INSTITUTE OF POLICY STUDIES

The Employment Consequences of Alternative Development Strategies in Sri Lanka

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Research Studies

Employment Series 8

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1988

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INTRODUCTION

The demonstrated sensitivity of macroeconomic variables to overall economic policies and strategies invites a review of labour market phenomena vis–a–vis development strategy in some cause and effect relationship. This paper seeks to examine some recorded outcomes on Sri Lanka's employment front over the recent past in relation to alternative development strategies pursued.

The inquiry will have its focus on the post-1970 experiences but with some references back and forth to the decade of the 1960s. Although the analysis will have implications for policy, the exercise should primarily be seen as a stylised presentation of facts derived from Sri Lanka's (empirical) experience rather than as a rigorous evaluation of alternative strategy options from a planning perspective.

The format of the paper will be as follows : In Part I we attempt a summary presentation of developments in the employment/unemployment scene as constructed from available census and other evidence. Part II presents a brief overview of overall development strategies pursued over the period identifying continuities and discontinuities. In Part III — the synthesis — the evidence in Parts I and II is brought together to derive some conclusions on the employment consequences of the alternative strategies.

I. EMPLOYMENT/UNEMPLOYMENT : AN OVERVIEW

The broad issue of 'employment consequences' is concerned with changes in the level of employment as well as its structural dimensions. Hence, we require at the outset an identification of what developments have occurred in both these aspects. Unfortunately, such an exercise is handicapped by data limitations. A continuous time series is not available in respect of most labour market phenomena.

Several surveys are nevertheless available representing different points of time but information constructed from such sources need to make due allowance for differences in the concepts, definitions and survey techniques employed. This limitation has to be kept in mind in interpreting the data brought together in this section to monitor developments on the employment front.

Employment performance of the Sri Lanka economy during the four post-Independence decades has been one of mixed results. Between the Population Census counts of 1963 and 1981 the domestic labour force increased by 1.5 million, from 3.5 million to 5 million. Under the various development strategies pursued, the economy was able to generate employment locally for a million more persons over this period, leaving half a million of the new entrants on the waiting list. With the initial backlog of unemployed taken into account, the number remaining openly unemployed in the mid-1980s amounted to a million.

Direct estimates of employment generated annually are not available and the profiles have to be constructed indirectly, by piecing together information from benchmark surveys. The growth in employment implicit in census data amounts to a 29 per cent aggregate increase over the 18 years, 1963-81, yielding an annual growth rate of 1.6 per cent on average. The increase has not been uniform, however. Using benchmark data again, the average works out to 1.7 per cent per annum for 1963-71, or 57 thousand a year, compared to a rate of 1.2 per cent per annum—or 47 thousand a year — which emerges from a comparison of the 1971 and 1981 Census figures. On this comparison labour absorption appears to have been slower in the second intercensal period compared to 1963-71 but inferences from benchmark data have their limitations and need to be cross-checked against other evidence before conclusions are reached. The performance in these years is nevertheless an advance over that recorded for the pre-1963 decade of 20 thousand jobs a year on average (1953-63) which yields a rate of increase well below 1 per cent per annum.

As for the decade of the 1980s, a comparison of the Labour Force & Socio Economic Surveys (LFSES) of 1980/81 and 1985/86 points to an increase in employment by 394 thousand (or 79 thousand a year an average). This works out to 1.6 percent per annum. On the basis of such data the rate of employment generation in this period appears to have been higher than what is implied by census data for 1971-81 but such comparisons need to take due account of differences in the definitions, coverage and response in the different surveys. It is generally recognised that the employment figure of the 1981 Census was an underestimate. Furthermore, employment performance was uneven during the decade 1971-81 and a simple average computed for the full period could therefore be misleading. The issue will be treated in greater detail in Section III of the paper.

UNEMPLOYMENT

Far back in the early 1950s the World Bank Mission of 1952 to Sri Lanka did not see unemployment as a major issue requiring policy manipulation. On a comparison of figures, employment generation in the early years of independence appears to have more or less kept pace with the growth of the labour force. This does not by itself constitute a verdict on the economy's employment generating capacity or the development strategy pursued in these years. Comparison of census data for 1953 and 1963 points to a domestic employment creation rate of less than 1 percent per annum during this period. The rate of labour force growth itself was kept down by a particular pattern of population growth (i.e. high birth rates and high death rates in the relevant decades) and a low rate of labour force participation, particularly among females. Furthermore, the concepts and definitions of employment and unemployment adopted in these early years had their deficiencies and downward biases. The 1953 Census for instance excluded persons seeking employment for the first time in the market from its definition of labour force and unemployment.

Some policy concern with unemployment was nevertheless emerging as the decade closed as evident, for example, from the Ten Year Plan, 1959-68. An ILO Survey in 1959/60 placed unemployment at 340-450 thousand or 10.5 to 12.8 percent of the workforce. In addition, it also observed a substantial amount of underemployment, involving 20 percent of rural workers and around 10 percent of urban workers.

It is important to note however that throughout the 1960s open unemployment as reported by different surveys remained at around half a million (Table 1). In subsequent years employment generation has evidently been outpaced by labour force growth, with employment growing at 1.7 percent average per annum and the labour force by 3.3 percent between 1963 and 1971, to culminate

in a peak unemployment figure of over 1 million (or 24 percent of the labour force) by the mid-1970s. The trend was subsequently reversed in the final quarter of the decade, bringing recorded open unemployment to below 900 thousand, but by the second quarter of the 1980s, the position had started to deteriorate again (Table 1). Irvin (1986) estimates the figure to have increased to over 1 million once more by 1986, yielding an unemployment rate of 16.2 percent. Although lower than the peak of the mid-1970s, the rate is yet substantial and higher than it was at the beginning of the decade. What is particularly significant is that notwithstanding the different experiments in economic strategy by successive governments, the Sri Lanka economy yet retains its labour surplus characteristics with its open unemployment rate at double-digit levels even in the 1980s.

The behaviour pattern of the unemployment variable — stability in the 1960s, worsening in the early/mid 1970s, easing in the late 1970s and rebounding by the mid - 1980s — provides an insight into the achievements of the economy in the area of job generation. It raises several pertinent issues. What responses did it evoke in policy-making circles? What relationship, if any, did the observed sequence of ups and downs have with changes in development strategy? Of particular interest and relevance are the circumstances/developments that enabled the economy in the late 1970s to accelerate the pace of employment generation to arrest/reverse the adverse unemployment trends of the early and mid-70s. The reversal suffered in the 1980s is similarly interesting to investigate.

Table 1.

ESTIMATE OF UNEMPLOYMENT 1950 — 86

Year	*Source*	*Number (thousands)*	*Percentage of Labour force*
1952/53	Consumer Finances Survey	540	16.6
1959/60	ILO Survey — Low estimate	340	10.5
	— High estimate	450	12.8
1963	Census of Population — Preliminary	265	08.0
	— Adjusted	390	10.8
1963	Consumer Finance Survey	457	13.8
1968/69	Labour Force Survey	450	11.0
1969/70	Socio-Economic Survey	550	15.0
1971	Census of Population	839	19.0
1973	Consumer Finances Survey	1,000	24.0
1975	Land & Labour Utilization Survey	984	19.9
1976	Ministry of Plan Implementation (Est.)	1,072	——
1978	Ministry of Plan Implementation (Est.)	900	——
1978/79	Consumer Finances Survey	874	14.8
1981	Census of Population	897	17.9
1980/81	Labour Force & Socio-Economic Survey	857	15.0
1981/82	Consumer Finances Survey	609	11.7
1985/86	Labour Force & Socio-Economic Survey	840	14.1
1986	Irvin (1986) (Est.)	1,100	16.0

Note : In comparing figures due account should be taken of differences in definition and coverage.

Sources : As indicated in the table.

EMPLOYMENT : SOME STRUCTURAL ASPECTS

(a) Sectoral

The sectoral composition of employment is still dominated by the primary sector as at the beginning of the 1960s (Table 2). Over the long term, however, a decline in share is observed from its level of 52-58 percent in the 1950s and 1960s to 45-50 percent in the 1980s. Corresponding to this there has been a gain in the share of the tertiary sector in particular.

Between the LFSE Surveys of 1980/81 and 1985/86, however, there is the hint of a reversal of this tendency, with the tertiary sector's share declining from its peak; the primary sector's share recovering to its earlier level, and industry adding a few percentage points to its share.

