

# New Light on Structural Unemployment: Lessons of a Mission to Ceylon

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CEYLON is the second country to form the subject of a pilot study under the ILO World Employment Programme.<sup>2</sup> In a corresponding article last year on the first study, dealing with Colombia<sup>3</sup>, I indicated some of the new directions suggested by the report on that country<sup>4</sup> which were possibly of wider interest. I will try to do the same here, rather than attempt a comprehensive summary. I will not raise again some of the main issues treated in the previous article.

In the case of Ceylon as in Colombia, the underlying population increase creates a chronic problem of labour absorption. The reasons are somewhat different—Ceylon is a classic case of a dramatic population explosion following malaria eradication—but the consequences for unemployment are similar, and so are the implications for population policy.

Technology is biased towards capital intensity in Ceylon, just as in Colombia, and for much the same reasons—an overvalued exchange rate for capital goods, interest rates which are too low, tax treatment which is

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<sup>2</sup> For an outline of the World Employment Programme, which aims principally to make productive employment for large numbers of people a major goal of national and international policies for development, see David A. Morse: "The World Employment Programme", in *International Labour Review*, Vol. 97, No. 6, June 1968, pp. 517-524. The report of the Ceylon mission was published by the ILO at the end of last year under the title *Matching employment opportunities and expectations. A programme of action for Ceylon*. It was the result of work of a mission organised by the ILO with the participation of the following agencies: Asian Development Bank, ECAFE, FAO, IBRD, International Trade Centre, UNCTAD, UNESCO, UNIDO, and WHO.

<sup>3</sup> "New approaches suggested by the Colombia employment programme", in *International Labour Review*, Vol. 102, No. 4, Oct. 1970, pp. 377-389.

<sup>4</sup> ILO: *Towards full employment. A programme for Colombia, prepared by an inter-agency team organised by the ILO* (Geneva, 1970).

too generous to investment, and perhaps above all, lack of controls on the introduction of foreign technologies that involve heavy foreign exchange costs. If I say no more about this here it is because, although inappropriate technology takes different forms in each country (in Colombia, computerisation of bank accounts, for example; in Ceylon excessive use of tractors), the same basic remedies are needed in Ceylon as have already been described.

In Ceylon, as in Colombia, though not quite to the same extent, the existing pattern of land use stands out as a major obstacle to employment creation. It is difficult to imagine how rural areas in either country could absorb a significant fraction of their own population increase without some redistribution of land. Smallholdings are more intensively cultivated than large ones, generating both more output and more labour use per acre. So here too land reform appears to be a virtually inescapable condition for a high level of employment.

The dimensions of inequality on which the previous article focused are not discussed here because they are less relevant to Ceylon. The Colombia report put much of the blame for unemployment on the concentration of income in the hands of those who spent their money largely on imported goods and foreign travel (or on goods produced locally with the help of the expenditure of a good deal of foreign exchange on equipment, intermediate products and licences). Although data on distribution of incomes by size in the two countries are, as everywhere, extremely weak, they suggest a much greater degree of equality in Ceylon: in Colombia the proportion of pre-tax income in the hands of the top 5 per cent is about 30 to 40 per cent<sup>1</sup>; in Ceylon, about 20 per cent.<sup>2</sup> Moreover one must take into account the relatively heavy direct taxation in Ceylon and the extensive food subsidies and welfare services. The income distribution in Ceylon is in fact more like that of an industrialised country. For one thing, the contrast between incomes and living conditions in urban and rural areas is less severe; an indication of this is that migration towards Colombo and other cities has not been very significant. Moreover, in Ceylon labour legislation does not seem to have raised the cost of labour in the modern sector to such heights as to discourage hiring new employees.

### **Educated unemployed**

The main novelty of the Ceylon report is the attention paid to *structural* unemployment—although there is indeed a *global* shortage of

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<sup>1</sup> *Towards full employment* . . . , op. cit., pp. 140-141.

<sup>2</sup> Unpublished IBRD estimates based on first quarter data (November 1969-January 1970) from Ministry of Planning and Employment, Department of Census and Statistics: *Socio-economic survey*. The Gini ratio for the concentration of income is about 30, also a low figure.

work, and unemployment would be severe even if the structural difficulties I am going to describe did not exist.

