



## **Pathfinder Foundation Election Myth Buster #3**

### **Should the Government be the ‘employer of first resort’?**

#### **Politicising youth employment**

In the early years after independence, it was generally accepted that the government’s role was limited to providing defence, national security, revenue collection and a few other basic services. In sectors such as education and health, employment was provided both by the government and the private sector. From the late 1950s a combination of a severe decline in the terms of trade and the inappropriate economic policies of successive governments resulted in low investment and slow growth making it difficult for the economy to absorb the increasing numbers of youth leaving school or graduating from universities. The increasingly statist response to these pressures led to the government becoming more directly involved in employment creation. The 1971 Insurrection also generated political pressures which gave added momentum to the government’s role in this regard.

At the early stages, government owned enterprises, especially the Ports Cargo Corporation, Ceylon Transport Board and the Ceylon Government Railway, were the most notable victims of the short sighted policies of providing employment for political party loyalists. This opened the doors for large-scale political appointments, politically motivated promotions and even politically engineered dismissals of employees. The process accelerated over the subsequent decades and today most Sri Lankans believe that:

- i. It is the responsibility of the government to provide jobs.
- ii. Everyone who leaves school, particularly the local graduates, must be ensured employment by the government, especially, if they are unable to enter the job market through a competitive process of competence tests and interviews.

This political patronage based employment creation has led to the belief among the ordinary citizens and politicians, driven by self-interest and expedience, that the government has to be the ‘main’ source of jobs.

#### **Election Manifestos and Unrealistic Promises**

Every election manifesto now carries a distinct pledge to provide employment for the hundreds of thousands of youth in the country who are entering the job market every year. Such promises then have to be implemented through a number of lop-sided programs, such as the graduate training scheme, wholesale recruitment to the public service with no testing of skills or interviews and other backdoor recruitment schemes.

With the upcoming elections and publication of election manifestos, people of this country are once again being exposed to the ‘myth’ that the government has to create employment for thousands of youth. Fortunately, quite contrary to their deceptive and misguided employment generation proposals, all major parties now also express their belief in the market economy in one form or the other. Productive and value creating jobs are primarily generated by individuals or corporates seeking to produce goods and services in a competitive environment.

The Pathfinder Foundation (PF) acknowledges that any nation needs a certain number of government employees to provide the previously mentioned basic services. However, if and when the government goes beyond this fundamental requirement it creates unproductive employment and an inefficient, wasteful and extremely bloated public service. Sri Lanka’s public service (numbering 1.5 million) currently accounts for 15% of the workforce. This number is comparable with crisis-ridden Greece. In addition, it is noteworthy that by next year expenditure on public service salaries and pensions (there are 500,000 pensioners) will amount to Rs. 1 trillion per annum. Public service emoluments alone account for about a third of total government recurrent expenditure.

### **Is Government job creation destroying other jobs?**

We have to question the notion that government job-creation generates an increase in the overall employment level. For this purpose, let us assume that the Sri Lankan government can generate 10,000 jobs by investing Rs. 1 billion in road construction. One can then argue that the non-spending of such an amount by the government will lead to foregoing the 10,000 jobs. Unfortunately, nobody in this country discusses or debates how the government spending in one sector negatively affects employment in the other sectors of the economy i.e. the opportunity cost. As an internationally reputed economist once mentioned, ‘these effects are important but, unfortunately, less visible as they are spread among hundreds if not thousands of employers.’

The government needs to generate revenue or borrow for spending on roads or any other activity for job creation. One way or the other, the government is compelled to increase income and/or corporate taxes resulting in the contraction of consumption and production in all sectors affected by taxation. This, in turn, reduces the overall level of employment in the economy. In addition, if the government keeps borrowing, there will be an increase in the price (interest rate) of lendable funds which reduces investment in the private sector. Consequently, fewer factories, machines and homes will be built. In addition, less and less of other goods and services will be consumed. The ultimate outcome will be lower employment – loss of more productive jobs. Another source of government funds is printing money through the Central Bank. This leads to price increases that will deter investment and consumption as well as erode the purchasing power of the Rupee. All of this result in the loss of higher productivity employment thereby increasing overall unemployment and diminishing the capacity to sustain rises in real incomes.

As one economist said, the bitter truth was that the political appeal of government spending stems from the fact that the jobs created are noticeable to the average voter. However, the

handful of jobs lost in every nook and corner of the economy, ultimately amounting to large numbers of productive employment opportunities, are not attributed to the adverse effects of government spending on unnecessary jobs.

### **Realistic Approach to Job Creation**

Promises and commitments given by the political parties regarding job creation should be matched by a clear indication of the ways and means of achieving these. They are not able to do this as the fiscal space does not exist to fund these myths. They should, therefore, be willing to announce publicly that the role of the government is not to play the role of provider of employment rather it should be the creator of a conducive environment for individuals and enterprises to capitalize upon their entrepreneurship, innovation and creativity to implement business plans that will ultimately generate productive job opportunities adding value to the economy. In this regard, election manifestos or promises that do not adopt a pragmatic approach to creating a sustainable business-friendly environment have no value to the people of this country. In the current context, Sri Lanka needs specific policies and programs which will reduce bureaucratic and regulatory constraints that impact negatively on businesses getting off the ground. These specific policy actions include:

- i. Attracting prospective local and foreign investors through predictable and consistent policies, including stable macroeconomic fundamentals, particularly a prudent fiscal outcome.
- ii. Obtaining construction permits within a few weeks rather than months and years.
- iii. Speedy enforceability of contracts and agreements.
- iv. Reducing delays in import, export and transshipment of goods.
- v. Transparent and efficient tax administration.
- vi. Efficient and speedy allocation of state owned land (as 80% of land is owned by the state) for local and foreign enterprises.
- vii. Improvement of capital markets.
- viii. Digitalization of government service delivery to improve productivity and reduce delays, corruption and malpractices.

### **Declare Specifics and How to Fund the Programs**

The PF strongly recommends that parties, which have already declared their policies, should follow with an addendum detailing specific measures that they will undertake to generate new employment opportunities. Ideally, this should indicate time-frames for implementation. Unless such specific time-bound measures are declared, the average voter in Sri Lanka has no reason to believe in the unending promises of the politicians who have been far from truthful in the past.

Your comments are welcome at

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