

Sri Lanka's "Employer of Last Resort" Policy: A Cautionary Tale

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Summary of ELS policy

- Not a well defined program, a series of *ad hoc* policies.
- Pre-liberalization, government was the dominant employer in the formal sector.
- Post-liberalization, government has taken up the more limited role as ELS of
 - Unemployed, university (and sometimes high school) graduates.

Features of the ELS policy

- Target: Unemployed, educated youth.
- Permanent Public Sector Employment
- “White Collar” jobs
 - Clerical, teaching, state banks
 - Village level ag extension, poverty programs.
- Higher (or at least comparable) wages with private sector

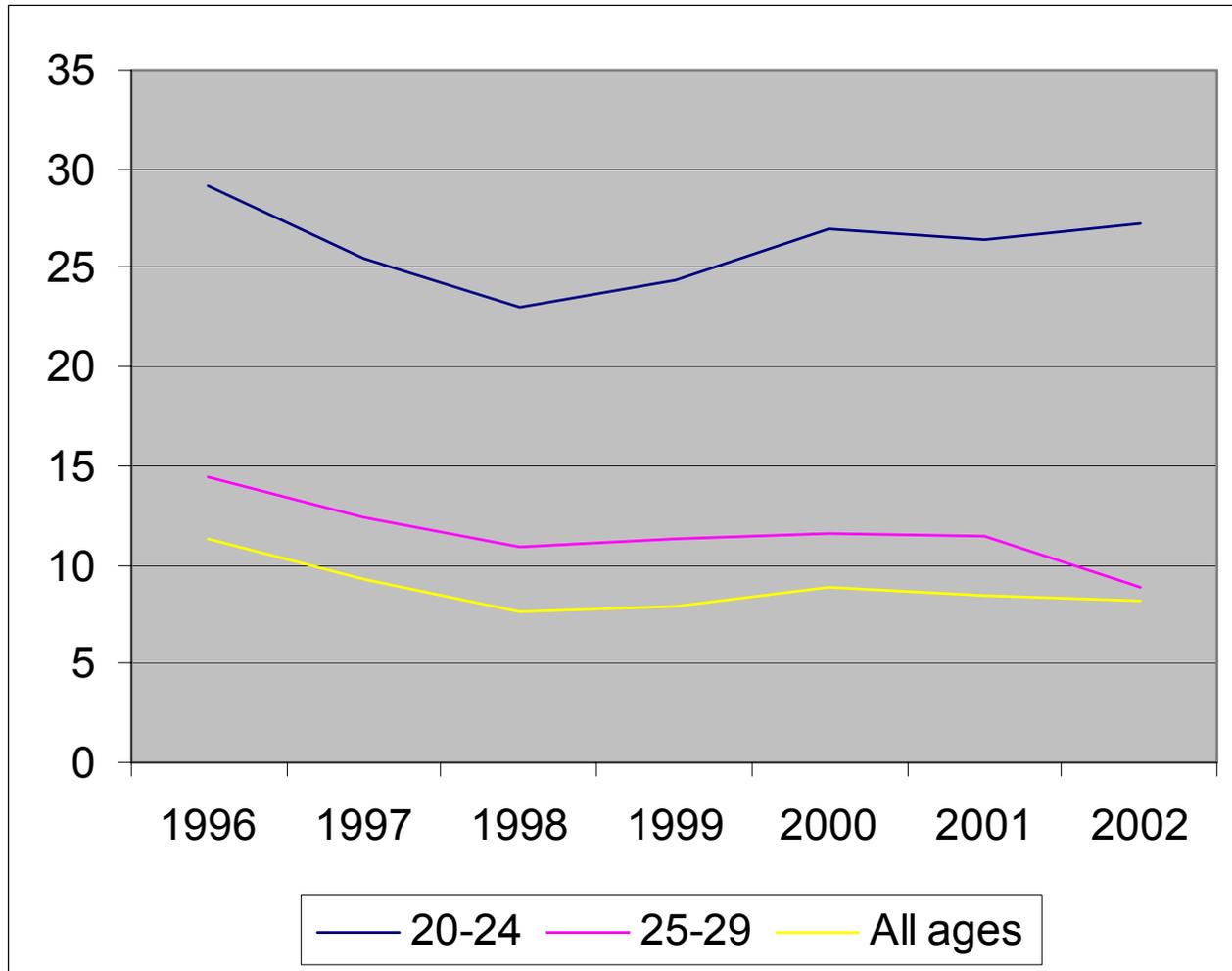
Rationale

- Reduce chronic unemployment among educated, youth.
- Help alleviate associated social and political problems.
 - Psychological problems, frustration, suicide
 - Unrest, violence, conflict