The results of a recent socio-economic survey, which became available during our fieldwork, had a big impact on our thinking. They showed a high level of open unemployment—about 14 per cent, much the same as in the cities of Colombia. But they also revealed a close relationship between unemployment and both age and level of education (see tables I and II). Unemployment is staggeringly high in the younger age

TABLE I. CEYLON: OPEN UNEMPLOYMENT RATES BY AGE FOR PERSONS WHO HAVE AND HAVE NOT PASSED O-LEVEL<sup>1</sup>, 1969-70

*(those seeking work as % of total in active labour force)*

Age	Passed O-level	Others
15-19	92	38
20-24	64	25
25-34	17	6
35-44	6	1
<b>15-59</b>	<b>32</b>	<b>12</b>

<sup>1</sup> "Passed O-level" means having passed in five subjects in the General Certificate of Education (Ordinary level). (This examination, which is analogous to the one with the same name in Britain, is taken after at least ten years of schooling.)

Source: Socio-economic survey of 1969-70, first round (unpublished).

TABLE II. CEYLON: OPEN UNEMPLOYMENT RATES AMONG YOUNG PEOPLE BY LEVEL OF EDUCATION REACHED, 1969-70

*(those seeking work as % of total in active labour force)*

Highest level of education reached	Aged 15-19	Aged 20-24
None	23	8
Primary	34	15
Middle	46	39
Secondary (O-level)	92	63
Secondary (A-level) <sup>1</sup>	—	27
<b>All levels</b>	<b>41</b>	<b>34</b>

<sup>1</sup> At the time of the survey probably about one-third of university graduates were unemployed, the proportion being still higher among those with arts degrees. A large number of those unemployed graduates have, however, since then been offered employment by the Government under the Graduate Training Scheme described in the report.

Source: same as table I.

groups, particularly among those with O-level qualifications<sup>1</sup>, which must have been among the causes of the insurrection in April 1971.

In fact manual jobs are available, especially at harvest time, which the educated unemployed will not take. We do not know how many vacancies there are, but clearly some are difficult to fill, the most striking piece of evidence being that, despite more than half a million open unemployed, the Government this year decided to bring in several thousand workers from India for toddy-tapping and other field labour—a curious echo of the importation of Indian labour for the coffee, tea and rubber estates during the nineteenth and early twentieth century.

We emphasise the contrast between work expectations and opportunities in the title of the Ceylon report. In brief what seems to have happened is that the expansion of the educational system has out-run the capacity of the economy to provide the sort of jobs that those with secondary school qualifications feel they are entitled to expect—broadly speaking, office jobs. This expectation would have been justified in the 1950s. Moreover, it is not foolish of them to wait for such jobs. To wait may well be justified. A white-collar job pays a salary which is several times as high as that for manual work; it provides much greater security; and it means incomparably higher status. It is hard to say which of these advantages is more important. School leavers undoubtedly reduce their chance of hitting this big jackpot if they accept a manual job. So whatever the cost to the country of their waiting for a “proper” job, to do so may well be perfectly rational from a personal point of view.

In nearly every “developing” country, unemployment has emerged among the educated, or is starting to do so, often despite numerous unfilled vacancies. The job expectations of the new entrants into the labour force are diverging more and more from the jobs available. Indeed, this misfit is appearing in the “developed” countries too.<sup>2</sup> The problem is, however, especially acute in the case of Ceylon. This is partly because of the particularly rapid growth of free education—from many

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<sup>1</sup> It should be borne in mind, however, that educational achievement may be exaggerated, and some may describe themselves as “unemployed” when they are in fact working (e.g. on a family farm) though looking for a better job; in that case, however, the figures still tell us something about one of the dimensions of unemployment, namely the frustration it causes. Another qualification to the figures in these two tables is that the unemployment rate among those with O-level certificates in the lowest age group is to some extent misleadingly high because (in contrast to the others) they are nearly all seeking their first job, which often takes quite a long time.

