

Structural Change and the State of the Labour Market in Sri Lanka*

Hettige Don Karunaratne**

Abstract

This paper investigates causes of trends and structural changes in labour market in Sri Lanka during 1963-2006 period. Total labour force has increased nearly three times while generating slow growth in employment during the past fifty years. Unemployment rate had been prevailing at higher level until late 1970s. Main reasons behind the drastic decline of it in 1990s have been the sizable slowdown in population growth since 1970s, high international migration rate, expansion of education levels, and urban informal sector economic activities after 1977. None of these factors have been directly contributing to increase output in the economy. Contrary, significant structural changes in employment, unemployment and underemployment have been undergone in terms of gender, age, education level, sector, industry and profession. Finally, labour market has operated by creating many push factors for international migration such as low real wages, high unemployment and underemployment rates, discriminations in terms of gender, age, sector, industry, profession and level of education.

* *The author would like to express his sincere gratitude to Prof. Esho Hideki, former Dean Faculty of Economics, Hosei University, Japan for inviting him to take up a visiting professorship and providing facilities to undertake this study. He would like to express his thanks to the editorial board also.*

** *Visiting Professor, Faculty of Economics, Hosei University, Tokyo, Japan, and Professor, Faculty of Management and Finance, University of Colombo, Sri Lanka, e-mail: hdkaru@yahoo.com*

Apart from the export sector, labour union actions have been badly influencing on production and cost structures of the economy. Therefore, it is essential to formulate and implement good policies to utilize labour in domestic production oriented economic activities in Sri Lanka.

1. Introduction

Labour Market consists of demand for labour, supply of labour and outcomes of interaction of these two forces to determine equilibrium or disequilibrium. Theoretically, demand for labour is determined by factors like demand for goods and services, labour productivity level, level of real wages, efficiency of employees, rate of investment, available technology, profitability of business activities, existing labour laws, government policies and activities, number and extent of development projects implemented by the government etc. On the other hand, supply of labour depends on factors like total population, labour force participation ratio, level of real wages, level and quality of education, female participation ratio, price level of the economy, labour laws, and government activities such as taxes, subsidies, policies, as well as culture and attitudes of employees and management techniques adopted by employers etc.

Demand for labour together with its supply determines the labour market equilibrium or disequilibrium. Even at the level of equilibrium¹⁾ there can be certain proportion of unemployment and underemployment levels in any economy. The unemployment rate prevails at the equilibrium level is referred to as natural rate of unemployment in economic literature.

However, the level of unemployment is varying across the time path and

1) Often it is in disequilibrium with high rates of unemployment and underemployment in many developing countries.

location. Practically, unemployment rate in many countries is higher than this natural rate of unemployment and there are structural problems such as it's disparities in terms of gender, age, level of education, region, ethnicity, sector etc. In addition, interaction of demand for labour and supply of labour determines the nominal wages, employment level, and underemployment level in the economy. Further, labour market performance is highly influential on other major macroeconomic variables like production, distribution of income and wealth, price level and inflation rate, and poverty rate in the economy. Furthermore, labour market outcomes such as behavior of wages and salaries, working conditions, various forms of discriminations in the labour market, labour union actions, rural-urban and international migration of labour, and remittances of migrant workers are also very important to study to understand labour market of a country.

Finally, labor market performance is very influential on non-economic macro level social issues i.e., gender discrimination, regional disparities, ethnic crises, civil wars and micro level social issues i.e. prostitution, committed suicide rate (especially karoshi), number of traffic accidents, drug addiction ratio, number of people in prisons etc. Therefore, it is very important to study about trends in labour market, its structural changes and performances of a country to understand factors which influence determining structure and trends in rural-urban and international labour migration flows.

Today, Sri Lanka is one of the largest labour exporting countries in South Asia. The estimated stock of Sri Lankan workers in other countries significantly increased from 0.7 million in 1997 to 1.2 million in 2005. Therefore, in this paper, by analyzing labour market and its related variables, an attempt is made to provide foundation for understanding why

Sri Lankans have been migrating to work in other countries particularly during the past three decades. There are a number of factors influencing migration decision of a person in a developing country like Sri Lanka. In migration literature, those factors are divided into two categories as push factors and pull factors. In a broad sense, domestic labour market situation, its structure, trends, and variables related, act as push factors for labour migration from a developing country. Therefore, the purpose of this paper is to provide an extensive analysis of labour market behavior to make clear the push factors of labour migration from Sri Lanka.

There are five remaining sections in this paper. Section 2 illustrates the importance of labour market for the economy of Sri Lanka. A detailed explanation on data sources of labour market in Sri Lanka and their limitations are discussed in Section 3. The nature of available labour market data allows us to undertake only two types of studies relating to Sri Lanka. Using one type of data, Section 4 presents an analysis of long-term trends and structural changes in labour market related variables. Section 5 is devoted to present an analysis on recent trends in labour market related variables in Sri Lanka by employing second type of data. Finally, Section 6 presents concluding remarks of the paper.

2. Importance of Labour Market to the Economy of Sri Lanka

Apart from the above mentioned general factors, labour market is very important for the economy of Sri Lanka due to a number of reasons. The following section summarizes the most important reasons. First, in comparison to other factors of production such as land, capital, entrepreneurship, technology and information, labour is the most abundant factor in Sri Lanka. Eventhough total land area size is 65,610 square

kilometers in Sri Lanka, its total population reached over 20 Million in 2006. As a result, population density increased to the level of 314 people per square kilometer. On the other hand, 53.3 percent of total population was less than 30 years old in 2006. Relatively low wages, high youth unemployment rate, high unemployment rate among educated people, high female unemployment rate, and growing number of international migrants as contract workers to middle east and Southeast Asian countries, and permanent migrants to developed countries are some of other indicators to prove that labour is the most abundant factor in Sri Lanka. If Sri Lanka had utilized unskilled labour converting them into skilled labour in maximum capacity in the production process like Japan or Singapore, it would have been asked to reach the developed stage by now.

Second, according to many economists, Sri Lanka has sacrificed at least 1 percent of its annual economic growth to develop human resources during the past 59 years of independence (See Sen 1981 for more details). After regaining its political independence in 1948, all governments have attempted to provide various facilities such as free education, free health, and subsidized food supply programs to develop human resources at the cost of investment in growth-oriented physical infrastructure or industrialization projects in Sri Lanka. In addition, there has been a crowding-out effect (private investment discouraged due to high level of government expenditure, high interest rates and other government activities and policies) also in the economy due to this substantial government investment on social infrastructure development in the economy. However, as many researches cited in their early works, as a result of those government activities, Sri Lanka could achieve high level of living standards in terms of longevity, literacy rate, infant mortality rate and primary school enrollment, gender equality in comparison to its low-

level of per capita income. [e Snodgrass (1966), Jayawardena (1973), Sen (1981), Isenman (1982), Bhalla (1985), Lakshman (1997), Corea (1998), Kelegama (2006) for more details] In the meantime, upgraded human capital has not been utilized in maximum capacity in the production process. That was one of the main reasons to have high educated unemployment rate, youth unrest, political instability, high outward migration ratio, and to establish violence culture and civil war in Sri Lanka in latter years. Therefore, it is important to analyze why Sri Lanka could not utilize its relatively high human capital in the production process.

Third, similar to the situation in many other developing countries, labour income has been remaining as the main source of household income in Sri Lanka during the initial decades of the post independence period. However, following the global trend, contribution of labour income to the total household income has been declining in Sri Lanka since 1970s. Labour income share in the total household income declined from 78.7 percent in 1973 to 69.4 percent in 1982, and subsequently, to 64.2 percent in 2004. This has identified as one of the main sources of growing income inequality in Sri Lanka (Karunaratne, 1999 and 2007). Therefore, it is essential to boost labour income share by converting low-income earning unskilled workers to high-income earning skilled workers to reduce growing income inequalities in Sri Lanka.