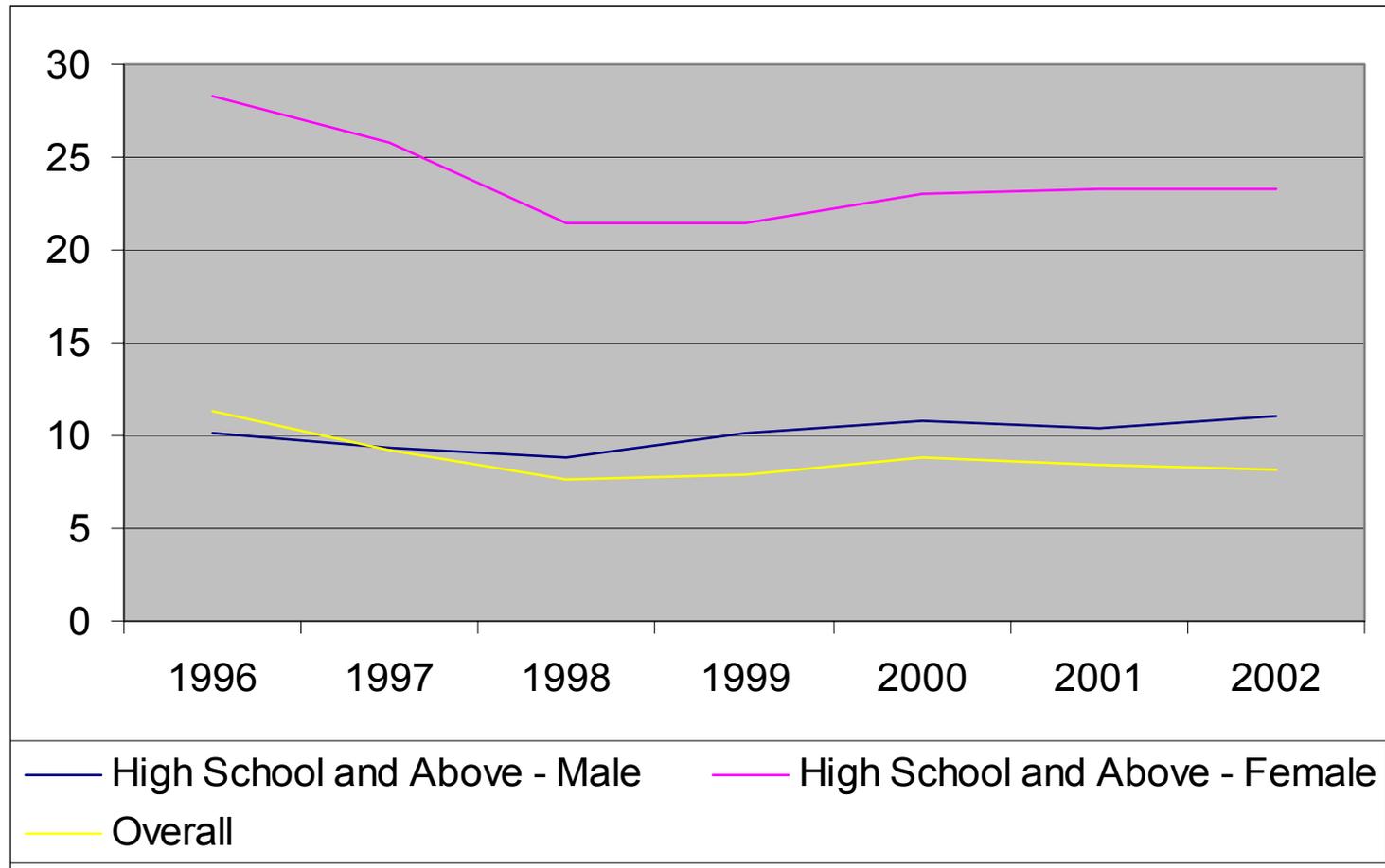
Evidence

- Unemployed are disproportionately
 - Female (12.5%: Male 6%)
 - Young (27.3% for 20-24 age group)
 - Educated (High School and above 23.3% female, 11.1% male)
- A large proportion of the unemployed
 - Have never had a job (86%)
 - Have been unemployed for more than one year (71%)