Within ISIC 1 significant structural shifting is visible over the long term; the employment share of export agriculture declines from 25 percent at the 1963 Census to 16 percent by 1981 while that of paddy and other food crop agriculture stays more or less level. No parallel breakdown is available for the 1980s for tracing the trends but evidence from other sources point to a stagnation/ deterioration in the employment share of traditional export agriculture. Labour absorption in tea, rubber and coconut cultivation has on record a long-term declining tendency both relatively as well as in absolute terms, suggesting that the expansion of employment positions within ISIC 1 in the 1980s has not been in the export crop segment of agriculture but in that of paddy and other food crop agriculture.

As for manufacturing (ISIC 3), comparison of census data points to a pattern of stability in its employment share at 9 to 10 percent but, when combined with other surveys representing interim years, an increase in the share is hinted at for the post-1977 phase. No employment breakdown is available within ISIC 3 into its components of export processing and other factory industry, but the balance of other evidence points to employment in the latter sub-segment having grown faster in this period while export processing stagnated.

In other sectors of economic activity, construction records an increase in its share of total employment to 5 percent or so in the post-1977 period from a stable level of 2-3 percent in the preceding two and a half decades. Another growth area has been that of Trade, hotels and restaurants, which accounts for 20 percent of the new employment generated between the 1971 and 1981 Censuses. Another 20 percent of the national employment increase over the same period came from ISIC 9 (community, social and personal services).

To sum up, in the sectoral profile of employment expansion in the decade of the 1970s, the bulk of the new outlets created appear to have been in the tertiary sector. This is even more explicitly visible in the late 1970s. Agriculture and manufacturing together accounted for only 25 percent of the total employment expansion in 1971-81. If instead of the census figures we take the LFSES 1980/81 figure for the terminal year, the share of agriculture and manufacturing in incremental employment is much higher. As for the 1980s, employment opportunities generated show a different pattern — a concentration in agriculture and manufacturing.

(b) Spatial distribution

An examination of employment expansion in its urban-rural distribution shows that the share of urban employment increased marginally from 19 percent in the early 1960s to 22 percent by the early 1980s. Between the Censuses of 1963 and 1981 some 646 thousand jobs had opened up in the rural sector including plantations, compared to 284 thousand in the urban sector. Data for the 1980s too points to a similar concentration in the rural sector.

Table 2.

TRENDS IN EMPLOYMENT/UNEMPLOYMENT STRUCTURE BY INDUSTRIAL DIVISIONS, SECTORS AND SEX 1963 — 86

(Percentages)

	1963	1971	1981	1978/79	1980/81	1985/86
EMPLOYMENT						
(a) Industrial Divisions						
1. Agriculture	52.6	50.0	45.5	51.5	47.2	49.3
1.1. Tea, rubber & coconut	(24.7)	(20.3)	(16.2)	——	——	——
1.2. Paddy & other agriculture	(26.5)	(28.3)	(27.0)	——	——	——
2. Industry	13.1	13.0	14.4	14.8	12.0	18.8
2.1. Manufacturing	(09.8)	(09.3)	(09.9)	——	——	——
3. Services	28.8	29.0	31.1	33.0	34.5	27.9
3.1. Construction	(02.7)	(02.8)	(03.3)	(04.7)	(04.8)	(04.4)
3.2. Trade, hotels, restaurants, etc.	n.a.	(09.4)	(10.6)	——	(10.4)	(10.0)
3.3. Community, social personal services	(15.4)	(13.5)	(14.3)	——	(13.7)	(12.3)
4. Not specified	05.4	08.6	09.0	00.7	06.3	04.0
(b) Sectors						
1. Urban	19.8	21.4	21.7	19.4	18.2	19.0
2. Rural	81.2	78.6	78.3	80.6	81.8	81.0
(c) Sex						
1. Male	79.5	77.8	78.9	68.9	75.1	69.8
2. Female	20.5	22.2	21.1	31.1	24.9	30.2
UNEMPLOYMENT						
(a) Sex						
1. Male	75.7	56.5	54.4	40.5	58.7	51.6
2. Female	24.3	45.6	45.6	59.5	41.3	48.4

Sources : Labour Force and Socio-Economic Surveys 1980/81 and 1985/86.
Census of Population 1963, 1971 and 1981.
Consumer Finances Survey 1978/79.

(c) Gender

As for the gender composition of the employed workforce, remarkable stability is observed throughout the period at 3.5-4 males per female worker. Worthy of mention, however, is the difference in domestic employment growth by sex observed between the two intercensal periods. During 1963-71 a third of the employment positions that opened were taken up by females while in the next decade the share going to females was only 13 per cent of the incremental employment (Table 3). A major explanation for such retardation may be sought in the post-1977 decline of the female-dominated textiles (and beedi) industry under the open economy strategy. For the 1980s, the available benchmark data points to a rise in the female share of total employment to 30 percent, however.

(d) Education and Occupation

Workforce data brings out the rising level of educational attainment of those in employment. Persons educated to secondary level and above increased their share in the total from two fifths to four fifths between 1963 and 1981 while the share of those with no schooling declined from 25 to 14 percent. No statistics are available on the skills distribution of the employed to monitor where the major gains (and losses) have been.

By occupational distribution, a high level of stability is observed in the overall structure, but at the disaggregated level the share of agricultural and related workers falls from 52 to 45 percent (1963-81). Some recovery is hinted at in the 1980s. Professional and related workers increased their share in the total by more than one percentage point as their numbers nearly doubled but in the 1980s the momentum seems to have slowed down.

Finally, by occupational status, an unmistakable shift out of unpaid family work is visible between the Censuses of 1963 and 1981, its share dropping from over 5 percent in the 1960s and the 1970s to 2.6 percent by 1981. The share of own-account workers (i.e. the self-employed) meanwhile increased from 25 percent in 1971 to 28.5 percent in 1981 after a slight decline between 1963 and 1971 (Table 4). Another striking feature is the stability in the share of paid employment in the total at around two thirds throughout the period. However, the LFSE Surveys of 1980/81 and 1985/86 suggest some deviation from these trends in the 1980s. A disproportionately large number seems to have taken to unpaid family work and self-employment and the share of paid employees registered a corresponding contraction.

To sum up the pattern of labour absorption in the last two and a half decades, the contribution of the different sectors evidently varied from period to period. Throughout the years export agriculture showed very little employment momentum. During the 1960s paddy emerged as the major employment provider, accounting for two fifths of the additional employment generated between the Censuses of 1963 and 1971. The contribution of manufacturing was marginal at 6 percent of the new employment. The tertiary sector contributed a little over 25 percent to the total.

In the 1970s the major labour absorption impulse came from the tertiary sector whose share of incremental employment rose to as much as 50 percent between 1971 and 1981. Domestic agriculture (paddy) played a subdued role. Manufacturing improved on its 1963-71 performance with a share of 15 percent of the new employment but failed to register much momentum.

The 1980s saw domestic agriculture reverting to its earlier role as the major job-generating segment. Corresponding to this the services sector recorded a somewhat retarded performance compared to the preceding decade. The share of manufacturing recovered.

In the long run, absorption prospects — both local and overseas — appear to have improved for technically and professionally qualified persons but as evidenced by the increasing unemployment among persons with secondary school leaving qualifications and above, absorption has evidently failed to keep pace with the numbers entering the labour market with such qualifications and white-collar job preference patterns.

Of particular interest is the tendency for the share of self-employment and unpaid family work to go up in the current decade. Another important development is the expansion of the share of public sector employment in the 1970s to well over 40 per cent of total employment by the end of the decade. Part of this increase was a mere transfer associated with the state take-over of certain activities from the private sector under nationalisation and land reform, but there was also a parallel expansion of recruitment in the government sector both in the general process of administration as well as under special schemes such as the Graduate Trainee Programme.

Table 3.

LABOUR MARKET TRENDS — SUPPLY ASPECTS

Description		*Census of Population*			*Labour Force Surveys*		*Average annual growth rate (percentages)*		
		1963	1971	1981	1980/81 *	1985/86 *	1963-71	1971-81	1980-85
Labour force	('000)	3,459	4,488	5,017	5,595	5,972	03.31	01.12	01,31
Male	('000)	2,740	3,312	3,736	4,059	4,015	02.40	01.21	00.22
Female	('000)	719	1,176	1,280	1,536	1,957	06.34	00.85	04.97
Labour force participation rate									
Male	(%)	49.8	50.7	49.4	—	—	—	—	—
Female	(%)	14.1	19.1	17.6	—	—	—	—	—
Employment	('000)	3,195	3,649	4,119	4,738	5,132	01.70	01.22	01.61
Unemployment	('000)	390	839	897	857	840	08.69	00.67	—00.40

Notes : Differences in definitions are to be noted in comparing figures on labour force and in interpreting growth rates.