Fourth, since long ago, labour has been playing an important role in the process of foreign currency earning in Sri Lanka. Since colonial period, plantation workers have been playing an important role in foreign currency earning. At the initial stage, arable lands and unskilled labour were the only two factors used in the production process in plantation sector. With relatively low wages and poor living conditions, workers associated with tea, rubber and coconut estates had been contributing to keep highest

income share in export earnings until late 1970s. Even after introduction of trade liberalization policies in 1977, plantation sector remained as one of the main sources of foreign currency generation of the country until the recent past. On one hand, labour intensity of plantation sector had led to reduce foreign income earnings in subsequent periods. Lack of innovations, new technology orientation, low value addition and absence of good management and marketing strategies and new type of competition emerged from new comers to the tea market like Kenya have also been influence in declining foreign currency earnings in plantation industry. On the other hand, in order to diversify export earnings, attempts were made to establish garment factories and promote labour exportation after 1977. Needless to mention that labour has been the main input source of foreign currency generation for the economy even after the introduction of liberalized trade policies in Sri Lanka. At present around 1.2 million people (15 percent of labour force) from Sri Lanka are working abroad and their annual amount of remittances are only second to the exports in the garment industry. It has exceeded the export earnings from the tea industry also since early 1990s. Therefore, even today, the first, the second, and the third highest foreign income receiving sources of Sri Lanka use labour as the main factor of production. In the meantime, developed countries and fast-growing developing countries have been attempting to gradually increase share of capital, technology, industrial products or services in their foreign currency earnings with the time span. This is because value of labour intensive products has gone down in comparison to goods and services produced by using more capital, technology, machines or information. Since Sri Lanka was unable to develop in such a way, it has forced to experience a widening balance of payment situation. Therefore, it is important to study about why Sri Lanka could not increase value addition

of labor by converting unskilled labour to skilled labour in the production process.

Fifth, labour market performance has been highly influential on political decision making in developing countries like Sri Lanka. High level of unemployment and underemployment rate has significantly contributed to change governments in Sri Lanka especially in 1960s and 1970s. It was one of the main root causes of the emergence of political violence in 1971 and 1987-1989. Further, it is commonly believed that high unemployment rate and underemployment rates in Northern and Eastern Provinces of Sri Lanka have significantly contributed to initiate and continue on-going civil war in Sri Lanka. Sri Lanka implemented five major large scale development projects, namely, accelerated Mahaweli river development project, export processing zones, housing development project, urban infrastructure development project and building parliament in new capital city called Sri Jayewardenepura soon after the introduction of trade liberalization policies in 1977. However, none of the projects were beneficial to, especially Tamil people in North and Eastern provinces. As a result, economic disparities among provinces have increased during the past two decades. In other words, labour utilization disparities across the provinces, has been one of the main causes behind the widening regional disparities in Sri Lanka. However, as a solution to these problems by establishing a separate Ministry and Foreign Employment Bureau, recent governments have been actively promoting Sri Lankans going abroad as contract migrant workers. Irrespective of their status as refugees, undocumented workers, contract workers, permanent residents, or citizens of other countries, today Sri Lankan migrant workers represent almost all provinces in Sri Lanka.

Sixth, at present, Sri Lanka has considerable number of registered and

unregistered labour unions. Their actions in terms of lobbying for higher wages, launching strikes, and linkages with political parties have influenced production process, export income, and political decision making of the country. For example, Ceylon Workers' Congress (CWE) representing workers in tea estates in Parliament of Sri Lanka and has been holding government ministries as a member of the coalition governments in Sri Lanka since 1978. In addition, Sri Lanka Freedom Workers Union (labour union of the major party of the ruling coalition-Sri Lanka Freedom Party), Jathika Sevaka Sangamaya (labour union of the current opposition party-United National Party) and United Labor Unions (labour union of the Sri Lanka Marxists party-Janatha Vimukthi Peramuna) have large numbers of membership. On the other hand, number of man days lost due to strikes organized by various labour unions has been considerable since 1977. Especially, strike undertaken by the labour unions in estate plantation sector, Government Corporations and more recently in the Sri Lanka Ports Authority generated significant losses to the economy of Sri Lanka. Studying these trade union actions and their influence on labour market is also very important.

Seventh, there has been a mismatch in labour market in Sri Lanka since long ago. On one hand, limited number of people enters into tertiary education (especially to universities) and on the other hand probability of being unemployed is increasing with the increasing level of education in Sri Lanka. Even at present, only 21 percent of population enters into high schools and only 2 percent of population enrolls in universities in Sri Lanka. A similar percentage of students annually migrates for higher education opportunities in other countries and they spend a considerable amount of foreign currency of the country. On the other hand, the highest unemployment rate is recorded among high school leavers in Sri Lanka. In some years,

unemployment rate was highest among the university degree holders. In the recent past, governments have attempted to absorb large number of university graduates into government services and state-owned enterprises to solve graduate unemployment problem. Lack of new employment opportunities in private sector organizations for educated people, or lack of entrepreneurial skills of educated people might have contributed to this situation in Sri Lanka.

Eighth, according to many publications, even after fifty-nine years of political independence, at present, around 45 percent of total population is living below the poverty line of 2 US Dollars per day in Sri Lanka. On one hand, since absolute poverty level has direct link with the high unemployment and underemployment level of the country, attempts must be made to utilize labour to further minimize poverty level in Sri Lanka. On the other hand, attention must be paid to reduce socially excluded poverty groups such as plantation sector workers, educated females in garment industries, female heading households, informal sector workers such as three-wheel drivers, school van drivers, and private bus conductors. Some of these people are actually economically lying above the poverty line. Many of them are recorded as unemployed people or underemployed in labour force surveys. Social exclusion has made them to retain in poverty groups. It is a matter of change of attitudes towards above-mentioned employment categories. Therefore, attention must be paid to labour utilization to improve living standards in Sri Lanka. Eventhough, it is possible to understand importance of study of labour market in Sri Lanka, only a limited number of studies has been conducted on labour market issues during the past few decades. Especially, there is a dearth of studies of Sri Lankan workers in other countries, why they came to work in those countries, household behavior of them both in host country and after

returning to home country.

3. Data Sources on Labour Market and their Limitations

There are several types of data sources to study structure and trends in labour market related variables in Sri Lanka. International Labour Organization (ILO) surveys, Consumer Finances and Socio-economic Surveys (CFSES) conducted by the Central Bank of Sri Lanka (CBSL), Population Census (PC) and Labour Force Surveys (LFS), Land and Labour Utilization Survey, Labour Force and Socio-economic Surveys conducted by the Department of Census and Statistics of Sri Lanka (DCSSL) have been recording data on labour market related variables in Sri Lanka since 1950s. Table 3.1 presents data obtained from all these surveys on labour force, employment and unemployment in Sri Lanka.

It is important to remember that there are at least three main problems associated with all these published data on labour market and related variables. First, since conceptual definitions are slightly different among these data sources comparisons across the sources, are not possible. However, statistics given in Table 3.1 can be utilized to show the severity of unemployment level in Sri Lanka irrespective of definition of concepts and surveys conducted throughout the post independence period. As shown in the Table 3.1 unemployment rate remained over 10 percent until 1997. One of the main reasons behind drastic decline of unemployment rate in Sri Lanka has been associated with growing number of migrant workers since 1980s. Further, as reflected in the data given in Table 3.1, irrespective of the definitions of concepts in various surveys, it took around 50 years to double the size of total labour force in Sri Lanka. This has observed in data recorded in several sources. Meanwhile, total population increased by three

times. This was due to large foundation observed in population pyramid in Sri Lanka for a longer period. However, policy instability occurred due to frequent government changes until late 1970s, priority given to social welfare policies, and internal and external shocks influenced the economy experiencing slow growth in employment and maintaining high level of unemployment in late 1990s.

Second, none of the sources available in Sri Lanka provides continuous monthly, quarterly or annual time series data for the entire post-independence period (since 1948) or at least for post-liberalized economic policy period (since 1977). As a result it is difficult to use labour market data to analyze policy effectiveness in different policy regimes in Sri Lanka. Sri Lanka has implemented various types of policies such as colonial economic policy, import substitution policy, partial liberalization policy, nationalization policy, privatization policy, and full liberalization policy package in different time periods after 1948. It is very important to investigate influence of these policies on labour market in Sri Lanka. Unfortunately, there is no single data source to undertake such kind of research in Sri Lanka.