<sup>2</sup> Other features of the unemployment problem that have been depicted in the Colombia and Ceylon reports, especially the difficulty of absorbing modern technology without severe displacement of labour, are not unknown in “developed” countries either. If the World Employment Programme is to match the scale of the world unemployment problem, it needs to cover all countries. Indeed, it is my personal belief that “developed” countries with chronic structural difficulties, such as Britain, would also benefit from a mission under this programme (apart altogether from the symbolic significance of an overdue acknowledgment that all countries are in need of drawing on the international pool of experience, via technical assistance).

points of view a notable achievement. Another reason is that the free rice ration (together with a second subsidised ration)—also in itself an achievement—makes it much easier for families to tolerate their members being out of work for years on end.<sup>1</sup>

But there are far-reaching doubts about the meaning of published rates of open unemployment. Figures of the “unemployed” add up people with very different requirements so far as income, status, etc., are concerned<sup>2</sup>: those without much education who would take almost anything (in the neighbourhood), secondary-school leavers who are waiting for secure office jobs, and university graduates looking for particular administrative openings.

These figures also raise a big question mark about the nature of the education being provided. We criticised the educational system of Ceylon because of its emphasis on examinations which lead to further schooling and further examinations, rather than on education in a more fundamental sense. The primary school, for example, is devoted to preparing pupils not for farming work, which will be the actual occupation of most of those who leave school, but for secondary education. It is—in view of the rates of dropout—a very expensive means of doing this. The secondary school prepares its students for O-level and university entrance, and there are heavy costs of other types. It is difficult to know whether more damage is done to the great majority who suffer the frustration of failing a crucial examination (usually after repeated attempts), or to those who succeed in passing them all. The latter have been conditioned to look on learning as a means of gaining not the knowledge to *do* a job, but the opportunity to *get* one. Not surprisingly, they consider their eventual post as the due reward for years of cramming.

This problem is bound to get worse. By 1985 about three-quarters of the entrants to the labour force, on present plans, will have had some years of secondary education. The need for educational reform is therefore urgent. We suggest steps to get away from the “sequential” system, partly by putting much more emphasis on practical work and on aptitude tests, and partly by requiring young people to break their education with productive jobs, especially in the period between leaving school and entering university. Everyone in fact would be able to *apply* for a period at a university, normally returning to their workplace after graduation. (This should produce much higher morale in the universities.)

<sup>1</sup> We are familiar in economics with the “demonstration effect”, i.e. the influence of the consumption habits of the richer classes (often imported standards) on the rest of the public. There is also a “demonstration effect” in attitudes to different types of work; this may be just as damaging for development, by impeding the mobilisation of the labour force.

<sup>2</sup> Just as “national income” or “aid” add together items of very different significance. Myrdal and others have already raised doubts, on somewhat different grounds, about the meaning of unemployment data in “developing” countries. See also the discussion of underemployment of various types, and of the omission of persons who have given up looking for work, in the Colombia report.

But even such far-reaching educational reform would not be enough in itself; it needs to be supported by lower differentials and fringe benefits (such as subsidised housing and transport) for clerical and administrative work, especially in the civil service, which to some extent sets the pattern for the country. There are signs of these differentials declining already <sup>1</sup>, but far too slowly to change the attitudes of the present generation of school leavers. The only way to reduce the fascination of the white-collar job for the young is to make an office career *much* less attractive. Yet it would cause hardship and raise political difficulties to cut existing salaries. We felt that *new* entrants to the civil service should be placed on a salary scale that was lower *all the way up*.

### **Unemployment on the estates**

In Ceylon, a second major type of structural unemployment can be found on tea (and rubber) estates, where a population of Indian origin is employed at low wages (even allowing for free housing) and often part time, but with very little prospect of jobs in other sectors of the economy. Linguistic, social and communal barriers to labour mobility are of course not unknown in other countries, but the consequent overcrowding of one sector is rarely so severe as it is in Ceylon.

There is little prospect of much expansion of employment on the estates, so the future trend in unemployment there depends very much on the speed of implementation of the Ceylon-India agreement of 1964, which provides for the bulk of this labour force to be either repatriated to India or given Ceylonese citizenship. So far there has been little action under the agreement. Its implementation would make it not only desirable but also necessary for the estates to provide pay and conditions comparable with those elsewhere. This would, however, reduce in some degree their profitability, which, although eroded by the fall in the prices of the commodities concerned (relative to those of other products), has been a mainstay of the economy, providing much of the Government's revenue.