* The data used here are tabulations from the first two rounds of the respective surveys. These span March-September 1980 and April-September 1985 respectively. Hence, the information is in respect of 1980 and 1985.

Sources : Labour Force and Socio-Economic Surveys 1980/81 and 1985/86.
Census of Population 1963, 1971 and 1981.

Table 4.

EMPLOYED WORKFORCE BY EMPLOYMENT STATUS

(Percentage)

Employment Status	1963	1971	1981	1978/79	1980/81	1985/86
Employer	02.1	03.1	01.7	01.5	01.8	02.4
Paid employee	65.1	66.6	67.3	62.0	64.3	58.2
Own account worker *	26.7	25.0	28.4	23.0	25.2	26.0
Unpaid family worker	05.1	05.2	02.6	13.5	08.7	13.4
Unspecified	00.7	——	——	——	——	——
Total	100	100	100	100	100	100

* i.e. self employed

Sources : Labour Force and Socio-Economic Survey 1980/81 and 1985/86
Census of Population 1963, 1971 and 1981
Consumer Finances Survey 1978/79.

II. DEVELOPMENT STRATEGY, 1960 — 85

The development strategy pursued in Sri Lanka over the four post-Independence decades has featured periodic variation in content and emphasis in somewhat 'see-saw' fashion. The variations constitute responses to pressures and developments of various sorts — external and internal — but changes have occurred quite typically as governmental power alternated between the different political groupings with their different ideologies and electoral (voter) support bases. The strategies have featured different combinations of monetary, fiscal, trade, exchange rate and other policies. The swings have typically been between 'controlled economy' and 'liberalised economy' stances; 'inward-looking' (or 'home-oriented') and 'outward-oriented' approaches, and in respect of the relative roles of the public and private sectors. A feature of interest is the seeming coincidence of certain changes in development strategy with some of the inter temporal differences noted in the economy's employment/unemployment performance.

Constructing the development strategy for the purposes of our analysis poses several problems. While policy discontinuities can be identified as different governments experimented with different development stances from time to time, there is simultaneously a thread of continuity running through in a number of respects (such as, for example, the mixed economy approach), making the breaks less abrupt. Often when new policy postures were struck some features of the previous packages were not fully dismantled but continued, albeit on a different priority rating. Furthermore, some features identified with a particular package had their beginnings much earlier. On certain aspects the differences between strategies are a matter of degree.

As for the policy experiments themselves, some swings have been of a sweeping nature and explicitly spelt out (e.g. in 1977), but the same cannot be said of all of them. Some approaches contain a large element of *ad hoc* response to changing (unforeseen) circumstances, causing deviations from the course initially charted. The concern of the present paper will be with actual strategy pursued rather than with intentions expressed. Where the approach is not explicitly spelt out, different aspects of practical policy will be threaded together to construct the strategy package for a particular phase or regime.

A note of warning may however be added before we proceed. It needs to be recognised that the alternative development strategies had to produce their results within certain constraints that impeded their free implementation. The constraints have been both external (e.g. the food and fuel shocks of the 1970s and international currency disturbances) and internal (e.g. weather adversities and political and ethnic unrest). Particular strategies would have produced different results in an environment free of such constraints. In such circumstances, to identify the empirical outcomes with a particular strategy is therefore to make a biased evaluation. Caution needs therefore to be sounded in interpreting historical results.

The development strategy pursued over the last one and a half decades falls into two distinct epochs with 1977 as the dividing line (see, for example, Lakshman, 1986). Shifting the scene backward beyond the 1970s, one can detect a thread of continuity through the broad strategy pursued in the decade of the 1960s up to the break in 1977. The stance did undergo some modifications in the second half of the 1960s but this was soon reversed with the change of political regime and certain developments in the local and international economic environment at the dawn of the 1970s. The features of the different strategies are well documented but a brief recapitulation seems in place. What is attempted is not an exhaustive review of the strategies but a summary view of the alternative scenarios as would facilitate their employment consequences to be identified.

THE PRE—1977 DEVELOPMENT STRATEGY

The pre-1977 approach reflects the economy's attempt to achieve its growth and stabilisation goals in a setting that attached high priority to the 'social justice' element. Its programmes were implemented in a hostile environment of secularly declining terms of trade and the reappearance of the trade cycle in the international economy. The approach featured a high degree of state intervention in economic activity, which was among other things reflected in the labour market in the expanded share of public sector employment in total employment, and a tendency to turn increasingly towards the "home economy" (i.e. inward-orientation) rather than the international economy (i.e. outward-orientation) to provide the requisite demand/market impulses.

The stance was a mixed economy approach but with the leading role assigned to state capital. A significant feature of the new policy was the expansion of the public sector into non-conventional areas including direct production and distribution. This was accompanied by an expansion in the public ownership of productive assets and resources. Some change is however observed in the composition of such public investment. In the 1950s infrastructure investment related to traditional agriculture (irrigation, land development, etc.) absorbed about 40 percent of total public sector investment but in the 1960s the government was spending a greater amount (e.g. through public corporations) on manufacturing and other investments not directly related to agriculture. In the early and mid-1970s too an increasing proportion of government capital expenditure was devoted to investment in industry.

Corresponding to the expansion of the public sector the role assigned to the private sector was a subdued one. Some attempts to demarcate the relative spheres of the public and private sectors are on record. The policy included the state take-over of private enterprises. The early nationalisation exercises (late 1950s and early 1960s) were in respect of services (e.g. road passenger transport, insurance, port operations, etc.) but the 1970s saw the principle extended to industries and to land. The private sector was nevertheless viewed as a necessary partner in development. Fiscal...

and other incentives (tax holidays, depreciation allowances, priority allocation of foreign exchange etc) figured throughout the period in the attempt to stimulate private investment. In the 1970s, however, in an environment in which private investors' confidence had been shaken by state take-overs and the ideological (anti-capitalist) leanings of the parties in power, the stimulants failed to evoke much response from private capital. The 1960s had on record a better performance in this respect when behind protected markets import substitution industries attracted substantial private capital and entrepreneurship. The decade of the 1960s was an important phase in Sri Lanka's industrial development when both the private sector and the public sector moved into industrial investment. Between 1960 and 1970 value added in manufacturing (real) grew by around 6 percent per annum although from a small base but the early and mid-1970s saw industrial growth slumping to 1 percent per annum. Despite priority allocations of foreign exchange being made for the purpose of procuring inputs from abroad, foreign exchange shortages resulted in a high level of underutilisation of capacity.

Efforts to attract private foreign capital are visible throughout the period in official pronouncements clarifying the government's policy towards foreign investment, double tax relief negotiations, etc., but the response from the foreign investor was poor. Measures such as the nationalisation of foreign owned oil companies in 1962 (which provoked the suspension of US aid to Sri Lanka), restrictions on the repatriation of capital and dividends, and the general ideological leanings of the political groups in power were among the discouraging factors.

The government did attempt to offset the effects of adverse trends in the balance of payments, higher inflation and lower growth by borrowing more externally but import licensing and foreign exchange allocation constituted the main instruments of payments stabilisation strategy during the pre-1977 years. The exchange rate was not used as a policy variable. Apart from the devaluation of November 1967 and some minor manipulations (such as FEECs[1] and the temporary linking with a depreciating dollar between November 1971 and July 1972), the external value of the rupee remained fixed and pegged. The exchange rate strategy that was pursued was particularly to the disadvantage of the traditional exports.

While balance of payments viability was attempted through a progressive tightening of imports, the government addressed the issue of domestic stability via a strategy of subsidies, rationing and price control. The government's approach was essentialy distributive and welfare-oriented. This approach was not without repercussions on the economy's growth and employment performance. A subsidy arrangement that shields the consumer from rising prices forces investment rather than domestic consumption to absorb the shocks of the external trade cycle. The savings rate of the economy declined from a level of 18 percent of GDP in 1970 to around 10.5 percent in 1975. Consequently, investment as a ratio of GDP declined from 18.4 percent in 1970 to 15.5 percent in 1975 despite substantial inflows of foreign assistance (Budget speech, 1978).

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1. A system of dual exchange rates. Under this scheme the formal base rate was applicable to traditional exports and the import of essential wage goods. For 'non-traditional' exports and for those imports which required the purchase of foreign exchange at the higher (depreciated) rate, the premium was fixed at 44 percent above the base rate.