Third, among the above-mentioned data sources, only limited surveys have covered entire country in selected years. Especially, surveys conducted after the 1983, have not covered Northern and Eastern provinces due to escalated political violence in therein. Ethnic structure of these two provinces is different from each other. Sri Lankan Tamils dominate Northern Province while the Sri Lankan Tamils and Muslims represent the majority of population in Eastern Province. Needless to mention that the rest of the seven provinces are dominated by Sinhalese. Therefore, available data sources on labour market do not provide materials to undertake free and fair analysis on labour market behavior

Table 3.1.Total Labour Force, Employment and Unemployment in Sri Lanka

Survey	Name of the Survey	Labour	Total	Total	Unemployment
Year		Force	Employment	Unemployment	Rate
		(000)	(000)	(000)	%
1953	Consumer Finance Survey, CB				16.6
1959-60	ILO Survey				
	Low estimates	3324	2975	349	10.5
	High estimates	3516	3066	450	12.8
1963	Population Census				
	Low estimates	3474	3210	264	7.6
	High estimates	3611	3221	390	10.8
1963	Consumer Finance Survey, CB	3312	2855	457	13.8
1968-69	Labour Force Survey	4091	3641	450	11
1969-70	Socio-economic Survey	3667	3117	550	15
1971	Population Census	4487	3648	839	18.7
1973	Survey of Labour Force Participation rate	4333	3540	793	18.3
1973	Consumer Finance Survey, CB	4167	3167	1000	24
1975	Land and Labour Utilization Survey, DCS	4995	4011	984	19.7
1978	Consumer Finance Survey, CB	5905	5031	874	14.8
1981	Census of Population	5011	4114	897	17.9
1981-82	Consumer Finance and socio-economic Survey, CB	5210	4601	610	11.7
1985-86	Labour Force and Socio-economic Survey	5960	5119	840	14.1
1986-87	Consumer Finance and Socio-economic Surveys, DCS	6239	5272	967	15.5
1990	Sri Lanka Labour Force Survey	6000	5046	954	15.9
1991	Sri Lanka Labour Force Survey	5864	5002	862	14.7
1992	Sri Lanka Labour Force Survey	5795	4949	846	14.6
1993	Sri Lanka Labour Force Survey	6022	5191	831	13.8
1994	Sri Lanka Labour Force Survey	6084	5287	797	13.1
1995	Sri Lanka Labour Force Survey	6089	5340	749	12.3
1996	Sri Lanka Labour Force Survey	6239	5534	705	11.3
1997	Sri Lanka Labour Force Survey	6267	5609	658	10.5
1998	Sri Lanka Labour Force Survey	6641	6030	611	9.2
1999	Sri Lanka Labour Force Survey	6707	6116	591	8.9
2000	Sri Lanka Labour Force Survey	6939	6422	517	7.6
2001	Sri Lanka Labour Force Survey	7001	6464	537	7.9
2002	Sri Lanka Labour Force Survey	7398	6772	626	8.8
2003	Sri Lanka Labour Force Survey	8013	7372	641	8.4
2004	Sri Lanka Labour Force Survey	8518	7851	667	8.3
2005	Sri Lanka Labour Force Survey	8657	8034	623	7.7
2006	Sri Lanka Labour Force Survey	8190	7644	546	7.2

Source: Updated from Lakshman, W.D. (2004), Youth Unemployment: An Exploratory Study, in Kelegama, S. ed. *Economic Policy in Sri Lanka; Issue and Debates*. Vijitha Yapa Publications, Sri Lanka.

with respect to ethnicity and or region in Sri Lanka. However, since data collected on all other macroeconomic variables has the same basis, this situation may not influence significantly on our analysis. For example, according to national income statistics, Northern and Eastern provinces represented only 2.72 percent, and 5.48 percent respectively, in 2004. On the other hand, those two provinces represented 3.29 percent and 6.35 percent in total employment of Sri Lanka in the same year. Therefore, it is possible to assume that all economic activities are underestimated in those two provinces. Thus similar to other socio-economic variables, regional differences in labour market related variables in Sri Lanka within a free and fair context. However, above-mentioned data sources are the only existing data sources to analyze labour market related variables in Sri Lanka.

4. Long-term Trends and Structural Changes in Labour Force

By minimizing several limitations of existing data sources, the following two sets of data sources can be used to analyze labour market related variables in Sri Lanka. First, the Central Bank of Sri Lanka has reported long-term data on variables related to labour market in its reports on *Consumer Finances and Socio-economic Surveys (CFSES)*. These surveys were conducted in 1953, 1963, 1973, 1978/79, 1981/82, 1986/87, 1996/97, and 2003/2004. Although these data are comparable across the surveys, it is impossible to explain trends and structural changes in intermediate periods with the help of these data. However, for the purpose of long-term analysis on labour market and related variables, *CFSES* is the only available data source in Sri Lanka. Therefore, this paper utilizes these data to explain long-term trends and structural changes in labour market related variables during the past fifty years.

Table 4.1 summarizes long-term data on structure of labour force, employment and unemployment obtained from *CFSES*. Although some variations are visible in intermediate years, employment rate has increased from 83.4 percent in 1953 to 91.1 percent in 2004. Meanwhile, employment structure has undergone substantial changes in terms of employee's age, gender, level of education, industrial category, employment status, and regional distribution. Among these dimensions, long-term data are supporting only for changes in industrial categories. As shown in Table 4.1, employment share in primary (agriculture, forestry and fishing) sector declined from 53 percent in 1963 to 32.8 percent in 2004. Indicating highest performance, manufacturing sector share in total employment increased from 7.3 percent in 1963 to 17.3 percent in 2004. Employment share associated with wholesale and retail trade also increased substantially from 7.9 percent in 1963 to 15.9 percent in 2004. Following, the boom recorded in construction sector after 1977, employment share in construction industry has also been increasing from 1.6 percent in 1973 to 6.9 percent in 2004. However, even after the introduction of trade liberalization policies, employment share in public administration, defense and other personal services has not been declining. Eventhough more than 100 state-owned firms have been privatized in Sri Lanka during the past 30 years, share of government employees has not been substantially declining due to introduction of provincial council system and expansion of defense forces due to on-going civil war.

On the other hand, the long-run unemployment rate has shown declining trend in Sri Lanka. Especially, it has declined from 24 percent in 1973 to 8.9 percent in 2004. Eventhough present unemployment rate seems be substantially low in comparison to 1970s, issues related to its various structural components are debatable. In order to discuss some of those

Table 4.1 Employment and Unemployment Structure in Sri Lanka, 1953-2004

Item	1953	1963	1973	1978 /79	1981 /82	1986 /87	1996 /97	2003 /04
1. Labour Force as % of Population	40.0	31.7	33.9	38.0	34.3	38.1	39.7	38.9
2. Employment rate as % of labour Force	83.4	86.2	76.0	85.3	88.3	84.5	89.6	91.1
3. Employment rate by Industry- %								
3.1. Agriculture, Forestry & Fishing		53.0	54.5	48.3	51.2	47.7	37.7	32.8
3.2. Mining and quarrying		0.2	0.3	1.3	1.6	1.9	1.3	1.2
3.3. Manufacturing		7.3	9.3	13.8	12.4	13.4	16.8	17.3
3.4. Construction		1.9	1.8	5.3	5.2	5.7	6.8	6.9
3.5. Electricity, gas and water		0.6	0.3	0.5	0.3	0.6	0.7	0.5
3.6. Wholesale, & Retail Trade		7.9	7.0	9.7	10.7	11.9	13.3	15.9
3.7. Public Administration, Defense & Other Personal services		29.1	26.8	21.1	18.6	18.8	23.4	25.3
4. Unemployment rate as % of labour force	16.6	13.8	24.0	14.7	11.7	15.5	10.4	8.9
5. Structure of Unemployment - %								
5.1. By gender								
Male	15.3		18.9	9.2	7.8	11.3	6.4	6.3
Female	20.0		36.0	24.9	21.3	23.6	17.5	14.2
5.2. By Age group (years)								
14-18 years		47.5	65.8	30.7	30.8	48.0	35.6	35.3
19-25 years		30.3	47.8	31.1	28.8	35.3	30.4	28.6
26-35 years		7.8	15.2	13.1	8.8	10.6	8.8	7.0
36-45 years		2.4	3.9	2.7	1.7	3.2	2.4	1.9
46-55 years		2.7	1.2	0.8	0.5	0.7	1.0	0.7
Above 55 years		1.9	0.8	0.2	0.1	0.6	0.4	0.5
5.3. By Education level								
No Schooling-Illiterate	16.6	6.3	8.4	3.5	2.4	3.0	0.7	0.8
No Schooling-Literate		5.7	6.8	2.8	1.9	1.3	0.0	1.5
Primary	16.4	10.5	14.1	6.6	4.8	5.0	2.3	1.9
Secondary	17.9	23.0	37.1	21.3	14.6	19.8	12.7	8.7
Passed GCE(O/L)/SSC	25.0	39.3	47.4	27.6	24.5	28.5	14.2	13.8
Passed GCE(A/L)/HSC	2.9	13.9	44.4	36.4	34.8	34.8	23.7	19.3
Graduate			16.2	5.3	9.7	7.6	9.3	12.4
5.4 By Sector								
Urban			17.8		14.2	17.3	13.4	8.8
Rural			14.6		12.0	16.0	10.2	8.9
Estate			7.5		5.0	9.7	6.9	9.2

Notes: GCE(O/L): General Certificate of Examination (Ordinary Level)/SSC: Senior School Certificate
GCE(A/L): General Certificate of Examination (Advanced Level)/HSC: Higher School Certificate
Source: Central Bank of Sri Lanka (2007) Economic and Social Statistics of Sri Lanka, 2006.

issues, long-term statistics on structure of unemployment rate by gender, age, education level and sector is presented in latter part of Table 4.1. By observing figures given therein, it is possible to identify the following four long-term major characteristics with respect to behavior of unemployment rate in Sri Lanka.

