

Impact of human capital investment on labour market outcomes: The Sri Lankan experience

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Theoretically, a positive relationship is expected between human capital investment and labour market outcomes. It is anticipated that a greater possession of human capital will increase Labour Force Participation (LFP) and Employment probability (E). Using the Quarterly Labour Force Survey Data for 2004, this study examines the relationship between two types of human capital investments (formal education and vocational training) on LFP decisions and the classification of the labour force between Employment (E) and Unemployment (U). Vocational training data for all eligible aged people have not been collected after this year. The empirical findings of this study support the hypothesis that both the LFP decision and Employment probability increase with formal education. This is interpreted in terms of increased opportunity of not working with increased volume of human capital. The time cost of persons possessing a greater volume of human capital is higher. However, the employment probability is negatively related with formal education and the effect of vocational training on employment is negative but statistically insignificant. This is interpreted in terms of increasing job expectations and higher reservation wage with increasing human capital investment. People with a higher volume of human capital have higher job expectations, and, therefore, they stay unemployed voluntarily until they find a desirable job. The LFP decision and Employment probability are found to be correlated with gender, ethnicity, and location. LFPR and employment probability are higher among males and respondents of the plantation sector. Vocational training helps in reducing the LFPR and employment gaps by gender, ethnicity, and location.

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