

## **Labour Supply Behaviour and Unemployment: Will the Forecasted Decrease in Labour Supply Solve the Unemployment in Sri Lanka?**

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### **Abstract**

*Unemployment in Sri Lanka has been remaining in height from the mid 1950s, recording the highest level in the 1st half of the 1970s decade. The rapid population growth in the post war years and resulting labour force increase in the 1960s and the 1970s has been identified as a major reason for appearing such high level of unemployment in that era. However, the population growth started showing a rapid decline from the 1980s onwards giving rise to a reduction of labour supply in the ensuing years. Further, demographic experts too have forecasted a continuous reduction of labour force in the coming decades. Thus, some economic observers now expect that in a scenario of a declining labour force, if the current rate of economic growth is, at least, maintained full employment may become a reality in the coming two decades. On the contrary, this article presents some strong facts to challenge this optimistic view. Accordingly, the paper argues that the expected labour supply reduction may be held back by a possible increase in the labour force participation in coming decades which currently remains at a low level compared to the developed and the fast developing countries. Also, it doubts that the economic growth similar to the present level may generate a comparable level of employment in the coming decades because of the continuation of the factor market distortions which may encourage employers to choose more labour saving technologies. Hence, the gap between labour supply and labour demand cannot be narrowed down as expected, and, therefore, the paper emphasises that there is not a simple formula to solve high unemployment in Sri Lanka. Instead, viewing the whole problem of unemployment in terms of a production function, the paper suggests: a) increasing the employment of labour inputs by removing factor market distortions and the remaining mismatches; b) improving skills development through enhancing the quality of education; c) practicing human resource functions at firm levels, particularly through training the new recruits to be matched with their job requirements and; d) acquiring a higher output by following a correct trade policy with making a conducive macro environment.*

**Key words:** Unemployment issue, Demographic transition, Labour force, Skills mismatch, Capital-labour ratio, Factor market distortions and Human resource function.