

Skills Mismatch Hypothesis and its Relevance in Explaining the Current Unemployment in Sri Lanka

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Unemployment in Sri Lanka throughout the last few decades has been extremely high compared with those in most of the countries in the Asian region, which have been following open market policies similar to Sri Lanka. In analyzing the unemployment problem 'skills mismatch' hypothesis, first articulated by the ILO Mission to Sri Lanka in 1971, is still highly influential. Those who stress the orthodox view of the mismatch hypothesis believe implicitly that although the economy has employment opportunities, jobs expected by a large amount of job seekers are not adequately found or they do not fit into the prevailing jobs. Particularly the private sector business leaders ascribe this mismatch primarily to the weakness of the educational structure of the country. However, new evidence appears to believe that rigour of mismatch hypothesis has faded away. In this setting, this paper aims at challenging the majority view that mismatch is responsible rather than the lack of employment generation in the economy to appear a high level of unemployment in the country.

The paper, mainly depending on various sources of secondary data, found that the mismatch hypothesis is still relevant in some areas. Accordingly: i) a high percentage of the unemployed desire employment in professional, technical and clerical occupations although in the current employment profile these three categories comprise only a lesser percentage of all the employed; ii) the analysis of the profile of expectation reveals that expectations for higher level jobs rise with increasing education; and iii) long-term unemployment is most conspicuous among those who have obtained higher educational qualifications. Contrary to the majority view, it is found that i) unemployment in all educational levels shows a considerable decline with nearly the same rates over the years; ii) the unemployment rate of females throughout the past period shows a faster declining; iii) the university education system, particularly in the last decade or so, has been geared to give more skills to graduates; and iv) the employment creation by the formal private sector as the engine for growth has not sufficient to catch up job loss in the public sector after 1990, and absorb new job seekers considerably to the formal economy. Consequently, the paper concludes that the strength of mismatch hypothesis has now considerably faded away, and failure to create a sufficient amount of employment by the private sector led economy is largely responsible for the current high unemployment level of the economy.

Key words: Skills mismatch; Unemployment; Status of employment; Labour market

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