

# Making employment count

*For creating growth and reducing poverty*

Part I of an Institute of Policy Studies review of the book 'State of the Economy'

INCLUSIVE development is not only about sharing growth. It is also about empowering people to participate meaningfully in creating growth.

Labour is an essential factor of production, and making best use of labour resources is a win-win situation. It creates growth on the one hand, and eradicates poverty on the other. This article is concerned with the following questions: Has growth created jobs? Have they been good jobs? Have all benefited from these jobs?

## Has growth created employment?

The Sri Lankan economy has grown around five per cent over the past decade, albeit with some volatility. This growth has been driven mainly by the services sector, whose share of the Gross Domestic Product (GDP) has risen close to 60 per cent in 2010, followed by the industrial sector whose share of GDP has also grown close to 30 per cent of GDP. At the same time, the contribution of the agricultural sector to the economy has declined sharply to just above 10 per cent of GDP.

During the 2000 to 2010 period, the number of employed increased at around 93,000 a year. The majority (61 per cent) of this increase was employment in the services sector, followed by the industrial sector (31 per cent). This indicates that the growth patterns are largely aligned with employment patterns.

## But has it been sufficient?

Although growth has created employment, has it created sufficient levels of employment? From 2000 to 2010 the labour force grew at 1.1 per cent a year, on average. Data indicates that employment has grown at a higher rate (1.5 per cent per year). This has contributed to reducing the overall unemployment in the country from 7.6 per cent (in 2000) to 4.9 per cent in 2010.

During the 2000 to 2010 period, the working age population grew at 1.5 per cent per year, the same rate at which employment grew. That is, although employment grew, the proportion of population in the country who are employed did not change overtime. Also, the proportion of population participating in the labour force also



Around 62 per cent of the employed are working in the informal sector. Informal sector workers are more likely to be working, but poor. Also, they do not receive the social protection that is enjoyed by those in the formal sector

remained largely constant over the period.

These statistics indicate that although there has been employment growth, this has not resulted in lowering the dependency ratio in the country.

## What types of employment?

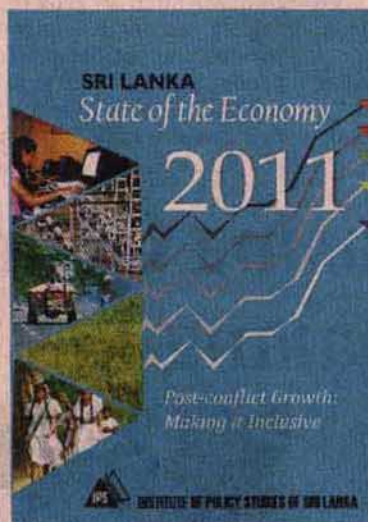
Employment alone will not result in taking people out of poverty and improving living standards. Employment can reduce poverty only when the employment is in 'good' jobs. First and foremost a 'good' job will pay well and help people move out of poverty. Second, they will provide sufficient social protection such that people will not fall back into poverty.

Available data indicates that despite job growth the wage rates have not increased by much in the country. According to World Bank (2011) the average annual increase in mean real wages in Sri Lanka was only 0.1 per cent from 2000 to 2008.1

The increase in formal sector employment over the last decade has largely been in the public sector. Around 62 per cent of the employed are working in the informal sector. The proportions of vulnerable workers (those who are self-employed or are unpaid family workers) have remained around 40 per cent over the 2000 to 2010 period.

As discussed in the next paragraph, informal sector workers are more likely to be working, but poor. Also, they do not receive the social protection that is enjoyed by those in the formal sector.

Further around 14 per cent of the employed are working-poor, indicating although they work,



they do not receive adequate compensation or profits to move out of poverty.

The working-poor as a proportion of total employed are highest in the agricultural sector (21 per cent). Followed by the industrial sector (14 per cent) and the services sector (9 per cent).2 Indicating that probability of being poor is lowest in the services sector.

## Way forward

However, only the better educated can move into this sector. Available data indicates that employment in the service sector provides employment at the higher end of the occupation ladder.

Those in the services sector have on average more than 10 years of education and passes at Ordinary and Advance Level national exams. However, available data indicates that only 40 per cent of 20 to 24 year olds have passed O-levels and only 19 per cent of same age group has passed A-levels.

At present, only 3.6 per cent of age 20-24 year olds can gain admis-

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sion to university while only 3.6 per cent of same age group follows TEVT courses.

As of 2009, around 83 per cent of the students who gain the GCE (A/L) qualification to enter into university are forced to abandon their ambitions to enter university due to the limited number of placements in the state funded universities.

Health and nutrition are inter-related with many aspects of an individual's life (e.g. education, employment, income, social relationships and leisure).

It is the basis for attaining a good quality education by helping to improve the capacity to learn in school, and the capability to grow intellectually, physically, and emotionally.

The contribution from health and nutrition is very high in poverty elimination. Nutrition is an area which remains as an issue in Sri Lanka which needs special concerns and speedy actions.

In summary, growth has created employment, but not enough. The proportion of those who are employed in the economy has remained the same over the past decade. One means of improving this is in creating better quality employment.

The better paying employment at the higher end of the occupation ladder is available mainly in the services sector. Making use of the opportunities opening up in this sector will require better investments in health and education.

## Footnotes:

1 World Bank, 2011, 'More and better jobs in South Asia,' World Bank

2 Own calculations based on HIES 2005/06 data