1. Female unemployment rate has been higher than the male unemployment rate during the entire post independence period. In 2004, it was more than double in comparison to male unemployment rate. High female participation rate in education and labour force as well as declining agricultural sector share in the total production led to have high female unemployment rate in Sri Lanka. On the other hand, by providing more employment opportunities in garment industry, Middle East countries and other service industries open economic policies have favored more females than males in Sri Lanka.
2. Unemployed people belonging to two age groups namely, year 14-18 and 19-25 represented more than 60 percent of the total unemployment in Sri Lanka during the entire period. However, contribution made by people belonging to these two age groups decline substantially from 77.8 percent in 1953 to 63.9 percent in 2004. On the other hand, still 30 percent of unemployment is recorded among the people in age between 14-18 years. However, in developed countries, majority of people belong to this age group are either in high schools or universities. In Sri Lanka, since only 53 percent of students pass the final examination at secondary level [GCE(O/L)], majority of school leavers (in a sense school dropouts) are considered as unemployed people.
3. Structure of unemployed people has been changing from less educated people to more educated people during the past fifty years in Sri

Lanka. In 1953, 16 percent of unemployed people had not gone to school and that ratio decline to 2.3 percent in 2004. On the other hand, the largest share of the unemployment ratio has been shifted from secondary level educated people to high school graduates during the concerning time period. Among the unemployed people, share of people completed secondary level education decreased from 37.1 percent in 1973 to 8.7 percent in 2007.

4. In sector-wise consideration, unemployment rate had been higher in urban and rural sector than the estate sector until late 1990s. However, urban and rural sector unemployment rate have been declining while estate sector unemployment rate has been increasing during the past 30 years. As a result, the highest unemployment rate is now recoded in estate sector, even though it is a marginal sector representing only less than 6 percent of total population in Sri Lanka

In addition to the mentioned above trends and structural changes in employment and unemployment, behavior of underemployment is also very important to study to understand migration decision of a person. Underemployment exists when a person's employment is inadequate in relation to specified norms or alternative employment. Underemployment may be visible or invisible. Although invisible underemployment cannot be statistically explore, visible underemployment level can be measured by using some statistics. Visible underemployment level can be measured by defining number of work hours per day or per week. It occurs when a person is in employment for less than the normal duration and is seeking, or would accept additional work for a longer duration. According to many sources, Sri Lanka is characterized by a high level of underemployment.

In Sri Lanka, according to CFSES 200/3/4, the normal duration of employment has taken as a norm of 35 hours per week. Those who have

engaged in economic activities less than this norm are considered as underemployed. As mentioned in that report, “the underemployment rate was 21.6 per cent during the 2003/04 survey period, on par with the rate that prevailed in 1996/97. As a share of the employed, the underemployed accounted for 24 percent. Thus 24 percent of the employed were not fully occupied and were willing to work more hours than they were currently engaged in, but their working environment did not provide the opportunity to do so” (CBSL, 2005, CFSES report part I, p.64). In a sense these underemployed people can be defined as working poor. Since their income is less than world poverty line as set by the World Bank as less than US \$ 2 per day, 45 percent of people live below the poverty line in Sri Lanka. According to these statistics, underemployment rate has not declined even though Sri Lankan economy grew at more than 4 percent, and unemployment rate declined by half during the last decades or so. Therefore, underemployment rate is very important to determine the ratio of working poor in a country like Sri Lanka. Higher value of underemployment rate caused to keep high absolute poverty rate in Sri Lanka.

In order to analyze various dimensions of underemployment in Sri Lanka, statistics drawn from CFSES 2003/4 are given in Table 4.2. According to these statistics the following characteristics can be identified with respect to underemployment in Sri Lanka.

1. There is a clear variation of underemployment rate across various sectors in Sri Lanka. Although urban sector recorded lowest underemployment rate, it has been increasing during the period of 1997-2004 period. On the other hand, the highest underemployment ratio has been recorded in rural sector and it has been remaining at same level during the concerning period. These differences of

underemployment rate of these two sectors can be largely explained by sectoral differences in industrial sector, nature of the work, seasonality and influence of the weather condition on production activities. However, declining trend of underemployment rate in estate sector can be largely explained by high rate of migration of family members of plantation workers to other sectors for casual jobs like as housemaids, domestic servants, cleaners, and construction workers.

2. Unlike the unemployment rate, there has not been a gender differences in underemployment rate in Sri Lanka. Underemployment rate associated with both sexes were at high level.
3. Underemployment rate has positively correlated with increasing age level in Sri Lanka. (except for 15-18 year old age group). This means when age is increasing, probability of being underemployed is rising in Sri Lanka. For example, among the people belonging to 19-24 age group, underemployment rate was 15.1 percent and it was 32.7 percent among the people in over 64 age group. This trend was much clear in 2004 data set in comparison to 1997 data set.
4. As opposite to the behavior of unemployment rate, underemployment rate indicated a declining trend with the higher level of education in Sri Lanka. In other words, the higher the level of education received by the person, the lower the probability of being underemployed in Sri Lanka. In comparison to high school or above level educated people, underemployment rate associated with the primary or lower level of educated people were more than 2.9 times higher in 2004. The highest underemployment rate was associated with lowest educated group.
5. According to ownership of the business organization, underemployment rate has been lowest among the government sector workers and it has been declining during the past few years.

Table 4.2. Various Dimensions of Underemployment Rate in Sri Lanka, 1996-2004

Variable	1996/97	2003/2004
	As % of Labour Force	
1. Underemployment rate	21.7	21.6
2. By Sector		
Urban	13.2	14.5
Rural	22.9	22.9
Estate	22.2	18.2
3. By Gender		
Male	22.0	21.5
Female	21.1	21.8
4. By Age Group		
15-18	18.6	18.1
19-24	16.3	15.1
25-34	21.0	18.8
35-44	23.3	22.5
45-54	23.7	24.5
55-64	23.8	28.5
Over 64	27.5	32.7
5. By level of Education		
Primary and below	28.5	29.7
Secondary	21.4	21.9
GCE(O/L)	11.6	16.7
GCE(A/L) and above	11.3	10.6
	As % of the Employed	
6. By Ownership of firm		
Government	10.4	7.9
Semi-government	13.1	9.2
Formal private sector	13.4	7.5
Informal Private sector	29.3	30.2
7. By Industry		
Agriculture	31.2	34.5
Manufacturing	19.5	20.2
Services	20.0	17.8

Source: CBSL (2005)CFSES, Part 1.

Conversion of casual workers to permanent workers, freezing casual recruitments in government own firms, outsourcing of some activities and undertaking privatization activities can be considered as determinants of this trend. On the other hand, the highest underemployment ratio was associated with the informal private sector

organizations and it has been slightly increasing during the concerning period.

6. The underemployment rate was highest in agricultural sector while lowest in services sector. Nature of the work, bad weather and reduction of economic activities due to environmental calamities in agricultural sector led to record high underemployment rate in agricultural sector in Sri Lanka.

With respect to nature, trends and structural behavior of underemployment rate there were several main important reasons. Among these, nature of work (22%), reduction in economic activity (15%) and off-season activity (15%) accounted for nearly 50 percent of influencing reasons. Many of these reasons can be overcome by formulating and implementing good policy package in Sri Lanka.

Apart from the long-term trends, it is worth to study about structural changes and recent trends in labour force, employment and unemployment. For this purpose, we use second type of data set. Data on labour force and related variables on quarterly and annual basis are available in Labour Force Surveys (*LFS*) conducted by the Department of Census and Statistics of Sri Lanka since 1990. This is the only data source available on labour market related variables in annual basis in Sri Lanka. As mentioned above, although it is a very useful data set, it cannot be used to evaluate the impacts of trade liberalization on labour market of Sri Lanka due to absence of data prior to liberalization or from the initial year of trade liberalization. However, *LFS* data is very useful to understand recent changes in labour market and related variables in Sri Lanka. Therefore, this section uses *LFS* data to illustrate recent structural changes and trends in labour market and related variables in Sri Lanka. Basic statistics on labour force, employment, and unemployment in Sri Lanka for year 1990 to 2006 are

presented 3.1.