To sum up the scenario of the pre-1977 era, the pattern was one of increasing state intervention on all fronts and a closed economy or inward-oriented approach to national economic management. The adverse balance of payments trends brought in a high element of austerity into economic management and strengthened the forces clamouring for a self-reliant pattern of development. The controls on foreign and internal trade were also accompanied by ceilings on income and wealth ownership[2] and highly progressive taxes on income in the pursuit of the government's egalitarian objectives. The approach displayed a conspicuous distributive orientation.

The economy's growth rate of real GDP under the strategy pursued in the pre-1977 period averaged 4 1/2 percent annually in the 1960s and a lower 3 percent during 1970-77. Performance was not solely a matter of strategy; the outcomes need to be interpreted in their proper perspective. Over the entire period economic management was shrouded by deteriorating export prices. The early 1970s saw the difficulties pushed to crisis proportions by the world slump in grain production, the oil shock and international currency disturbances. Internally, adverse weather (drought in 1972 1973 and 1975/76 and floods in 1969/70) disrupted agricultural production and interfered with power supplies. Declining cost-price margins in the plantation products and the destabilising effects of land nationalisation resulted in a stagnant export crop sector seeking to effect cost reduction including economies in labour use. Import substituion industry fostered behind protection had begun to run into problems — operating at below capacity on account both of a limited market and of the foreign exchange scarcity which limited the procurement of imported inputs. Concern about the cost of living restrained the government from manipulating market prices to stimulate domestic production. The government's procurement prices for domestic agricultural products were maintained low.

On the positive side the period under investigation recorded a substantial increase in the domestic production of wage goods and, in the 1960s, generally stable prices. Some industrial growth occurred behind protective barriers. Domestic agriculture expanded, reflecting both the extension of area and the technological break throughs of the seed-fertiliser revolution. State support continued to flow into this sector in the form of infrastructure investment, subsidised inputs, and technical and financial assistance. The period featured two food drives in the late 1960s and the early 1970s (prompted by the food and foreign exchange crises). Several multi-purpose river valley development projects, including the Mahaweli, were commissioned during this period.

Another positive aspect of economic performance was the progress made in the export promotion effort. Aided by the government's promotional measures, gems and tourism developed into significant foreign exchange earners. Some success was also achieved in the promotion of minor export crops.

From a specific employment point of view, several special programmes were introduced. These included two crash programmes for employment creation—one in 1970 to generate 100 thousand jobs and a second in 1976 with a target of 300 thousand jobs to be created before the general election. The strategy included programmes for specific groups — unemployed graduates (the Graduate Trainee Scheme) and youth (Land Army, National Youth Service, etc.). Special emphasis was placed in the 1970s on promoting self-employment and developing small industry. The District Development Councils (DDCs) were an important medium in the implementation of the policies. According to Planning Ministry sources, 33 thousand jobs were created under the DDC Programme between 1971 and 1976 and involving an investment of Rs. 127 million. Finally, the expansion of the public sector

2. Ceiling on the size of land holdings and on house ownership.

itself had implications for job creation. As some critics have pointed out, the public enterprises were also seen by political groups in power as a medium for creating jobs for their supporters (i.e. 'employment bureaus') (Budget speech, 1978).

The government's efforts to ease labour market tensions were also helped by the repatriation of Indian immigrant labour under the Indo-Sri Lanka Pact of 1965 and its subsequent amendments. Up to the end of 1980 a total of 267, 591 persons of Indian origin including children had been repatriated under the Pact and, on a rough calculation based on labour force participation patterns in the estate sector, this involved the repatriation of about 18,000 employed persons annually, thereby freeing an equivalent number of jobs for the domestic workforce.

THE POST — 1977 DEVELOPMENT STRATEGY

Faced with the progressive slowing down of growth and the problems of external and internal balance, the late 1970s saw strategy switching under a new government to a liberalised trade regime and an outward-oriented approach to the promotion of growth. The pre-1977 strategy with its inward-oriented bias had proved incapable of providing the momentum required.

The new strategy was launched in consultation with the IMF and World Bank and it contained most features of the standard IMF/IBRD package prescribed to borrower economies. There were also some interesting deviations, particularly in respect of welfare expenditure. The package was assisted by a substantial amount of foreign support from the IMF, other international agencies and friendly countries.

The thrust of the reform was in the direction of reducing the government's interventionist role and allowing market forces to guide the pattern of economic activity. It envisaged a retrenchment of government operations in direct production and commercial activity. Private capital was to be elevated to the role of the leading partner and the efforts of the government were directed at stimulating private sector economic activity by providing the infrastructure and a liberalised economic environment. The strategy featured an ambitious programme of public investment concentrated in the lead projects of the Mahaweli Development Scheme, the Free Trade Zone (FTZ) and housing and urban development and was designed to expand the base of agricultural and industrial activity. The government's capital expenditure as a ratio of GDP accordingly rose to 18 percent in 1980 compared to 9 percent in 1970-77.

Deviating from the pre-1977 'home-economy' stance, the new strategy had its focus turned towards the international market for the necessary demand stimulus. While export promotion was also envisaged in the early and mid-1970s, some difference is visible between the respective packages. In the new approach the export objectives were to be achieved through a foreign trade strategy exposing domestic industry to international competition and concentrating domestic resources to produce those items in which the country had a competitive advantage. It relied on trade liberalisation and exchange rate flexibility to infuse an export bias and improve the allocation of resources and efficiency.

The features of the new strategy are well documented (Fernando, 1986; Lakshman, 1986). In presenting the budget in 1977, the Finance Minister announced the following changes which were to come into effect immediately :

— Liberalisation of foreign trade;

— abolition of exchange controls in respect of current transactions in the balance of payments;

— exchange rate reforms (i.e. unification of the prevailing dual exchange rate with a 46 percent devaluation initially and a change over to floating exchange rates);

— rationalisation of the food subsidy, (and replacement of the existing arrangements by a means-tested food stamp scheme subsequently), and

— a substantial increase of capital expenditure.

On the supply side, producer subsidisation (e.g. the 75 percent subsidy on fertilisers) was to continue. The guaranteed procurement prices (GPS) paid to the producers of certain food crops were raised to stimulate production. The reform placed insistence on commercial principles in the management of public enterprises. It envisaged a gradual withdrawal of transfers to public corporations, and the closing down of non-viable corporations, and a brake on further relative expansion of public sector commercial activity. Privatisation of selected state enterprises and management by the private sector of some others were also features of the new package. Such withdrawal of the State was not without repercussions for labour absorption.

The fiscal reforms were also accompanied by some monetary measures which included an upward revision in nominal interest rates on deposits and lending. Incentives to stimulate private investment included the opening of a number of hitherto closed economic activities (e.g. passenger road transport) to private capital, and certain tax concessions to private investors. Foreign investment was to be actively promoted through the establishment of Investment Promotion Zones (IPZ) and a revamping of the Foreign Investment Advisory Committee (FIAC).

In its implementation the reform was helped by certain favourable developments in the politico-economic environment. These included a bumper rice harvest in 1976/77; an improved export price situation, particularly for tea and rubber; an enhanced flow of external aid; greater social cohesion and political stability (e.g. a two thirds majority in Parliament), and the phenomenon of migration for employment overseas. The liberalisation of foreign travel in the context of a growing demand for labour in the oil producer countries brought a new financing element in the form of private transfers, which at their peak rose to 7 per cent of GDP, to rank second only to tea as a foreign exchange earner. Remittances by migrants also played an important role in financing part of the construction boom of the post-1977 period.

The government was also helped by an environment of reduced industrial unrest. This helped the economy to effect some real wage restraint (Rodrigo, 1988). The labour market pressures were also eased by the continuing Indian Worker Repatriation Programme. Meanwhile, traditional agriculture continued to benefit from the technological advances of the Green Revolution.

On the negative side the strategy had to encounter the adversities of an ethnic crisis and the persistent deterioration of the terms of trade (with the exception of 1984). The ethnic crisis was to have its unfavourable repercussions on both agriculture and manufacturing as well as on the growing tourist industry which suffered a sharp reversal. It also constituted a heavy drain on the state purse. Deteriorating export prices had their impact on incentives and producer margins in the plantation sector and on the exchange value of the rupee. Meanwhile, the higher interest rates of

the early 1980s may have constituted a deterrent to private investment. A decline is indicated in the share of private sector GDCF in GDP in the 1980s. Despite promotional efforts very little large scale domestic private investment (domestic) is visible in manufacturing; the bulk of domestic private investment went into the services sector. Meanwhile, a number of established domestic industries suffered a reversal due to competition from imports (textiles, spare parts, etc.) which trade liberalisation had exposed them to.