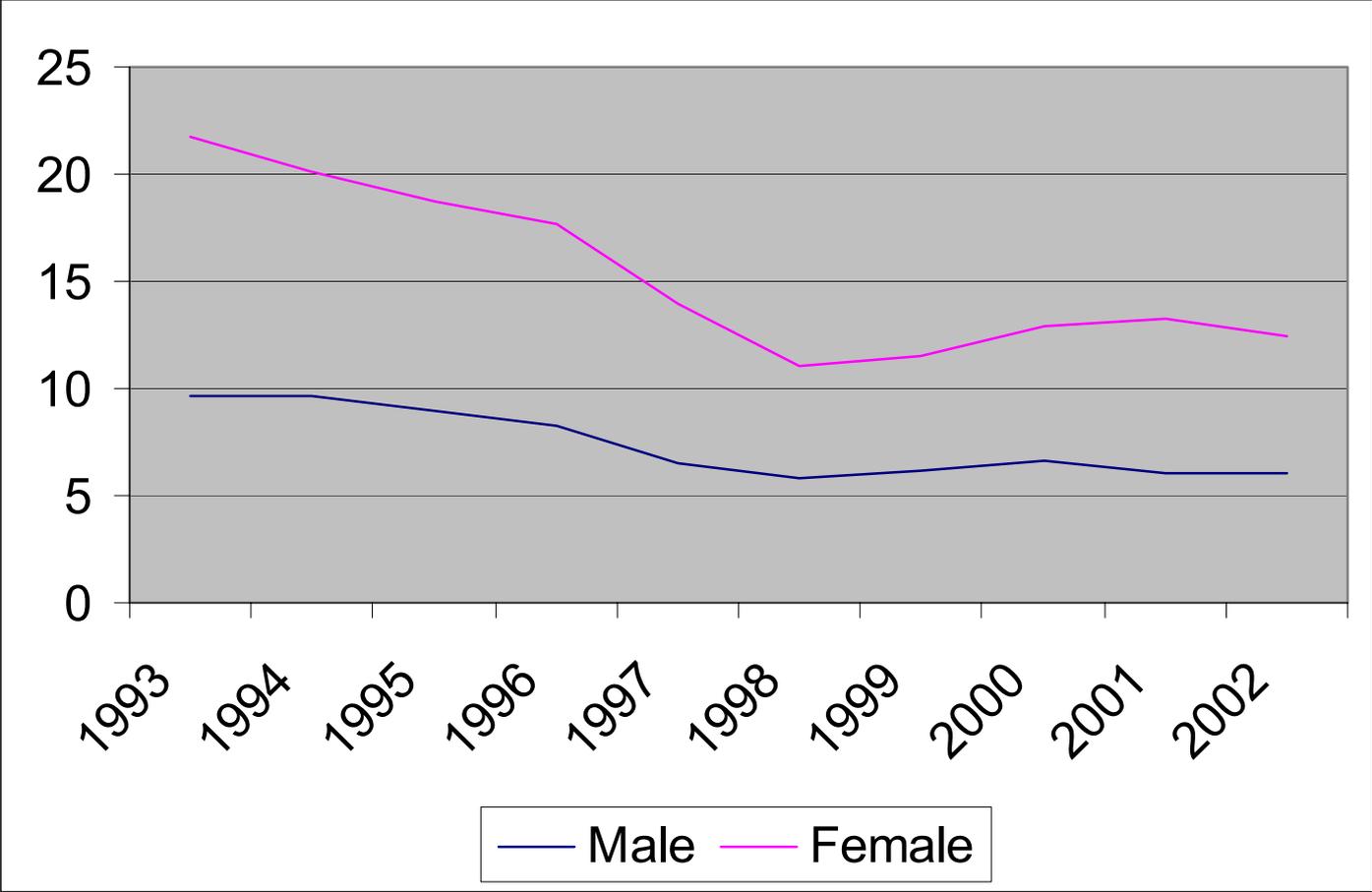
Unemployment by Age



Unemployment and Education



Unemployment – by Gender



My Thesis

- Agree that the chronic unemployment problem is associated with a difficult and prolonged transition from “school to work”
- However, the ELS policy is not a solution but a **cause** of this problem.

The “hidden” rationale of the ELS policy

- Support the free education system that is politically committed to providing **economic mobility**.
- Mobility: Higher Education -> Higher Wages and Better Employment Prospects
