed nation and a developing nation were analysed and compared to identify how these two types of economies have succeeded or failed in achieving equity. And likely factors of success and failure were outlined. Various academic literature relating to the topic has been utilized for the purpose of this study.

6.1 Discussion of findings

This study revealed significant findings from prior literature relevant to the topic in question. One of the most prominent factors came to light was the importance of adequate economic policy decisions in a country. Finland economy provides examples of successful policy changes which helped the economy to develop even after various devastations. Land reforms policy, introduction of progressive taxation system and social welfare system increased equality among the people. Some adequate investment decisions which facilitated funding opportunities for entrepreneurs and the cumulative decision and efforts of leaders, employers and employees to trade off part of present benefits for future return and development were identified as key factors which contributed towards economic development.

Opposed to this, Sri Lankan economy provides examples on inadequate policy decisions. Social welfare expenses were overwhelming compared to the GDP of the country which hindered the economic development in the long term. Even though free education system produced a educated labour force the real benefits of it could not be utilized in the long term as economic downturn lessened the employment opportunities. And adequate measures were not taken regarding labour market and educated youth were left abandoned in unemployment. Above findings highlights the importance of accurate economic and social decision making in an economy to increase equality as well as economic development.

Further, progressive taxation which collects higher taxes from high income earners and an efficient social welfare system which distributes income and benefits fairly among all people are identified as vital aspects in increasing equality. Both countries selected for this study implement progressive taxation system, but one country is successful, and the other has failed. Therefore, for these systems to be effective and successful, it should be connected with a strong tax administration system which reduces tax evasion and corruption. From the evidence gathered from the study Sri Lankan economy has been affected hugely due to tax evasion and corruption.

Strong infrastructure facilities including transportation and information technology are vital in economic development and establishing equality. Finally, it can be identified that all above factors are interconnected and facilitate each other. And equal distribution of resources in society increases the overall wellbeing by building a healthy, educated and stress-free society. Through this society a strong labour force is produced which helps trade and businesses to succeed. Reduced tax evasion and eliminated corruption further facilitate development of businesses in the economy. Infrastructure facilities are another boom for businesses.

6.2 Conclusion

It was highlighted through this literature review that progressive taxation system is a key success factor in achieving equity when used efficiently and effectively together with a properly planned social welfare system. But a sound tax administration system and an efficient state welfare institution should be in place to facilitate smooth functioning of these systems and reduce inequality. Efficient tax administration can reduce tax evasion which will facilitate equality in return. Some other taxes such as wealth tax, property sales tax and excise duties can support the reduction of inequity in society. All these should be well-managed by policy makers with appropriate decisions on a timely manner.

Further, elimination or reduction of corruption is a significant factor in facilitating equity. Eliminating corruption ensures that resources are not unfairly accumulated or extracted by only a proportion of society. And it also encourages average taxpayers in a country to comply with taxation rules. A trust built within society that society is corruption free, encourages taxpayers to pay their taxes as they know that their taxes are not stolen but used for the benefit of their own society.

Another significant aspect would be to use digitalisation in taxation system to ensure high compliance rate. Further, social stratifications visible in society should be eliminated through eradicating poverty and building an educated society. Finally, environmental protection should be given importance at state level so that environment will be preserved for future generations too.

Finally, it is vital to note that maintaining equality in an economy supports businesses and enterprises hugely. Equality principles are able to cultivate a well-educated, healthy and a stress-free workforce in a country which is of immense use for businesses and industries in such economy. Equality principle also facilitates tax evasion and increased state revenue for building infrastructure facilities in a country which are essential for the development of business operations. All above factors are equally important for enhancing social and economic equality and economic development together with critical, timely and adequate policy decisions by economic decision makers in a country.

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