The end of the decade, however, saw pressures building up on a different front. With the expansionary economic policy and the vigorous growth of aggregate demand stimulated by this policy, serious macroeconomic imbalances began to surface, confronting decision makers with a critical policy choice. Given the nature and magnitude of the disequilibria, stabilisation emerged as a priority objective in the immediate period even at the expense of growth. Imbalance management necessitated a pruning of the large budget deficit and inflationary bank borrowing which was fuelling excess demand. Demand management became a significant objective of fiscal operations in the decade of the 1980s. Fiscal moderation involved a significant compression of the government's capital expenditure. It included a 25 percent cut across the board in the 1981 budget, which was followed by a further 10 percent cut and a decision not to undertake any new projects in the years ahead up to 1984. From 1981 onwards the public investment programme has been largely confined to ongoing projects.

These measures succeeded in reducing the deficit/GDP ratio to 17.5 percent in 1981 and the Government Bank Borrowing/GDP ratio from 10.7 percent in 1980 to 4 percent in 1981. In a context where government expenditure had been maintained at a level as high as 45 percent or more of GDP (1978-80), such scaling down of government spending had an inevitable slowing down effect on output (and employment) growth.

Although within the same development strategy framework, it is instructive in our assessment of output and employment consequences to treat the post-1977 phase in two sub-periods reflecting this realignment of priorities between growth and stabilisation. The first sub period achieved an output record, of 8.2, 6.3 and 5.7 percent real GDP growth in 1978, 79 and 80 respectively, giving an average of slightly over 6 1/2 percent for 1977-80. In the 80s the performance slips to an average of 5 percent per annum. The growth performance of the different sectors likewise displayed divergent patterns between the sub-periods. These were to have inevitable repercussions on the labour market as will be analysed in Part III of the paper. The late 1970s were generally an expansionary phase in respect of the major macroeconomic variables compared to the subdued performance that characterised the half-decade that followed.

III. DEVELOPMENT STRATEGIES : THE EMPLOYMENT CONSEQUENCES

Having provided an overview of the different development strategies pursued over the years, we attempt in this section to bring out the employment consequences of these strategies in a dynamic fashion. Instead of evaluating each development strategy in relation to its employment implications, the analysis will take the reverse form; it will relate the specific changes that we identified on the employment front under the different policy regimes to the corresponding development strategies in a cause and effect relationship. The analysis is largely based upon five distinct data sources, namely the two Population Censuses of 1971 and 1981, the Consumer Finances Survey of 1978/79, and the Labour Force and Socio-Economic Surveys of 1980/81 and 1985/86. As already pointed out, none of these sources coincide with the years in which the major changes took place on the policy

front. Further, the last three sources, being sample surveys, may not be strictly comparable with the first two, particularly in analysing the time trends of the relevant variables. With all these limitations on the date front, the analysis will be carried out primarily at two levels; first, at the macro level and then at a disaggregated level. The latter is basically confined to some important aspects of the employment profile such as industrial composition, gender composition and employment status.[3] Attention will also be drawn to the employment consequences of certain key development strategies of each policy regime such as the food drive of the pre-1977 regime, the Accelerated Mahaweli Programme and the Investment Promotion Zone of the post-1977 regime, and some specific issues such as the migration of labour to West Asia.

OVERALL PERFORMANCE

The recorded intercensal increase in the stock of employment of the economy from 3.649 million in 1971 to 4.119 million in 1981, which yields an annual growth rate of 1.22 percent, is indeed slightly higher than that which emerges for the labour force in the same period (i.e. 1.12), implying a decline in the rate of unemployment. The two population censuses have recorded that while the labour force continued to grow at 2.5 percent or so per annum, the stock of unemployment increased marginally from 0.839 million in 1971 to 0.897 million in 1981 with an annual growth rate of 0.67. If the LFSE Survey's unemployment figure of 0.857 million is taken to represent 1980, the growth rate of this variable for 1971-80 works out to an even lower 0.2 percent per annum. Growth rates of unemployment of this order are far below that of the previous intercensal period (i.e. 8.69 for 1963-71). As brought out by other evidence, however, the 1971-81 decade spans a full cycle of worsening unemployment in the first half and a reversal in the second half (Table 1). Thus, it necessarily follows that the rate of employment generation in the second half was higher than that attained in the first half of the period. It is evident that in the mid 1970s unemployment had reached its peak of over one million.

In the latter part of the new policy regime (i.e. 1980-85), employment had further moved up to 5.1 million in 1985/86, recording an annual growth rate of 1.61. Unemployment had dropped to 0.840 million in 1985/86 from the range of 857-895 thousand recorded in CFS, LFSES and Census data at the turn of the decade, yielding a negative growth rate of 0.4 per annum or less. One implication is that at the aggregate level the employment strategies pursued during the post-1977 policy

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3. In comparing employment and output figures in relation to the different policy regimes three sub-sets of data on employment were used :

(a) for 1963-71, Census of Population — 1963 and 1971,

(b) for 1971-81, Census of Population — 1971 and 1981 and

(c) for 1980-85, Labour Force and Socio-Economic Surveys — 1980/81 and 1985/86.

For some valid reasons, the 1981 Census was not used to represent the base-year data for the second phase of the post-1977 period, First, the Labour Force and Socio-Economic Survey of 1980/81 appeared to be more compatible with that of 1985/86 than with the Census of 1981. Second, it has been pointed out even by the Director of Census and Statistics, (see paper by Korale in this series) that certain important elements of the employment profile, such as casual employees, have been left out in the 1981 Census giving it a downward bias thereby. A downward bias is also suggested by a comparison of the employment figure of the 1981 Census with those of other surveys in the adjoining years. Both the Central Bank's Consumers Finance Surveys of 1978/79 and 1981/82 and the Labour Force and Socio-Economic Survey of 1980/81 estimated an employed work force of 4.7 - 4.8 million compared to 4.1 million arrived in the 1981 Census count (Table 1).

regime were more effective than those of the pre-1977 in generating job opportunities.[4] Other estimates (e.g. Irvin, 1986), however, indicate a reversal by the mid-80s pushing unemployment above 1 million again.

The general tendencies highlighted in the previous section can be further elaborated by the elasticities pertaining to employment generation in relation to the growth of output under each policy regime. Such a deliberation is essential as comparison of the values of basic macroeconomic parameters reveals a close symmetry between fluctuations in the employment/unemployment scenario with the economy's output (GDP) performance (i.e. employment stagnation in phases of stagnant GDP and stimulation in phases of growth acceleration). Evidently, the growth acceleration and the accompanying employment acceleration in the late 1970s were the economy's response to the development strategy reforms of 1977 (liberalisation, heavy public investment, etc.) The pre-1977 strategy with its low GDP growth rate and its preoccupation with distributive and welfare aspects in the crisis years had failed to provide the absorption momentum the economy so badly needed in the labour market. The output of the economy had registered average annual growth rates of 4.6 percent during 1971-81 and 5.16 percent in 1980-85, respectively. It is worth mentioning that the growth rate average (of over 4 1/2 percent) for the 1971-81 period had been pushed up by the substantially high growth rates of the first few years of the post-1977 phase. Disaggregation reveals that the pre-1977 growth rate was only 3 percent per annum (Table 5). Incorporating the output growth rates with those of employment, statistical analysis demonstrates a clear — cut increase in the employment/output elasticity for the economy as a whole from 0.265 during the 1971-81 period to 0.312 during the second phase of the post-1977 policy regime (i.e. the 1980s). This brings forth a general characteristic of the economy that, as a whole, it was gradually moving towards higher labour intensity under liberalisation policies. This increasing tendency in the employment/output elasticities offers part of the explanation for the apparent decline in the level of unemployment during the post-1977 policy regime. Our previous guesstimate on the relatively greater effectivenenss of the development strategies of the post-1977 policy regime in absorbing surplus labour at the aggregate level has been further strengthened by these results.

The trend towards growing labour intensity in the economy at the aggregate level can be further illustrated by looking at the employment/output elasticities pertaining to inter-industry data for each policy regime.[5] Computations clearly indicate a marked increase in elasticities from 1.084 in 1971 to 1.311 in 1981 and 1.351 in 1985/86. Although the inter-industry elasticities (based on cross — sectional data) may not be strictly comparable with those pertaining to time series aggregate data presented earlier, these results further support our presumption that the economy at the aggregate level was gradually moving towards greater labour intensity under liberalisation policies. Such a conclusion could have been further strengthened if the inter-industry elasticities could be computed for the initial years of the post-1977 policy regime.