- Increased mobility comes at the expense of increased unemployment.

The Free Education System

1945 Education Reforms:

Single most important policy document in Sri Lanka's postcolonial history.

Education is

- a universal right.
- a pre-requisite of a democratic society.
- an agent of upward socio-economic mobility.

“Providing every child an opportunity to fulfill his/her potential without regard to his/her economic and social circumstances”.

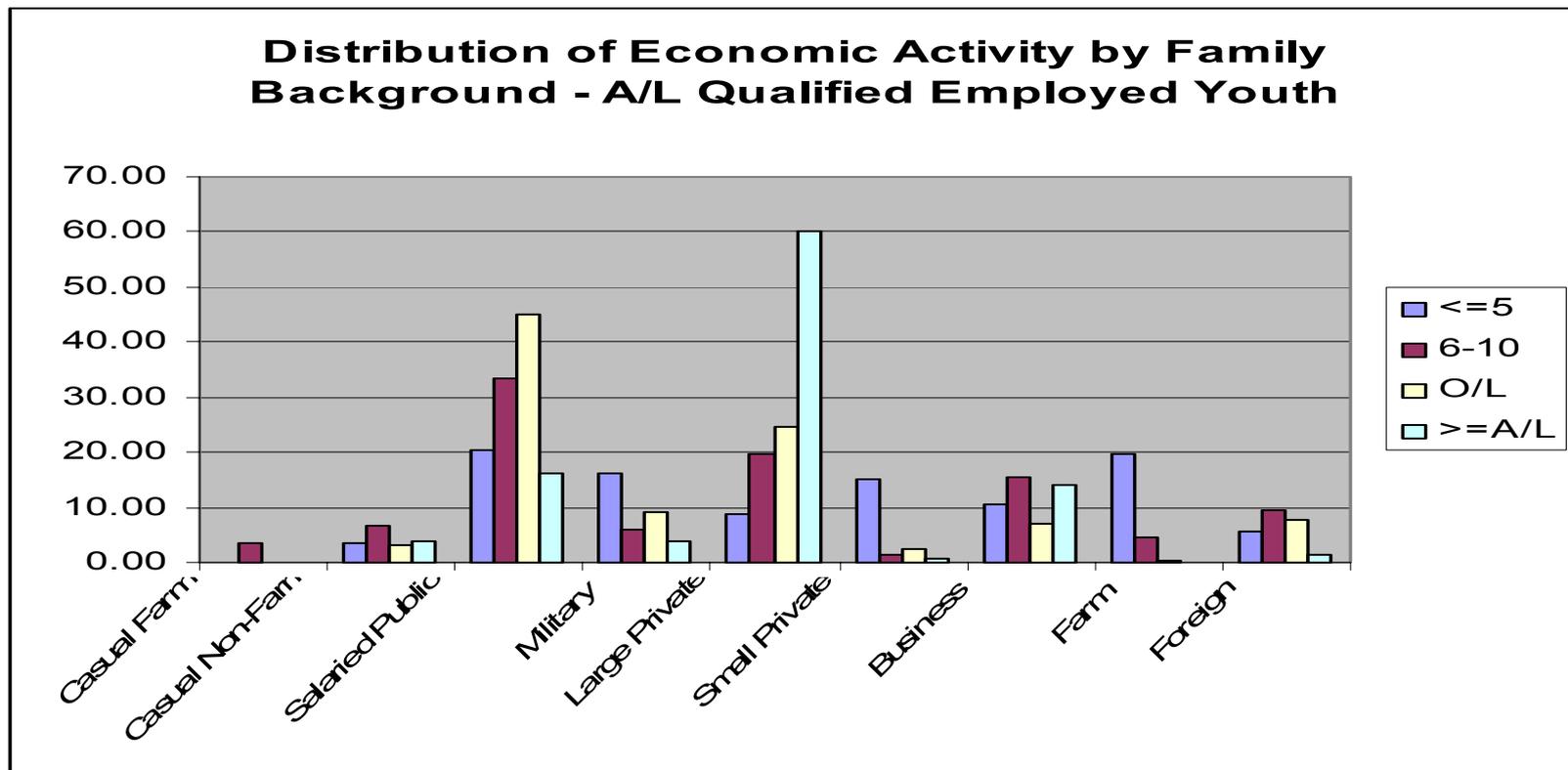
The Problem with Delivering the Free Education Promise