### **The policy dilemmas**

The Ceylon report shows in fact the magnitude of the policy effort needed to reach a high level of employment. It is not at all easy to solve these problems which have accumulated over the years. The economy has failed to expand and diversify anything like as fast as is required by the growth of population and by the increasing educational and welfare services, including the rapidly rising expenditure on subsidising rice. Considered as a politico-economic system, Ceylon has not in fact been responsive enough to developments in the world economy, particularly the sharp deterioration in her terms of trade.

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<sup>1</sup> See table 21 in the Ceylon report, p. 119.

While one symptom of this lack of balance between social and economic progress has been large-scale unemployment, another has been a chronic balance-of-payments deficit, which has been running at over 5 per cent of GNP despite tight exchange and import controls, causing very heavy short-term debts to pile up. The two symptoms are linked. The lack of foreign exchange keeps industry short of materials and spare parts. In Ceylon, as in many other countries, both these imbalances have to be corrected if a high level of employment is to be reached. This requires a big effort to develop new exports—both industrial products and more highly processed forms of traditional exports. It also requires concentrating investment on sectors with low foreign exchange requirements per person employed.

In addition, institutional changes are needed to make Ceylon more responsive to changing circumstances in the future. One requirement is better, more up-to-date statistics, especially on the key issues of structural unemployment. The Government needs information on, for example, whether the length of time school leavers wait before taking jobs is shortening or lengthening, and on precisely what vacancies do exist. More profound sample surveys are needed to probe the meaning and scale of unemployment, to show what jobs people are prepared to take, the pattern of working time in agriculture (especially on the estates), etc.<sup>1</sup>

In suggesting policy measures, we naturally accepted the socialist objectives of the Government. If I stress this point, it is because some international missions find it in principle hard to accept aims such as nationalisation, especially of foreign companies, and make recommendations which in fact amount to a proposal that the government concerned give up its basic strategy. However, this did not turn out to be as crucial a question as one might have expected. The need for far-reaching structural reforms—very far-reaching as regards education, pay structure and land tenure—would face any government set on reducing unemployment, or even avoiding a further increase.

So would the need for some sacrifices. An employment strategy in almost any country (but especially in the straitened circumstances of Ceylon) requires restraints on the incomes of those already in employment.

The Government specifically asked us to work out the conditions for a rapid reduction in unemployment, a need given added emphasis by the April insurrection. Then the policy choices look even more severe.

We took as a starting point the production and employment targets in the draft official plan for 1972-76 and came to the conclusion

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<sup>1</sup> I will not describe here other major administrative changes suggested in the report as necessary to implement an employment strategy. These include steps that would make planning more efficient, the creation of more democratic and effective organs of local government, labour co-operatives and other devices to make the labour market operate more efficiently, and reforms needed to make the public corporations more dynamic.

that special measures would be necessary, additional to those in the plan, if unemployment were to be brought down to moderate levels by 1976.<sup>1</sup>

These measures would include a large-scale rural public works scheme which would supplement and support the land reform we proposed (see above) by building the rural infrastructure needed. Smallholders would be given firm offers of employment under the scheme if they agreed to rent out their land; the land thus released would help the authorities to put together viable farming units. Estate workers and the landless could also be given jobs under this scheme.

But such opportunities would hardly satisfy those with secondary school certificates (especially women). We suggest that some of them might be absorbed in a big expansion of the para-professional labour forces in education and health. Improvements in these services are needed anyway, especially in rural areas, to back up agricultural expansion, apart altogether from reasons of welfare and employment. A particular educational effort would be needed to prepare children on the estates for integration into Ceylonese life.

We also suggest a national youth service. This would not be a grand scheme for youth camps (though these might well be established too). Young people would be considered to be in national service and would, during their first three years of employment, be paid at a rate related primarily to their *age*, not to their *educational achievement*, whatever they were doing, whether working in an organised youth camp or in the civil service or for a public corporation or private employer.<sup>2</sup> Participants in organised youth schemes often feel underprivileged; a universal wage scale for all young workers should help remove such a feeling. It would have other advantages too. It would make possible a big expansion of youth employment; it would also encourage young people to create forms of self-employment (in which their incomes would not be limited). Finally it would make it easier to introduce the lower salary scale mentioned above for new entrants to clerical and administrative grades—and it might well set the stage for some reductions in the salaries and fringe benefits for those already in public service, especially at higher levels.