An observation of interest, however, is that the employment/output elasticity coefficient for inter-industry data has risen only marginally during the latter part of the post-1977 period (i.e. from 1.311 to 1.351) indicating that no significant change had occurred across industries with respect

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4. As evident from Table 6, however, the rate of employment generation during the post-1977 period is still lower than that of 1963-71 (i.e. 1.70).

5. These elasticities were computed by regressing the level of employment in each industrial division against the respective output level (at constant prices), all in log terms.

Table 5.

EMPLOYMENT ELASTICITIES OF SRI LANKA BY INDUSTRIAL DIVISIONS (1963—1985)

Industrial Division	1963-71			1970-77	1971-81			1980-85		
	GR(O)	*GR(E)*	*EL(E/O)*	*GR(O)*	*GR(O)*	*GR(E)*	*EL(E/O)*	*GR(O)*	*GR(E)*	*EL(E/O)*
Agriculture, forestry, hunting & fishing	01.91	00.97	00.508	02.04	03.42	00.25	00.073	04.52	03.10	00.686
Mining & quarrying	10.72	02.96	00.276	27.31	22.20	09.96	00.449	03.80	00.94	00.247
Manufacturing	06.19	01.02	00.165	01.01	02.15	01.88	00.874	05.59	02.68	00.480
Construction	09.20	-02.35	-00.255	-02.59	03.86	02.61	00.676	-00.74	-00.19	00.263
Electricity, gas & water	12.18	-01.12	-00.092	03.79	10.03	05.27	00.525	08.19	03.56	00.434
Transport, storage etc.	05.67	03.75	00.661	02.53	04.85	01.10	00.227	06.57	02.20	00.335
Trade, hotels, restaurants etc.	05.23)			02.44	05.09	02.44	00.479	05.27	00.92	00.175
Financing, insurance, real estate etc.	08.40)	03.14	——	09.94	10.78	08.60	00.798	07.44	04.25	00.571
Community, social & personal services	05.11	-00.06	00.012	04.02	05.49	01.78	00.324	06.37	-00.52	-00.082
All Industrial Divisions	04.38	01.66	00.228	02.85	04.60	01.22	00.265	05.16	01.61	00.312

Notes : (a) GR(O) = average annual rate of growth of GDP real value added of the industrial division during the period concerned, GR(E) = average annual rate of growth of employment of the industrial division during the period concerned and EL(E/O) = employment elasticity of output for the period concerned.

(b) $GR(O) = r$; $O(t) = O(1)\ (1+r)^t$, where O(t) and O(1) represent the real GDP value added in the terminal year and the initial year of the time period. GR(E) was also computed with the same procedure.

Sources : Labour Force and Socio-Economic Survey 1980/81 and 1985/86.
Census of Population 1963, 1971 and 1981.
Consumer Finances Survey 1978/79
Annual Reports, Central Bank of Sri Lanka.

Table 6.

OUTPUT/EMPLOYMENT (O/E) ELASTICITIES FOR SRI LANKA

Reference Year	*Constant*	[B_i *Coefficient (O/E) Elasticity*] *		*R Squared*	*SEE*
1971	-2.988	0.819	(0.064)	0.959	0.323
1981	-1.046	0.692	(0.078)	0.919	0.333
1985/86	-0.875	0.682	(0.095)	0.880	0.395

* Within parantheses are the standard errors.

Note : These results were obtained by regressing the level of real value added against the level of employment of each industrial sector — all in log terms.

to employment/output relationships during the latter sub-period. Thus the question arises as to how the increase in employment/output elasticity from 1.084 in 1971 to 1.311 in 1981 should be assigned between the two policy regimes. Nonetheless, having considered the general trends and patterns in employment and output levels as examined in the previous two sections, more weight can reasonably be assigned to the post-1977 policy regime in explaining the increase in inter-industry employment/output elasticities.

Another important outcome of the inter-industry analysis is the declining tendency of the sensitivity of output to employment or labour productivity coefficient (pertaining to the single input production function for the economy) throughout the period concerned.[6] The decline is substantially high for the 1971-81 period in which the coefficient had dropped from 0.819 in 1971 to 0.692 in 1981 (Table 6). During the latter part of the post-1977 policy regime, however, it remained more or less static (i.e. a decline from 0.69 to 0.682 in 1985/86). Having considered the fact that the increase in employment momentum was at its peak during the first few years of the liberalisation regime (and at its lowest during the mid-1970s) a larger portion of the sharp decline in the output/employment elasticity during the period 1971-81 can be reasonably attributed to the first phase of the post-1977 policy regime. Among other things, this declining tendency of the labour productivity coefficient suggests that, in general, the growing pressure from the new entrants to the labour market during the past two decades had been partly eased at the cost of some decline in the marginal productivity of labour at the aggregate level. Such an inference would, however, need to be tested with other data before a final conclusion is reached.

SECTORAL PERFORMANCE

Turning to the industry level, all sectors other than mining and quarrying seem to have either achieved relatively high output growth rates or maintained their pre-1977 growth rates at least during the first phase of the post-1977 policy regime. On the employment front, all sectors except agriculture and transport had registered higher absorption rates during the 1971-81 period, but in the phase 1980-85 only three sectors, namely, agriculture, manufacturing and transport had achieved relatively higher growth rates. Thus, the resultant employment elasticities had reached relatively high magnitudes only in two sectors (i.e. agriculture and transport) during the 1980-85 period. In comparing the two policy regimes, however, these changes should be treated with caution as much of the employment expansion in many sectors, including construction, trade and finance, took place during the first phase of the post-1977 policy regime. Employment and output trends in the key industrial divisions will be examined in detail in the following sections.

(a) Agricultural Sector

During the 1971-81 period, the agricultural sector had its output increasing at an annual rate of 3.42 (with a slower annual growth rate of 2.04 during 1970-77), and employment (according to the two Population Censuses) rising at an annual growth rate of 0.25 percent suggesting that the agricultural policies of the pre-1977 regime (which included the food drive and the technological innovations of the Green Revolution) had only a marginal impact on employment generation in the

6. These measures indicate the elasticity of output in relation to employment and they were computed by estimating the single input Cobb-Douglas production function for each data point assuming capital to have remained constant. Although this latter assumption is rather unrealistic, we are handicapped in this exercise in getting compatible data on capital.

agricultural sector. In paddy cultivation while employment in absolute terms declined between the two 1971 and 1981 censuses from 813 thousand to 785 thousand (i.e. 3.4 percent), output recorded an increase of 60 per cent. The innovations had substantially increased the marginal product of agricultural labour in relation to the preceding decade. It follows that, instead of absorbing more labour, the food drive/Green Revolution had further activated and enhanced the productivity of existing labour within the agricultural sector with the apparent implication of aggravating unemployment among rural youth. For the second phase of the post-1977 policy regime (i.e. 1980-1985), the growth rates of output and employment stood at 4.52 and 3.10, respectively. This had the result of moving up employment/output elasticity from 0.073 during the 1971-81 period to 0.686 during the 1980-1985 period[7] suggesting that the agricultural sector had generated a relatively greater number of employment outlets during the post-1977 period, although the growth rate of employment itself during this period was relatively smaller than that of output. Incidentally, a large slice of the opportunities that opened up were in own-account work. The higher growth rate of employment in the 1980s relative to the preceding period owes itself in large measure to the implementation of major irrigation projects such as the Accelerated Mahaweli Development Project during the post-1977 period. As Table A3 illustrates, while 53,479 allottees were granted land or regulated ownership under the Land Development Ordinance between 1971 and 1977, this number rose to 578, 306 during the 1978-1984 period. The number of allottees under the Accelerated Mahaweli Project numbered 57,000 by 1987. Although the heavy public investment on infrastructure development in the agricultural sector, along with other stimuli, seems to have improved the total return as well as the total employment during the post-1977 period to exceed that of the pre-1977 period, the dramatic decline indicated by the statistical computations in the output/employment elasticity (O/E) coefficient during the post-1977 period, conversely, implies a sharp drop of the marginal product of agricultural labour. Among other things, this signals an increasing tendency towards underemployment in the agricultural sector.[8]

In the export crop segment of agriculture, value-added (real) growth rate during 1971-77 was negative at 1.7 per cent per annum. Declining producer margins caused by both adverse price trends and rising input prices including periodic government-decreed money wage increases (Rodrigo, 1988) had induced economies in labour use. Employment per acre recorded a decline in the 1970s in all three crops. The easing in estate sector unemployment hinted by CFS data in the late 1970s is partly attributable to the programme of repatriation of Indian immigrant labour. In the post-1977 phase the negative output trends were reversed but labour absorption remained low in a context where acreage had ceased to expand and production technology showed little change.