- Large quality differentials in the school system.
- Dilemma: How do you provide equal opportunity with unequal schools?
- Reduce quality differentials?
- Government's ingenious solution:
 - Reduce correlation between family background and educational performance.
 - Affirmative Action
 - Resistance to quality improvement in curricula – appeal to “least common denominator”.

Labor Market Response

- School system is highly competitive and perceived to be “fair”, but fails to produce skills demanded by the liberalized labor market.
- Diploma becomes weak signal of “employable” skills
 - English, IT
 - Higher order cognitive skills
 - Affective abilities (social capital)
- The Skill Mismatch Problem
 - The top of a highly selective educational pyramid don’t have marketable skills. Only 2% reached the college degree, but they are more likely to be unemployed than any other group.
- Ironically, economic mobility has decreased as private sector employer replace the weak “diploma” signal with others.

Weakness of the A/L certificate as a Signal



The government's response

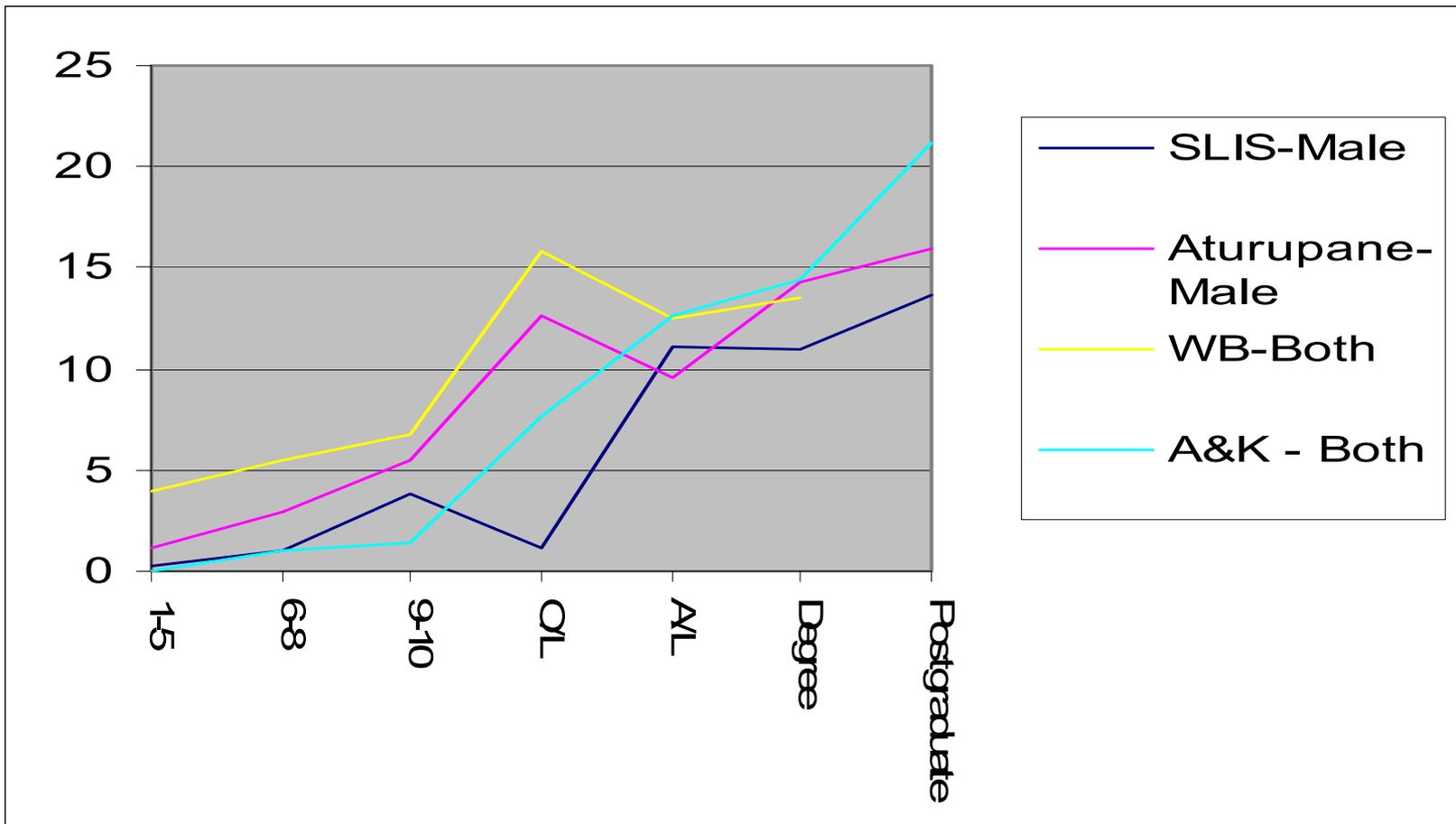
Support Free Education system by absorbing youth that are

- College graduates
- Unemployed

to the permanent cadre of the public sector.

Consequence: Private Returns to Schooling
has remained high and **increasing**.

Contradicts “Skill Mismatch” prediction



Incentive Distortions of the Household

- Education
 - Over-investment in schooling
 - Over-investment in “wasteful” forms of learning.
 - Cramming and rote learning
 - Expenditure on Private tuition, test preps etc.
- Employment
 - Wait for good “public sector” jobs (Queuing)