Implementing an employment programme of this magnitude and correcting the foreign deficit will require a very large fiscal programme. Although anybody, especially a foreigner, who suggests a reduction in the rice subsidy, takes on a great responsibility, it is difficult to see how a

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<sup>1</sup> We had originally hoped to help the Ministry of Planning and Employment prepare an employment-oriented five-year plan, so as to avoid duplication and confusion due to two programmes appearing in quick succession. Since such co-operation proved administratively difficult, we decided to accept the projections of the Ministry as a base for our work too.

<sup>2</sup> In the latter two cases, the employer would pay into a fund the difference between this rate and the going wage; the fund might be used (following an Algerian example) to finance employment creation schemes.



substantial reduction can be avoided, especially since Ceylon still depends heavily on imported rice.

Our report suggests that the money saved should be spent not only on employment creation but also on more selective measures to help the vulnerable sections of the community (young children, those on national assistance, etc.). The result could be to raise, not lower, welfare. Another part of this package would be increased taxation on the rich, and an increase in the premium paid on imports of goods other than foodstuffs, so as to remove hidden subsidies on capital equipment and non-essential consumer goods.

While wage restraint would be needed in a long-term employment strategy, it would have to be much tighter if a high level of employment were to be reached in (say) five years. In fact, virtually all of the rise in consumption would be absorbed by those newly employed and no increases in real income would be possible for those at present in jobs; indeed, for many in clerical and administrative jobs, a decline is indicated. The effect would of course be mitigated for some of those with jobs by the fact that they would no longer have to support unemployed members of their household. But still, it would be a hard policy to implement, requiring the co-operation of workers' organisations and also machinery for setting norms for wage increases.

To list the requirements of a rapid move to full employment is to show how difficult a task it is. I do not think however that we should for this reason have simply said that it was not politically feasible. This is not for us to decide. We answered the question put to us: what would be required to achieve a high level of employment? The severity of the answer reflects the severity of the problem. The results may be of interest to other countries suffering from chronic unemployment, especially if much of it consists of people who have had a good deal of education. Whether the government—of Ceylon or any other country—puts such a programme into effect boils down to a question of how high a priority it gives to the reduction of unemployment, and whether there exists a sufficient basis of political support for measures to achieve this.<sup>1</sup>

The burden of these measures would be very heavy indeed if the rest of the world did not make a bigger effort to help. Apart from all the structural measures indicated above, a country as highly dependent on imports as Ceylon needs relief from the foreign exchange constraint on growth, if large-scale unemployment is to be reduced.

This is in part a matter of trade measures—achieving a proper long-term international tea agreement, selling tea in more highly processed forms, increasing exports of coconut products, exporting manufactures. While these require Ceylon herself to adopt new policies in various fields,

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<sup>1</sup> This question is already raised in connection with the implementation of the Colombia report.

they also require a much more constructive approach by her trading partners.<sup>1</sup>

It is also a matter of aid. The aid received by Ceylon has been very small compared with the effect of the serious deterioration in the terms of trade. Moreover, while much of it has been provided in the useful form of "programme" assistance, i.e. of balance-of-payments support, it still shows familiar defects. Its use has often been tied to the donor's industries, some of it has been extended at interest rates which Ceylon is not likely to be able to pay (except out of more aid) and it has never been guaranteed sufficiently far ahead to provide a basis for planning fundamental solutions. Guaranteeing enough financial aid for this would not be expensive—Ceylon's is a relatively small economy. The success of Ceylon would give many other governments suffering from a similar set of problems the hope that they too could find a solution.<sup>2</sup>

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<sup>1</sup> Another reason for looking on unemployment as a world problem is that there is some tendency now in the industrial countries to shift the burden of unemployment overseas by raising barriers to imports.

<sup>2</sup> Financial aid would need to be supported by a co-ordinated programme of technical assistance designed to support the basic structural reforms, especially in education.