5. Recent Trends and Structural Changes in Labour Force

In order to illustrate trends of employment, unemployment and elasticity of labour with respect to Gross Domestic production, and relevant statistics are given for the 1990-2006 period in Table 5.1. Employment elasticity is defined as the percentage change occurred in total employment due to percentage change occurred in total production (GDP). Employment elasticity of output can be estimated as point employment elasticity or arc employment elasticity. Our estimations for both methods are presented in the Table 5.1.

As shown in Table 3.4, average value of the employment elasticity for 1990-2005 period in Sri Lanka is around 0.20. In other words, when GDP increased by 100, employment opportunities have increased only by 20 in Sri Lanka during the concerning period. This is a very good index to show that the slow growth in employment generation in Sri Lanka during the concerning period. For this purpose factors such as high government expenditure, sizable inflation rate, lack of profitability in private sector businesses, very slow growth in manufacturing sector, employment-lack growth in service sector, employment reduction due to privatization programs of state-owned enterprises, caused to record slow growth in employment creation in Sri Lanka since early 1990s. All large scale development projects (started soon after the 1977) were completed and accelerated war since early 1980s has been dragging on during this period. On the other hand, private sector investments crowded out by large government sector, and its growing expenditure due to expanded public administration and defense expenditure.

Table 5.1 Gross Domestic Production, Total Employment and Elasticity of Employment in Sri Lanka, 1990-2006

Year	GDP at Market price	Total Employment	Point Elasticity Of Employment	Arc Elasticity Of Employment
1990	321,784	5047354		
1991	372,345	5015517	-0.0401	-0.0434
1992	425,283	4962105	-0.0749	-0.0807
1993	499,565	5201474	0.2762	0.2932
1994	579,084	5281272	0.0964	0.1033
1995	667,772	5357117	0.0938	0.1002
1996	768,128	5537285	0.2238	0.2366
1997	890,272	5607881	0.0802	0.0860
1998	1,017,986	6049238	0.5486	0.5657
1999	1,105,963	6082641	0.0639	0.0665
2000	1,257,636	6310145	0.2727	0.2861
2001	1,407,398	6235588	-0.0992	-0.1058
2002	1,581,885	6519415	0.3671	0.3812
2003	1,761,161	7012755	0.6677	0.6798
2004	2,029,365	7394029	0.3570	0.3740
2005	2,365,702	7518007	0.1012	0.1086
2006	2,365,702	7611982	0.2083	0.2133
		Average value	0.196	0.2040

Source: Authors computation based on data obtained from *Labour Force Survey* 1990-2006, and Department of Census and Statistics, and *Annual Report* of the Central Bank of Sri Lanka, 1990-2007.

Demand for labour in Sri Lanka has been growing at a very slow speed due to slow expansion in the manufacturing industry and high growth in the services sector. Eventhough manufacturing sector had undergone good structural change by shifting from domestic market to foreign market orientation through expansion of garment industry, its expansion was very slow due to low value addition, market limitations, domination of foreign buyers, weak linkages with other industries and increasing cost of production due to rise of energy cost.

On one hand, gradually developed state-owned manufacturing firms had to compete with imported commodities and goods produced by the private sector after introduction of liberalized economic policies. One the other

hand, government had to privatize state-owned manufacturing firms due to their loss-making nature, domestic and international political pressure (backed by the IMF and the World Bank), and to liberalize the economy. After privatizing, many manufacturing firms like Sri Lanka Steel Corporation, Wellawatta Clothing Mills, Pugoda Clothing Mills, Sri Lanka Cement Corporation, Sugar corporation and state-owned plantation estates undertook cost-cutting approach by introducing downsizing or rightsizing activities. As a result, majority of workers in these firms lost their jobs and they had to find employment opportunities in informal service sector as a three-wheel taxi drivers, private bus driver, conductors or petty traders in urban sector.

Eventhough garment industry has rapidly expanded since early 1980s, employment generation of that industry was biased towards female labour. According to available statistics around 87 percent employment opportunities in garment industry is represented by less educated female labour in Sri Lanka. Anyway, garment industry was the only succeeding employment provider after introduction of liberalized trade policies in Sri Lanka. As shown in Table 3.2, as a result of expansion of garment industry and other export oriented industries, the share of employment in manufacturing industry has increased from 12.4 percent in 1981 to 17.3 percent in 2004. On the other hand, services sector share in the total employment increased from 43.7 percent in 1981 to 47.7 percent in 2004 due to expansion of urban services such as wholesale and retail trade (by 5.7 percent), transportation and storage (by 11 percent) financial intermediation and real estate (14 percent) public administration, construction services and repair of motor vehicles and other community services sector. Employment opportunities emerged in these sub-sectors has been highly informal. Some important unique characteristics such as

domestic market orientation, high import biasness and lack of export orientation are associated with newly expanded services sector employment opportunities in Sri Lanka. In other words, supportive services expanded while demand for labour in formal services sector was not in sizeable amount.

Regional deviation of employment structure by sectors can be illustrated with the help of information given in Table 5.2. On the one hand services sector alone accounted for 42 percent of employment in 2004. However, there is a clear variation of services sector contribution to total employment across the provinces in Sri Lanka. Services sector in Western Province accounted for 29 percent of total employment in Sri Lanka, while its contribution was lowest in Northern and Uva provinces (less than 2 percent of total employment). Another two important features associated with the employment in the services sector is urban biasness and informal nature. Services such as wholesale, transportation, telecommunications and construction are widely concentrated into urban areas and most of

Table 5.2 Regional and Sectoral Share of Employment in Sri Lanka 2004

Province	Agriculture%	Industry%	Services%	Out of grand Total %
1. Western	2.41	9.88	16.67	28.97
2. Southern	5.27	3.02	4.89	13.18
3. Sabaragamuwa	4.43	2.53	3.93	10.89
4. Central	5.62	2.10	4.67	12.39
5. Uva	5.65	0.94	1.75	8.34
6. Eastern	2.38	1.06	2.90	6.35
7. North Western	3.95	3.83	5.51	13.29
8. North Central	3.61	0.93	2.04	6.58
9. Northern	1.24	0.59	1.46	3.29
10. Sri Lanka	33.33	24.30	42.37	100.00

Source: Karunaratne, H.D. (2007b), An Inquiry into the Regional Disparity in Per capita Income and Labour Productivity: A Case of Sri Lanka, *Forum of International Development Studies*, Vol. 33, p121-136.

these services are operating as informal services especially in the Western Province of Sri Lanka. Therefore, employment opportunities associated with the urban services sector are mostly casual, less paid, unstable, and no retirement benefits. People employed as three wheel drivers, private bus drivers, bus conductors, petty traders, vehicle service stations, and communication shop owners are always in frustration and holding negative attitudes towards their jobs. Thus, majority of them are willing to go for employment opportunities in foreign countries. This phenomenon can be further illustrated by analyzing employment structure by employment status and ownership of firms.

Table 5.3 presents statistics on employment structure by employment status and ownership of firms in Sri Lanka during the 1990-2006 period. The share of employee in the total employment has been fluctuating from 55 percent to 62 percent during the entire period. However, public sector employees share in the total employment has been declining from 22.9 percent in 1991 to 13.3 percent in 2005. Meanwhile, employees share belonging to private sector has increased from 37.4 percent in 1990 to 44.7 in 2005. This is mainly due to privatization of state owned service providing institutions in the fields of transportation, telecommunications, insurance, and wholesale and retail trade in Sri Lanka.

Further some of the state-owned manufacturing firms were privatized and some of them were closed down in recent past. Furthermore, new recruitments to public sector employment opportunities were restricted only for educated people since mid 1990s. In addition, expansion of garment industry and establishment of new firms under foreign investment were also caused to increase employee share in private sector. However, employers and own account workers shares in the total employment has marginally increased during this period. Eventhough, unpaid family

workers share hit the bottom level as 7.9 percent of total employment in Sri Lanka in 2005, it has again increased to 10.2 percent in 2006. According to these statistics and above-mentioned characteristics, it is possible to come to a conclusion as [There was no substantial change in employment status, but ownership of employees has gradually shifting from public sector to private sector in Sri Lanka during the period of 1990-2006].