(b) Construction Sector

The scenario of the construction sector is somewhat different, in that both output and employment had decreased at annual rates of 0.74 and 0.19, respectively, during the period 1980-85, resulting in a positive employment/output elasticity amounting to 0.263. The corresponding elasticity figure for the period 1971-81 was much higher at 0.676. For the 1970-77 phase the figure should

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7. The conclusion holds even if we use the higher growth rate of employment in the agricultural sector suggested by the LFSES of 1980/81 to compute the E/O elasticity coefficient for 1971-81.

8. The 1985/86 LFSES on which this conclusion is largely based has used a very broad definition of employment : "a person who works at least one hour during the last calendar week as an employer, paid employee, own account worker or unpaid family worker in any economic activity is said to be employed". *Labour Force and Socio Economic Survey* 1985/86, Preliminary Report. Department of Census and Statistics, 1987, p. 12.

have most probably taken a negative magnitude as the construction sector recorded only a negative output growth rate of—2.59 (Table 5) during this period.[9] Thus, a relatively higher weight should be placed on the unprecedented increases that took place both in investment and employment in the construction sector during the first few years of the post-1977 policy regime in explaining the behaviour of the elasticity variable in the 1971-81 period. Along with increased public sector construction activity, the greater availability of imported inputs and capital equipment under the liberalised trade regime stimulated the construction industry. Migrant remittances from overseas provided a further boost. The construction boom in the late 1970s must certainly have been a very attractive incentive to many people to enter the industry, both as employees and investors. Further, the migration of many skilled workers to the West Asian countries during the late 1970s (see Table A1) produced a dearth of skilled labour in the construction industry, resulting in an apparent increase in the wages of construction workers. This was, in fact, a greater incentive, particularly to the new (labour) entrants into the construction industry. Since the employment elasticity coefficient takes a positive magnitude of 0.263 (with the decline in output growth accompanied by a much smaller contraction in employment), it clearly indicates that with the declining tendency in the construction industry in the 1980s a certain portion of those who sought employment in this sector was eventually pushed down to underemployment status and another lot was pulled out of the construction sector, aggravating unemployment.[10]

(c) Manufacturing Sector

The manufacturing sector registered a substantially higher value added growth rate under the post-1977 policy regime compared to the pre-1977 period. During the period 1971-81 manufacturing output and employment recorded growth rates of 2.15 and 1.88, respectively (Table 5). For the latter part of the post-1977 policy regime, these growth rates stood at 5.19 and 2.68 respectively. This had resulted in a decline in the employment/output elasticity coefficient from 0.874 for 1971-81 to 0.48 during the 1980-85 phase. The higher growth rate of employment had been the result of the upheaval in the manufacturing sector under the liberalised economic policies of the post-1977 regime. Several sub-sectors such as export-led industries, particularly those that enjoyed export incentives, contributed substantially to increases both in output and employment during this period. The industrial units that operated under the Greater Colombo Economic Commission (with Investment Promotion Zone privileges) (Table A4) and the Foreign Investment Advisory Committee (FIAC) alone had generated about 100 thousand direct employment opportunities by the end of 1987. Under these circumstances the decline in the employment/output elasticity coefficient during the 1980-85 period should be treated with caution. During the first phase of the post—1977 policy regime, the impact of the new development strategy on manufacturing sector performance was indeed a mixed one. While foreign investment promotion and liberalized imports of inputs and equipment facilitated increased investment and improved capacity investment utilization they also threw most hitherto protected domestic industries open to competition from imports. The labour intensive textile industry was among the most adversely affected by imports. Between the Census counts of 1971 and 1981 workers employed in the textile industry declined by 30 thousand. The decline was somewhat offset by new opportunities in the garments industry where employment

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9. Such an inference will be further supported by the fact that there existed ample excess/idle labour in the construction sector, particularly by the end of the 1970-77 policy regime. Many instances of layoffs of construction labour were reported during this period.

10. The broad definition of employment of the Labour Force and Socio-Economic Survey 1985/86 (see footnote 6) seems to be good enough to capture most of the underemployed labour in the construction industry.

increased from 18.8 thousand in 1971 to 50 thousand in 1981. According to census data as much as 45 percent of the total employment expansion in manufacturing during 1971—81 came from the wearing apparel industry.

For 1971-81 the employment/output coefficient of 0.87 suggests a substantially labour intensive pattern of output expansion in manufacturing in this decade. In view of the differential performance between the pre-1977 and post-1977 phases it is useful to disaggregate output-employment behaviour by the two sub-periods. We are handicapped here by problems of data. Although output information is available from National Accounts data on a year — to — year basis, no parallel information exists for employment. One has therefore to resort to indirect procedures to construct intertemporal behaviour patterns.

If the manufacturing employment growth rate of the 1980s of 2.68 had prevailed even in the late 1970s, the employment/output elasticity coefficient would have been reduced to 0.58 since the manufacturing sector recorded an annual output growth rate of 4.59 during the late 1970s. However, as explained earlier, the employment expansion rate in manufacturing during the first few years of the post-1977 economic reforms would have dropped to a lower magnitude if the observed negative impact of the liberalisation policies is taken into consideration. The adjusted employment/output elasticity coefficient for the 1977-81 period would be about 0.50.

As for the 1970-77 period, if we similarly apply the employment growth rate of the 1971-81 period (i.e. 1.88, Table 5) with an appropriate downward adjustment (say 25 per cent) to net out the post-1977 developments, the resultant employment elasticity coefficient would turn out close to 1.00 as the rate of manufacturing value-added growth for this spell was just 1.01. On these computations the apparent tendency of employment elasticity with respect to output would thus be: a sharp increase during the pre-1977 policy phase; a marked drop in the first phase of the post-1977 policy regime, and substantial stability during the latter part of the post-1977 policy regime. This in turn suggests a decline in the marginal product of labour during the pre-1977 years and a substantial increase during the post-1977 period under liberalisation policies. This tendency could be substantiated by observed trends in the Incremental Capital Output Ratio (ICOR) for the industrial sector.[11] The ICOR in the industrial sector had dropped substantially from 13.15 during 1975-77 to 7.23 during 1978-81 and 2.39 during 1982-85 (Karunaratne, 1987), suggesting a marked improvement in the efficiency of the use of capital. Simultaneously, capital formation (GDCF, real) in the industrial sector had grown by an average of 3.8 per cent per annum during 1978-81 but in 1982, 1983, 1984 and 1985 remained consistently below the level attained in 1980 and 1981. During 1982-85 it declined by an average 2.5 per cent per annum (Karunaratne, 1987). The decline in investment was repeated in almost all sub-sectors of the manufacturing sector including the GCEC enterprises where only 23 per cent of the total investment of the Projects Signed Agreements (PSAs) with the GCEC during the period 1976-88 can be attributed to the period 1983-86. Further, the average annual foreign investment inflow of the PSAs of the GCEC had declined from Rs. 544.6 million during 1978-83 to Rs. 184.75 million during 1983-86. Also no evidence can be found to ascribe this decline to a tendency of the activities of the GCEC area to reach saturation level (Attanayake, 1988). On the employment front, however, the opportunities that opened up in manufacturing under the new strategy appeared to be concentrated in low-skilled, low-wage outlets (Lakshman, 1986). With Sri Lanka's comparative advantage lying in its low-priced labour, such concentration is not a surprising phenomenon in an export-led development framework. With the shrinking of investment, particularly

11. Including mining and quarrying.

during the second phase of the post-1977 policy regime, the manufacturing sector seems to have adjusted in such a way that it tended more and more towards greater intensity in labour use to achieve higher productivity. The patterns also suggest some substitution of labour for capital. The sharp increase in the average export earnings per employee in the GCEC enterprises from Rs. 25,902 in 1979 to Rs. 130,946 in 1986 provides supporting evidence on the seeming tendency of capital/labour substitution in the manufacturing sector.[12]

(d) Other Sectors

The general trends of some of the other industrial divisions particularly of transport, trade, finance, and community, personal and social services are briefly examined below. As already pointed out, all sectors other than transport recorded a decline in employment elasticities during the latter part of the post-1977 policy regime. As in the case of the manufacturing sector, much weight should be placed on the post-1977 developments in these sectors in explaining the elasticities pertaining to the 1971-81 period. The employment performance of these sectors was in close correspondence with the sectoral pattern of output growth promoted by the economy's new development strategy. The sectors that recorded the highest growth under the new strategy were trade and commerce, construction, electricity, gas and water services, banking, insurance and real estate and transport. Looking for causes for the observed patterns, one can see that the policy shift to trade liberalisation gave a fillip to both import and domestic trading activity. The admission of the private sector into passenger transport services and the liberalisation of vehicle imports boosted the transport sector. The services sector received a boost from the rise in aggregate demand. The increased security expenditure of recent years has led to a substantial expansion in defence employment.