 - Over-education and unemployment are rewarded.
 - Refusal of private sector employment esp. by females (crowding out).

Why did the government adopt ELR over school quality improvement?

1. Cost-efficient?

- Can neglect educational investment.
- Focused only on the top 2-5% to create “illusion” of mobility. Can neglect the “forgotten” youth who fail the competitive exams.

2. Political incentives

- When an “unemployable” cohort exists, can’t divert resources to educational investments.
- ELR policies are more visible in the short run, compared to school quality improvements that bring disaggregated results after 15-20 years.

Short time horizons of a populist democracy.

Conclusions: The Problem with the Sri Lankan ELR system

- The goal is socio-economic mobility, not poverty reduction or counter-cyclical insurance.
- Targeted at the highest education levels.
- Employment created in “white-collar” clerical and teaching occupations.
- Permanent (not counter-cyclical or temporary) employment.
- Public sector wages are too high. In fact, they should be lower to compensate for greater job security and social status.
- Ignores the incentive distortions at the household level. Every job handed out to an “unemployable” youth creates another youth that joins the queue with a “unemployable” diploma!

Lessons for Research

- Analyze the micro-impact (incentive distortions) of public employment policies (e.g. household work and schooling decisions).
- Incorporate political economy factors to the analysis (e.g. credibility of temporary programs)
- Analyze policies with their institutional context in mind (e.g. Free Education Reforms, Electoral Democracy).