Statistics relevant to total employment by age group for 1990-2006 period is summarized in Table 5.4. Employment share of year 10-14 age category has been declining during the concerning period. As a result of high income poverty level, high school dropout ratio, existence of street children in urban sector and continuation of civil war during the past three decades, it has estimated about 3 percent of children in schooling-age has

Table 5.3 Total Employed Persons by Employment Status in Sri Lanka, 1990-2006

Year	Total Employed	Employee %			Employer %	Own Account Worker %	Unpaid Family Worker %
		Total	Public	Private			
1990	100.0	55.2	21.5	33.7	1.8	29.2	13.8
1991	100.0	62.4	22.9	39.5	2.2	25.4	10.0
1992	100.0	60.1	20.0	40.0	1.6	27.1	11.2
1993	100.0	60.0	17.4	42.8	2.0	27.4	10.4
1994	100.0	60.7	16.4	44.3	2.3	27.2	9.8
1995	100.0	59.8	15.6	44.3	2.5	28.3	9.4
1996	100.0	60.8	15.0	45.8	2.3	26.8	10.0
1997	100.0	59.4	15.1	44.3	2.3	28.8	9.4
1998	100.0	55.6	14.5	41.2	1.9	28.9	13.6
1999	100.0	57.5	14.4	43.1	2.0	28.3	12.2
2000	100.0	56.3	13.4	42.9	2.3	28.4	13.0
2001	100.0	58.6	13.9	44.7	2.3	28.5	10.6
2002	100.0	57.9	13.4	44.5	2.8	28.6	10.7
2003	100.0	57.9	13.5	44.4	2.6	29.6	9.9
2004	100.0	59.4	13.0	46.4	2.9	28.3	9.4
2005	100.0	59.3	13.3	46.1	3.1	29.7	7.9
2006	100.0	56.1	14.0	42.1	3.6	30.1	10.2

Source: Department of Census and Statistics, (2007) *Report of the Sri Lanka Labour Force Survey*.

not been attending school during this period. They have joined as child workers to labour force in informal sector. Employment share of other three age groups were remaining more or less same and only the employees belonging to 40 year and above age category indicated increasing trend from 40.7 percent in 1990 to 49.5 percent in 2006. In this respect, since public sector organizations practice life long employment, and seniority-based promotions in Sri Lanka, declining share of public sector employment has been more favorable to reduce government share of the wage bill in Sri Lanka.

This is because around 50 percent of total employees in Sri Lanka are now older than 40 years and above. This ratio is expected to increase in near future due to population aging trend in Sri Lanka. The only way of

Table 5.4 Employed Persons by Age Groups (Percentage), 1990-2006

Year	Age Group (Years)						
	All Ages	10-14	15-19	20-24	25-29	30-39	40+
1990	100.0	1.1	5.7	11.9	13.7	27.0	40.7
1991	100.0	0.7	5.4	12.7	13.7	26.8	40.7
1992	100.0	0.5	5.1	13.4	14.1	27.0	39.9
1993	100.0	0.4	5.2	12.7	14.2	26.7	40.7
1994	100.0	0.4	4.9	12.3	13.9	28.2	40.3
1995	100.0	0.3	4.9	11.6	14.1	26.5	42.7
1996	100.0	0.4	5.3	12.1	13.7	28.1	40.4
1997	100.0	0.3	5.1	11.9	13.3	27.2	42.1
1998	100.0	0.8	5.9	12.1	12.5	26.7	42.1
1999	100.0	0.9	5.8	11.8	12.2	26.1	43.3
2000	100.0	0.5	5.2	12.2	12.3	26.0	43.8
2001	100.0	0.4	4.3	12.1	12.0	25.4	45.8
2002	100.0	0.3	4.4	12.2	12.1	26.2	44.8
2003	100.0	0.3	4.2	11.6	12.2	26.3	45.4
2004	100.0	0.4	4.1	11.8	12.2	25.5	46.0
2005	100.0	0.1	3.6	11.3	12.9	25.6	46.5
2006	100.0	0.2	4.1	10.0	12.6	23.6	49.5

Source: Department of Census and Statistics,(2007)
Report of the Sri Lanka Labour Force Survey

overcoming this situation is massive increase in recruitment of new comers to either public or private sector paying significant high real wages for them. This seems to be a illusion under present conditions of the Sri Lankan economy.

Data on employment structure by level of employee's education is presented in Table 5.5

The percentage of employees completed only primary education level had come down from 31.9 percent in 1990 to 20.6 percent in 2006. However, the percentage of employees completed less than high school has not changed in sizable amount during the concerning period. On the other hand, the percentage of employees completed high school and above has increased more than double from 7 percent in 1990 to 14.9 percent 2006. Although this is a considerable increase, it cannot be compared with higher education expansion in East Asian countries since 1980s. Relatively slow growth of higher education level in Sri Lanka occurs due to public ownership of Universities and equivalent institutions. This was due to limitation of resources in public sector and lack of incentives to improve quality of education as a business opportunity in Sri Lanka.

On the other hand, unemployment level, trend and structure have also been changing since 1990. As indicated in previous sections of this paper, unemployment rate has shown continuous declining trend in Sri Lanka since early 1990s. There were several main reasons behind this trend. The first and most important reason has not emerged from the demand side of labour but from the supply side of labour. As indicated in Figure 5.1, population growth rate has declined from 2.8 percent in 1951 to 1.5 percent in late 1991. According to De Silva (2005), this trend has been continuous in recent years and expected to continue for another few decades. The people who participated in labour force in 1990s were born in mid 1970s. As

Table 5.5 Employed Persons by Level of Education (Percentage), 1990-2006

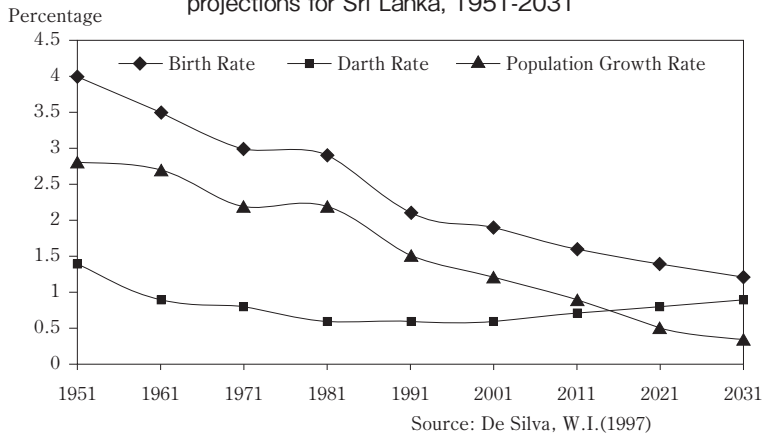
Year	Level of Education				
	Total	Below Grade 5	Grade 5-10	GCE (O/L) NCGE	GCE(A/L) & above
1990	100.0	31.9	45.1	16.0	7.0
1991	100.0	31.9	44.8	15.6	7.9
1992	100.0	29.9	44.9	16.5	8.7
1993	100.0	28.5	45.1	16.9	9.5
1994	100.0	28.2	45.4	17.5	8.8
1995	100.0	26.8	44.9	18.0	10.3
1996	100.0	29.5	43.3	16.9	10.3
1997	100.0	27.9	44.0	17.6	10.5
1998	100.0	26.8	45.0	17.2	11.0
1999	100.0	25.4	45.7	18.0	10.9
2000	100.0	25.1	46.3	16.7	11.9
2001	100.0	22.7	46.1	17.7	13.5
2002	100.0	24.6	45.6	15.8	14.0
2003	100.0	24.5	46.2	15.9	13.3
2004	100.0	24.3	44.7	16.8	14.2
2005	100.0	20.6	45.8	18.2	15.4
2006	100.0	20.6	47.0	17.5	14.9

Source: Department of Census and Statistics, (2006) Report of the Sri Lanka Labour Force Survey

a result, people participated automatically in labour force were lower in 1990s than in 1970s. Meanwhile, average number of members in one family has come down from around 6 persons to 4 persons in Sri Lanka during the past few decades. These two reasons can be used to explain substantial component of declining part of the unemployment rate in 1990s.