In the 1980s, as previously mentioned, the growing disequilibrium on the balance of payments and internal price fronts necessitated a stabilization approach involving a cutback in government spending and a tightening of monetary policy to correct the macro imbalances. These were to have obvious repercussions in the labour market both on public sector as well as private sector employment. In the public sector the Census of Public Sector and Corporation Sector Employment in 1985 reported an employment increase of 22 per cent over the figure reported in 1980 but adjusting for the reported undercoverage of 22 percent in the 1980 enumeration and of 93 percent in the 1985 enumeration, the implicit increase is only 14 thousand (or 1.8 percent) for the entire five year period, 1980-85. Such a slow pace in public sector employment expansion was in spite of the heavy public investments undertaken after 1977, including the Mahaweli and other major development schemes and increased recruitment to the defence forces. Some possible explanations for the retarded growth rate of public sector employment can be found in certain government policy measures such as the cut-back of government capital expenditure, the imposition of financial discipline on public corporations and the privatization of certain public utilities. The decline in elasticities of the trade and finance sectors might have been caused by employment levels approaching saturation during the first phase of the post-1977 policy regime.

(e) Gender Composition

Another important outcome observed is in relation to the changes that took place in the gender composition of the employed/unemployed population under different development strategies. Census data indicate the percentage of employed females as having remained more or less stable

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12. Although the investment of PSAs (Projects Signed Agreements) with the GCEC during the period 1983-86 accounts only for 22.96 percent of the total investment of the PDAS for the period 1978-86, almost 40 percent of total actual employment of GCEC enterprises during the period 1978-86 came in the last four years (1983-86).

between 1971 and 1981 at around one fifth of the total employed workforce but the Consumer Finance Survey of 1978/79 indicates a figure of 31 per cent, and the Labour Force Survey of 1980/81 a figure of 25 per cent. Subsequently, by 1985/86 this percentage had risen to 30.2 (Table 2). Simultaneously the share of females in the unemployed workforce had significantly declined from 59.5 per cent in 1978/79 to 48.4 in 1985/86. These changes in the level of female participation in economic activity do suggest some association with development strategies pursued in different phases. The increase in female participation during the pre-1977 policy regime is partly attributable to the marked growth in certain sectors of the economy such as handloom textiles, which absorbed large numbers of female workers. Similarly, the slight decline in the female share during the first phase of the new economic policy regime may be partly attributed to the closing down of a large number of small industrial units consequent on the inflow of textile imports under the liberalised trade policies. The increase in female employment in the latter part of the post-1977 regime can be largely explained by the emergence of a large number of export-oriented industrial ventures. They were basically labour intensive and had contained a substantially high proportion of unskilled/semi-skilled females in the labour force. Considering the significant increase in female participation in economic activity during the post-1977 policy regime, one may pose the question whether the employment generation pattern under the liberalisation policy stance tended to draw away the employment opportunities from the new male entrants to the labour market, aggravating the tension among the unemployed male youth.

(f) Employment Status

Finally, another dimension of the employment front can be observed in relation to the status of employment. Although no probable reason can be seen to explain this tendency, the share of unpaid family workers dropped from 5.2 per cent in 1971 to 2.6 per cent in 1981 and increased to 13.4 per cent in 1985/86. Further the share of paid employees dropped down from 67.3 in 1981 to 58.2 in 1985/86. Among other implications, this tendency illustrates the increasing instability of the employment status of employed workers.

CONCLUSION

In general, the development strategies pursued during the post-1977 policy regime seem to have been more effective than those of the pre-1977 policy regime in absorbing the annual additions to the workforce. The unemployment momentum, which reached a substantially high level during the pre-1977 policy regime, has effectively come down under the post-1977 development strategies. But the growth pattern of employment during this period indicates an increasing tendency towards underemployment and instability of the employment status in many sectors of the economy. Under-employment is increasingly becoming rampant in many sectors such as agriculture and construction.

A marked increase in labour intensity in key industrial divisions of the economy, such as manufacturing, which enjoyed greater incentives under liberalised economic policies, can be identified as the major reason underlying the growth of employment momentum during the post-1977 policy regime. In general, however, the growing tension in the labour market in Sri Lanka during the past two decades seems to have been partly eased via a decline in the marginal product of labour. Although increasing labour intensity is a general phenomenon for the whole period concerned, an exception can be found in the development strategies pursued within the agricultural sector during the pre-1977 policy regime, under which the marginal product of labour had recorded a substantial increase along with a marginal contribution to employment generation. In contrast, the post-1977 policy regime demonstrates a considerable decline in the marginal product of labour in agriculture

indicating increasing underemployment. With respect to the composition of employment/unemployment genderwise, post-1977 development strategies appear to have been based more and more upon unskilled/semi-skilled female workers with the apparent implication of aggravating tension among unemployed male youth. As a final note we wish to reiterate that these general remarks should be subject to further investigation with better data for policy making purposes.

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Table A1

MIGRANT WORKFORCE BY OCCUPATION AND SEX, 1977 — 85 (%)

Description	1977	1978	1979	1980	1981	1983	1985
(a) Occupation							
1. High level, middle level & skilled	64.0	53.5	39.3	33.0	28.9	27.2	40.2
2. Unskilled	36.0	45.2	49.4	50.6	55.6	55.1	53.2
3. Unclassified	00.0	01.3	11.3	16.4	15.5	17.7	06.6
Total	100	100	100	100	100	100	100
(b) Sex							
1. Male	95.9	82.5	52.7	49.2	47.6	—	—
2. Female	04.1	17.5	47.3	50.8	52.4	—	—
Total	100	100	100	100	100	—	—

Sources : ARTEP (1985)
Rodrigo and Jayatissa (1987)

Table A2

REMITTANCES BY MIGRANTS 1977 — 86

Year	*Total remittances as % of GDP*	*Average remittances by a migrant (Rupees)*	*Use of remittances (%)*		
			Domestic consumption	*Domestic investment*	*Import leakage*
1977	—	4,157	31.8	39.3	28.9
1978	01.27	12,266	32.5	31.8	30.7
1979	01.86	8,781	34.1	29.2	36.7
1980	03.70	17,609	36.9	25.3	37.8
1981	05.52	23,084	40.7	23.4	35.9
1982	07.29	23,022	36.3	31.8	31.9
1983	06.53	18,965	37.0	28.7	34.3
1984	05.66	21,445	38.5	27.8	33.7
1985	05.51	26,012	35.7	32.1	32.2
1986	05.26	27,022	35.3	35.1	22.6

Source : Rodrigo and Jayatissa (1987)

Table A3

LAND DISTRIBUTION UNDER MAHAWELI PROJECT AND OTHER SETTLEMENT SCHEMES

Scheme	*Upto* 1970	1971-1977	1978-1984	*Oct.* 1987
Land Development Ordinance *				
(a) Allottees	907,456	53,479	578,306	——
	(82,780)	(506)	(542,456)	
(b) Extent (acres)	1,746,493	78,390	780,558	——
	(175,519)	(n.a.)	(716,394)	
Mahaweli Project†				
(a) Allottees	——	5,524	37,039	56,637
(b) Extent (acres)	——	16,572	98,730	135,763§

* includes (a) major schemes (b) village expansion schemes (c) highland schemes (d) youth schemes (e) middle class schemes (f) rain-fed farming (g) land grants (special provision) (h) regularization of encroachments and (i) issue of grants (within parentheses are the totals of (g), (h) and (i).

§ estimates.

† cumulative totals at the end of each period.

Sources : Ministry of Lands and Land Development
Land Commissioner's Department
Mahaweli Economic Agency.

Table A4

ANNUAL PERFORMANCE OF GREATER COLOMBO ECONOMIC COMMISSION 1978 — 86

Item	1978	1979	1980	1981	1982	1983	1984	1985	1986
No. of units in operation	——	13	25	42	54	67	72	77	87
Employment	——	5,876	10,508	19,729	24,926	28,705	29,477	32,340	41,614
Gross export earnings (Rs. Million)	——	152.2	529.1	1,163.4	1,653.1	2,419.5	3,537.4	3,801.6	5,449.2
Export earnings per employee (Rs.)	——	25,902	50,209	58,969	66,390	84,288	100,005	117,551	130,946

Source : Greater Colombo Economic Commission.