Youth Unemployment in Sri Lanka

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(Transition from university to work – a tracer study, a separate presentation)
1. Background and motivation

Sri Lanka has long been regarded as a model of a successful welfare state -- yet it has for decades faced major challenges in providing employment and meeting the aspirations of youth.
Trends in unemployment, by age group

Unemployment rate by age group

- 15-19 yrs
- 20-29 yrs
- 30-39 yrs
- 40 yrs
- 50-59 yrs
- Over 60 yrs
- National
Characteristics of unemployment

Unemployment rate by education

<table>
<thead>
<tr>
<th>Year</th>
<th>primary</th>
<th>secondary</th>
<th>GCE (O/L)</th>
<th>GCE (A/L)</th>
<th>Degree &amp; above</th>
<th>No schooling</th>
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2. CAUSES OF UNEMPLOYMENT

2.1 Competing hypotheses of unemployment

2.2 Inaccessibility of quality education and training
2.2 Competing hypotheses of unemployment

(a) The *unrealistic wage expectations* hypothesis:

“More educated workers seek jobs which would pay them more than the market is willing to pay, perhaps because workers possess the wrong set of skills.”
Competing hypotheses of unemployment

(b) The queuing hypothesis:

The unemployed wait for an opportunity to take “good” jobs -- jobs in the civil service (stability, generous fringe benefits) and formal private sector.
Competing hypotheses of unemployment

(c) The *institutional hypothesis*:

“Private firms create few jobs because they face high labor costs – they have to pay high wages and high severance pay costs.”
Evidence: the *unrealistic wage expectations* hypothesis

Not borne out. If it were true, workers with higher educational level would increase their reservation wages by more than employers are willing to pay. But:

- Reservation wages are higher than earnings only for persons with less than 10 years of schooling.
- Also regression analysis also shows that education increases earnings by more than it increases reservation wages.
Earnings, reservation wage, and education

The diagram shows the earnings and reservation wages for different levels of education. The x-axis represents different levels of education, including 'Below grade 1', 'Grade 1-4', 'Grade 5-9', 'GCE O/L', 'GCE A/L', and 'Degree & above'. The y-axis represents the monthly earnings in Rs. The reservation wage is shown in light blue, while the earnings are shown in dark red. The earnings generally increase with higher levels of education, with 'Degree & above' having the highest earnings.
Evidence: the *queuing hypothesis*

Supported.

- Regression analysis confirms the existence of a positive public sector premium relative to the informal private sector, other things equal.
  
  ➔ By implication, the civil service wage premium attracts job-seekers to queue and thus generates unemployment.

- Government ad-hoc recruitment policies also contribute their share to queuing and thus to unemployment.
Evidence: the *institutional hypothesis*

Supported.

Regression analysis confirms the existence of a positive wage premium of TEWA-protected jobs over other private sector jobs.

→ the wage premium of TEWA-covered jobs increases costs and reduces labor demand. (Note that TEWA-covered jobs also carry non-wage costs.)
Public sector and TEWA job wage premium, regression based (2000, in %)

Comparison group: informal sector workers (hourly pay)
Earnings and education in public and private sector (2002)

The diagram illustrates the earnings per month in public and private sectors based on education level. The x-axis represents different levels of education: Below grade 1, Grade 1-4, Grade 5-9, GCE O/L, GCE A/L, Degree & above, and Total. The y-axis represents the earnings in Rs per month.

Key observations:
- Individuals with a Degree & above education receive significantly higher earnings in both public and private sectors.
- Public sector employees generally earn less compared to their private sector counterparts, except for those with a Degree & above education.

This data is based on information from the year 2002.
Effects of restrictive employment protection legislation

- Sri Lanka’s depressed low job flows have adverse implications for productivity growth
- Restrictive employment protection legislation, like TEWA, reduces job prospects of women, youth and elderly
- TEWA also reduces prospects of vulnerable groups – including youth – and informal sector workers accessing “good jobs”
International comparison of job flows

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The importance of social networks for employment

• 64% of young workers reported that they were recruited through recommendations of their friends and relatives (Mayer and Salih, 2005:61). These contacts were often based on social and family networks including old school networks.

• The need for connections was more deeply felt for employment in the private sector, where the correct social connections and a shared cultural ideology were seen as basic requirements.
2.2 Inaccessibility of quality education and training

• Workers are pushed to informal sector by lack of human capital, poverty, and distance to markets

• Informal sector workers are much less educated (which partly explains their higher poverty incidence)
Inaccessibility of quality education and training

Figure 3.10: Education by sector of employment

- Formal - pub.
- Formal - priv.
- Informal

Legend:
- Less than primary
- Secondary
- Above upper secondary
Inaccessibility of quality education and training

• Informal sector workers include many individuals who dropped out of school because of high costs of schooling and because of low perceived benefits of education.
Reasons for not attending school, in percent (for those who have dropped out)

- No school close by, 8.1%
- Work in farm/business, 16.9%
- Help at home, 25.5%
- Teaching not good, 0.9%
- Financial constraints, 50.9%
- Satisfied with level of schooling, 40.6%
- School not good, 1.3%
- Schooling not useful for jobs, 7.7%
- Due to war disruptions, 5%
Children in communities with poor school resources, by expenditure quintile (percent of total)