The second reason was expansion of education in Sri Lanka. Especially, secondary level school enrollment ratio increased to over 90 percent level in 1980s. When large number of males and females has been enrolling into secondary and tertiary education institutes, the unemployment rate associated with lower age groups such as year 10-14 and 15-19 or 20-24 is declining in significant proportions. For example, number of students in courses conducted by the Sri Lankan Universities increased from 31,241 in 1995 to 60,350 in 2004 (CBSL, 2005). In addition, number of students

Figure 5.1 Birth Rate, Death Rate, and Population Growth Rate projections for Sri Lanka, 1951-2031



enrolled in vocational training institutes has also been doubled during this period. Apart from central government owned National Apprenticeship Board Training Centers, provincial and local government owned vocational centers as well as Non Governmental Organizations (NGOs) also have started these kinds of vocational centers. As a Result, wider chances are available to receive training in professions like carpentry, masonry, mechanic, automobile painting, sewing machine operation, horticulture, flower arrangements, other handicraft works, and even some places provide training on computer usage, programming and software development in Sri Lanka. Availability of these kind of services have remarkably grown in Sri Lanka in 1990s in comparison to 1970s. As a result, substantial proportion of children dropping out from GCE(O/L) examination and children who do not have financial strength to follow higher education programs, have been enrolling in these professional training programs rather than joining labour force as unemployed people in 1990s. In order to further investigate this situation, Table 5.6 presents

Table 5.6 Unemployed Persons by Age groups (Percentage), 1990-2006

Year	Age Group in Years					
	All Ages	15-19	20-24	25-29	30-39	40+
1990	100.0	20.3	40.3	19.3	13.2	7.1
1991	100.0	19.3	42.2	16.7	15.8	6.0
1992	100.0	19.2	40.9	20.4	13.4	6.1
1993	100.0	20.4	38.5	18.9	15.5	6.8
1994	100.0	22.4	41.2	15.6	15.5	5.5
1995	100.0	21.1	38.2	20.1	15.1	5.5
1996	100.0	24.0	39.3	18.1	14.3	4.3
1997	100.0	22.5	41.5	19.0	12.7	4.3
1998	100.0	21.9	40.8	17.6	13.6	6.0
1999	100.0	23.9	40.5	17.2	12.5	5.9
2000	100.0	19.5	44.4	18.4	11.9	5.8
2001	100.0	21.2	45.4	17.8	10.4	5.1
2002	100.0	19.8	47.1	16.6	11.0	5.5
2003	100.0	19.9	45.8	17.2	11.6	5.6
2004	100.0	18.1	45.9	17.4	11.7	6.8
2005	100.0	19.5	44.8	16.4	12.2	7.1
2006	100.0	15.6	39.6	24.8	11.5	8.5

Source: Department of Census and Statistics,(2007) Report of the Sri Lanka Labour Force Survey

recent data on unemployment rate by age groups in Sri Lanka. As indicated in Table 5.6, unemployment rate associated with year 15-19 age group has declined from 20.3 percent in 1990 to 15.6 percent in 2006.

A similar situation can also be observed in the long-term data provided in Table 5.6. As indicated in that Table, unemployment rate associated with 14-18 year age group has declined from 47.5 percent in 1963 to 35.3 percent in 2004. Although this situation is common among the developing countries recording low population growth rates, Sri Lanka's achievement is not significant in expansion of high tertiary level education facilities. Public ownership of tertiary education institutions caused to restrict number of enrollment opportunities in tertiary education institutions in Sri Lanka in comparison to East Asian countries.

However, education expansion in Sri Lanka has generated high open

Table 5.7 Unemployed Persons by Level of Education (Percentage), 1990-2006

Year	Level of Education				
	Total	Below Grade 5	Grade 5-10	GCE (O/L) NCGE	GCE(A/L)and above
1990	100.0	8.5	49.7	26.5	15.4
1991	100.0	9.0	45.7	30.3	15.1
1992	100.0	9.2	50.5	27.0	13.7
1993	100.0	8.3	44.9	28.7	18.0
1994	100.0	8.6	44.9	28.3	18.2
1995	100.0	5.5	47.1	29.1	18.4
1996	100.0	7.9	47.1	26.1	19.0
1997	100.0	5.7	44.7	28.2	21.4
1998	100.0	5.8	44.2	27.1	22.9
1999	100.0	4.4	41.9	29.2	24.5
2000	100.0	3.1	45.6	26.0	25.3
2001	100.0	3.6	40.7	27.3	28.4
2002	100.0	4.7	40.7	25.2	29.4
2003	100.0	4.8	40.2	26.1	28.9
2004	100.0	5.4	36.6	26.2	31.7
2005	100.0	4.5	37.5	28.6	29.7
2006	100.0	3.7	40.6	28.1	27.6

Source: Department of Census and Statistics, (2006) Report of the Sri Lanka Labour Force Survey

female unemployment rate than the relatively low male unemployment rate. Table 5.7 presents unemployment structure by sex. As indicated in data given in Table 5.8, in comparison to male unemployment rate, female unemployment rate has been more than double in Sri Lanka since early 1990s. Several phenomena have influenced to this situation. First, female enrollment in education gradually increased since 1960s. After receiving education, many females are expecting to work at least for several years. Second, production structure has shifted from agriculture to services since 1970s. However, since services sector recorded an employment lack growth, employment structure has not shifted parallel to the production structure.

As a result, females supporting agriculture had only limited opportunities to shift to services sector. Third, educated females have not been attracted

Table 5.8 Employed Persons by Sex 1990-2006

Year	Percentage		
	Total	Male	Female
1993	13.8	9.7	21.7
1994	13.1	9.7	20.7
1995	12.3	9.0	18.7
1996	11.3	8.2	17.7
1997	10.5	7.7	16.1
1998	9.2	6.5	14.0
1999	8.9	6.7	13.0
2000	7.6	5.8	11.1
2001	7.9	6.2	11.5
2002	8.8	6.6	12.9
2003	8.1	6.0	12.3
2004	8.1	6.0	12.1
2005	7.2	5.3	10.7
2006	6.4	4.6	9.8

Source: Department of Census and Statistics, (2006)
Report of the Sri Lanka Labour Force Survey

by the expanded garment industry due to low wages, nature of physical labour and attitudes of workforce. As a result, mismatch prevails with respect to educated females and vacancies in garment industry in Sri Lanka. There are more than 8,000 job vacancies in garment firms both in investment promotion zones and outside of it, but in the meantime female unemployment rate is double than the male unemployment rate in Sri Lanka.

As indicated in Table 5.8 unemployment rate has been declining for both males and females during the past sixteen years. However, male-female gap in unemployment rate has been remaining at more less same level during the entire period. An interesting nature of employment generation in Sri Lanka, after the introduction of trade liberalization policies, has been the significant bias towards females in garment industry, retail trade sector, factory workers in other industries associated with investment

promotion zones, and foreign employment opportunities as housemaids in Middle East countries. Even under this situation female unemployment rate has been higher than male unemployment rate in Sri Lanka during the post 1977 period.

In addition to the above mentioned demand side factors, some supply side factors have also been influenced to reduce youth unemployment rate in Sri Lanka. Among them, expansion of informal service sector is one of the main reasons. Especially, transportation services like three-wheel taxis, private buses, and school van services provided more employment opportunities for youth in Sri Lanka during the past two decades. Further, employment opportunities generated in informal sector such as petty trading, wholesale and retail trade, and construction services also has youth biasness in Sri Lanka. Finally, recruitment to government forces and terrorist groups for war activities has strong youth biasness during the past these decades. One of the main reasons behind absorbing youth labour into informal sector has been the low wage cost in comparison to middle age workers. In order to reduce labour costs, both in public and private sector formal organizations have accustomed to use outsourcing system in Sri Lanka since 1980s. As a result, many of these firms have outsourcing some of their services such as accounting, auditing security, cleaning, delivery, mail, food supply, and restaurants. Many of these firms use female labour, elderly labour, and in some cases child labour (especially in restaurants) for some of these activities. Needless to mention that after outsourcing employment in these fields, not only wages, but also employment conditions have deteriorated.

However, declining unemployment rate and underemployment rate have been favorably influencing the socio-economic variables in Sri Lanka during the recent past. Usually unemployed people are associated with low income

families and poverty groups. By expanding three wheel taxis and school van services, open economic policies were helpful to absorb unemployed youth labour towards the informal sector. As a result, it was possible to minimize revolutionary upheavals with substantial social, political and economic costs since 1990s. Apart from political violence in North and East provinces, other provinces were somewhat politically and socially calm down since 1990s. In this context, historical experiences in 1971 and 1989 in southern parts of Sri Lanka have illustrated consequences of high youth unemployment ratio in the country.

6. Concluding Remarks

This paper investigated causes of trends and structural changes in labour market in Sri Lanka. Labour market behavior is worth to study due to various reasons. It provides analysis on demand for labour, supply of labour, interaction of those two variables and outcomes of it. Equilibrium or disequilibrium determines level of employment, unemployment, underemployment, wage rate and level of migration. On the other hand, it influences major macroeconomic variables and structure of and trends of socio-economic variables.

It is important to study about labour market in Sri Lanka due to labour being the most abundant factor, long-term emphasis given to increase human capital, declining share of labour income in household income, labour being the main source of foreign currency earning, labour playing an important role in political decision making process, powerful labour union actions, mismatch in labour market, high absolute income poverty level and high international migration level in Sri Lanka. Therefore, labour market in Sri Lanka provides good case study about missed opportunities, slow

adjustment to internal and external shocks and policy failures.

There are two main data sources to study labour market in Sri Lanka. They are the consumer finances and socio-economic surveys of Central Bank of Sri Lanka and Sri Lanka Labour Force Surveys conducted by the Department of Census and Statistics of Sri Lanka. The nature of these two sources allows us to undertake only long-term analysis and longitudinal analysis after 1990.

According to both types of analysis of labour market, labour force has increased nearly three times while generating slow growth in employment in Sri Lanka during the past fifty years. Unemployment rate has been prevailing at higher level until late 1970s and main reasons behind the drastic decline of it in 1990s has been the sizable slowdown in population growth since 1970s, high international migration rate and expansion of secondary and higher education levels in after 1980s. However, a significant structural change in employment has been undergone in terms of gender, age, education level, sector, industry and profession. Even in unemployment structure also has undergone a significant change in terms of gender, age, education level, and sector in Sri Lanka over the long term. In addition, high underemployment rate prevails both in private and government sector accounting for 20 percent of the total employment irrespective of gender differences. In addition, nominal wages have been increasing in a substantial rate both in formal and informal sectors while inflation rate accounted for more than 10 percent in every year. As a result real wages deteriorated and for fixed income earners like government school teachers and garment factory workers it was severely influenced.

Finally, labour market has operated by creating many push factors for international migration such as low real wages, high unemployment and underemployment rates, discriminations in terms of gender, age, sector,

industry, profession and level of education during the past fifty years in Sri Lanka. Apart from the export sector, labour union actions have been badly influencing on production and cost. Strength of the labour union has been functioning as the most powerful factor in determining nominal wages rather than the education level, labour productivity and performance in Sri Lanka especially after the introduction of trade liberalization policies. As a result, majority of the people even employed in Sri Lanka willing to work in other countries, irrespective of the gender, age, level of education, profession, location or ethnicity. On the other hand, recent governments in Sri Lanka have been actively promoting international migration as a solution to domestic unemployment problem and source of foreign currency earnings. Under these circumstances it is possible to expect growing number of Sri Lankan migrant workers in other countries.

References

- Asian Development Bank (1999), *Country Briefing paper; Women in Sri Lanka*, Programs Department West, <http://www>.
- Athukorala, P. and S. Rajapathirana (2000), *Liberalization and Industrial Transformation: Sri Lanka in International Perspective*, Oxford University Press, New Delhi, India.
- Athukorala, P. (2004) Complementarity of Trade and FDI Liberalization in Industrial growth: Lessons from Sri Lanka, *A Paper Presented in the 10 years of SAARC an International Conference*, Institute of Economics and Business, Australian National University, April 2004.
- Central Bank of Sri Lanka (2004) *Annual Report*, Colombo, Sri Lanka.
- Central Bank of Sri Lanka (2005) *The Consumer Finances and Socio-economic Survey Report 2002/04*, Part I & II, Colombo, Sri Lanka
- Central Bank of Sri Lanka (2005) *Economic and Social Statistics of Sri Lanka 2005*, Colombo, Sri Lanka
- Department of Census and Statistics 1990-2006 *Labour Force Survey* , Colombo, Sri Lanka
- Chandrasiri, S. (2004), *Competitiveness, comparative Advantage, and Utilization of Labor in Sri Lanka*, <http://www.srinest.com/nature/PDF/ResearchPapers>.
- Corea, G. (1998), *50 Years of Economic Development in Sri Lanka, Independence Commemoration Lecture*, Occasional papers, 27 November, Central bank of Sri Lanka.
- De Silva, W. I (1997) *Population Projection for Sri Lanka: 1991-2041*, Human Resource Development Series, No.2, Institute of Policy Studies, Colombo, Sri Lanka.
- Isenman, P. (1980), *Basic Needs: The Case of Sri Lanka*, World Development, Vol.8, March.
- Bhalla, S. and P. Glewwe (1986), *Growth and Equity in Developing Countries: A Reinterpretation of the Sri Lankan Experience*, *World Bank Economic Review*, Vol. 1 No.1.
- Karunaratne H.D, (1999) Sectoral Diversity of Income Inequality in Sri Lanka: A Disaggregated Analysis by Factor Incomes, *Regional Development Studies* 5: 1-26, Annual Journal of the United Nations Center for Regional Development (UNCRD), Japan.
- Karunaratne, H. D. (2000b) "Income Inequality among Sub-groups of Population

- at the Sectoral Level in Sri Lanka, 1963-1997: A Decomposition Analysis,” *Forum of International Development Studies*, 16, Graduate School of International Development, Nagoya University, Japan.
- Karunaratne, H.D. (2000d) Age as a Factor Determining Income Inequality in Sri Lanka, *The Developing Economies*, Vol. XXXVII, No.2. 211-42.
- Karunaratne, H. D. (2001) An Analysis of Long-term Income Inequality Trends in Sri Lanka, *Sri Lanka Economic Journal*, The of the Sri Lanka Economic Association, Vol.1 (2) New Series.
- Karunaratne, H.D. (2002) Gender Specific Employment Creation and Male-Female Income Disparity in Sri Lanka, *A paper presented at the First Annual Research Conference of the Faculty of Management & Finance*, University of Colombo, August 30, 2002.
- Karunaratne, H. D. (2007a) Managing Regional Income Inequality in Sri Lanka: Lessons from Japanese Experience, *Journal of International Economic Studies*, No.21 Institute of Comparative Economics, Hosei University Japan.
- Karunaratne, H. D. (2007b) An Inquiry into the Regional Disparity in Per Capita Income and Labour Productivity: A Case of Sri Lanka, *Forum of International Development Studies*, Vo. 33, GSID, Nagoya University, Japan.
- Lakshman, W. D. (1997) Income Distribution and Poverty, in *Dilemmas of Development: Fifty Years of Economic Change in Sri Lanka*, ed. W.D. Lakshman. Colombo: Sri Lanka Association of Economists.
- Lakshman, W.D. (2004), Youth Unemployment: An Exploratory Study, in Kelegama, S.ed. *Economic Policy in Sri Lanka; Issue and Debates*. Vijitha Yapa Publications, Sri Lanka.
- Kelegama, S (2004), *Economic Policy in Sri Lanka: Issues and Debates*, A festschrift in Honour of Gamini Corea, Vijitha Yapa Publications, Sri Lanka.
- Kelegama, S (2006), *Development Under Stress; Sri Lankan Economy in Transition*, SAGE Publications, New Delhi.
- Osmani, S. (1994), Is there a Conflict between Growth and Welfarism: The Tale of Sri Lanka, *Development and Change*, Vol.25, No.2.
- Ratnayake, P. (2004), *Lost Opportunities: Sri Lanka's Economic Relationship with Japan*, Karunaratne & Sons Ltd, Colombo, Sri Lanka.
- Ratnayake, K. (2004), *Sri Lankan Reports Reveal Widening Social Inequality*, World Socialist Website, <http://www.wsws.org/articles/2004/dec2004/>

sril-d24.shtml.

- Kanchana N. R, C.Rodrigo, W.D. Lakshman, R.H.S. Samaratunge, P. Alailima, N. Sanderatne, M. Perera, S. Kottegoda, S. Jayaweera (2000) *Structural Adjustment, Gender and Employment: The Sri Lankan Experience*, Development Policies Department, International Labour Organization, <http://www.ilo.org/public/english/employment/skills/informal/gpe/publ/srilanka.html>.
- Sanderatne, N (1997), Social Development Expenditure: 1950-1995, *Upanthi*, The Journal of the Sri Lanka Association of Economists, Vo.8. No.1.
- Sanderatne, N (2005), *Development and Change: The Sri Lankan Economy 1950-2005*; The 55th Anniversary Lecture of the Central Bank of Sri Lanka, 02 September 2005.
- Sen, A.K. (1981), Public Action & Quality of Life in Developing Countries, Oxford Bulletin of Economics and Statistics, Vol.43, No.1.
- Snodgrass, D.R. (1966) Ceylon: An Export Economy in Transition, Richard D.Irwin Inc., Illinois.
- World Bank (2000) *Sri Lanka: Recapturing Missed Opportunities*, Poverty reduction and Economic management Unit, South Asia Region.
- World Bank (2007) *Sri Lanka Development Forum: The Economy, Regional Disparities, and Global Opportunities*, Poverty Reduction and Economic Management Sector Unit, South Asia Region.