

Increasing unemployment and food price inflation in Sri Lanka

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The unemployment rate

The recent labour force survey of the Department of Census and Statistics shows 43,446 jobs lost and women accounting for over 72% of the layoffs during second quarter of 2020. The total number of employed workers fell to 7.98 million in June from 8.02 million in March 2020.

However, in spite of the decline in employment the unemployment rate according to the Statistics Department remarkably declined from 5.7% in March to 5.4% in June 2020. A decline in employment should inevitably increase unemployment unless those who lost jobs were siphoned off from the workforce.

This is demonstrated by the survey managing to reduce total unemployed persons by 24,813 from March to June by assuming that 68,259 of those who lost employment are not seeking new employment enabling the Statistics Department to show a declining unemployment rate when more people are in fact losing jobs.

The definition of unemployment states that an unemployed person should seek new employment to be categorised as unemployed and to be part of the workforce. If not such individuals are excluded from the unemployed and also from the workforce, which in turn reduces the labour force participation rate. Hence, in order to reduce the unemployment rate when job losses are rising the labour force participation rate must be artificially brought down.

This practice is reflected in the survey by labour force participation rate falling from 51% in March to 50.2% in June 2020 indicating that the labour force participation rate was manipulated to portray a lower rate of unemployment when in reality job losses are increasing. It is delusional to assume that those who lost employment due to coronavirus pandemic are not seeking new employment.

Assuming that data presented by the department is accurate in the second quarter of 2019 and if those who lost employment during second quarter of 2020 are included within the ranks of the unemployed and therefore within the aggregate workforce, the rate of unemployment will be approximately 7.5%, significantly higher than what the Department of Statistics wants us to believe.

A lower unemployment rate is important to maintain prestige and popularity of the Government as it reflects its ability to maintain living standards in the face of an external crisis. It reduces the onus of the Government to provide employment or social security support. Upon inquiry, a statistician at the Department confirmed the above and conveyed that more realistic employment figures will be

published in the quarterly report due this December.

Disguised unemployment and inflation

Apart from manipulated unemployment data the quarterly bulletin also indicates composition of job losses and gains reflecting important shifts in the sectoral flow of labour. From March to June 2020 agriculture sector employment increased 32,397 while aggregate job losses in industry and services were 27,286 and 48,558 respectively. This indicates a reverse flow of labour to agriculture from industry and services and around 43% of the workers who lost employment in non-agricultural sector were absorbed by agriculture.

However, this interpretation is misleading due to two main reasons. Employment in the agricultural sector cannot be increased either without an increase of the extent of land cultivated or/and without a reduction in sector's capital to labour composition, i.e., without replacing capital with labour. The extent of cultivation cannot be increased suddenly since the new land requires preparatory work and also access to irrigation. It is highly unlikely that both these requirements were met during the period.

Secondly, if the extent of land under cultivation remains the same an increase of productive employment in agriculture requires a reversal of the capital to labour ratio and hence a replacement of capital by labour.

For instance, in terms of paddy agriculture weedicides will have to be replaced by hand weeding, chemical fertiliser will have to be replaced by labour intensively produced organic fertiliser, broadcasting seeds will have to be replaced by transplanting and harvesting machinery have to be replaced by workers on sickles. It would be also environmentally beneficial, would improve the soil condition and also reduce the foreign exchange outflow from imported agricultural inputs in the short term. However, we did not witness such transformation in the pattern of cultivation in Sri Lanka during the period.

In fact, despite the movement of surplus labour from non-agriculture to the agricultural sector, food inflation increased sharply following the lockdown and is still persisting. Food inflation ranged between 10% and 16% this year and was 10.3% in November indicating that more labour was absorbed in agriculture without an increase in aggregate output [\[1\]](#). This in turn reduces the per worker output and also more importantly the marketed agricultural surplus.

Higher absorption of labour without a corresponding increase in output will reduce the marketed surplus which will be consumed within the agricultural sector and reducing its availability outside the farm gate. Therefore, in spite of the demand for and aggregate supply of agricultural output remaining the same the price of food tends to increase significantly reflected by higher food inflation in the face of increase in agricultural employment. That means to say that although aggregate supply and demand remained more or less unchanged the reduction of the marketed surplus would cause an increase in the price level of agricultural output [\[2\]](#). This is amplified by the monopsonistic structure of exchange relations in Sri Lanka's agriculture.

These sectoral shifts in labour indicates an increase of 'disguised unemployment'. That is to say the employment level increases or unemployment level decreases while national income remains unchanged, which in turn lowers per capita wage income or redistributes the existing output among a greater number of employed people. Hence, increase in employment in the agricultural sector indicated by the quarterly report can be understood as an increase in 'disguised unemployment', a concept developed by Joan Robinson to explain trends of employment during periodic economic crises.

Increase in disguised unemployment in agricultural sector is also indicated by the specific changes in the composition of employment within the agricultural sector according to the survey data. Contributing family workers and own account workers (peasantry) together increased by 57,506 while wage workers reduced 22,767 during the period under review. This indicates that the ratio of family labour to wage labour increased significantly and aggregate employment in agriculture shifted towards its subsistence form from monetised relations reducing cash incomes while aggregate output remaining more or less the same.

Further, employment in industry and services is not seasonal and also aggregate wage incomes in the sectors are higher compared to agriculture. Therefore, the loss of employment in the two sectors and shifting around 40% of it into agriculture would sharply reduce aggregate labour incomes in addition to the effect of job losses.

A similarly interesting trend can be seen in the non-agricultural sector employment composition. The composition of employment shifted towards employees (workers) from own account workers, employers, family workers and public sector workers, i.e., broadly the lower middle class.

Surprisingly, workers in non-agricultural sector increased as much as 43,805 while employers, own account workers and family workers declined sharply by 18,955, 75,683 and 7,270 respectively. This means to say that a section of the small scale business owners and operators, independent individual workers and family workers, broadly the petite bourgeoisie, slipped into the ranks of the working class within the non-agricultural sector, causing a shift in the class composition in a way that increased social inequality.

Further, increase in money supply due to ongoing debt monetisation would not cause food prices to increase given that wage incomes had stagnated during the year and the increased supply of money did not increase the purchasing power of the masses in a way that exceeds production. Debt monetisation largely increased excess liquidity in the banking system rather than purchasing power of the masses.

This indicates that food inflation we are currently experiencing is not driven by demand and supply forces, but is triggered by institutional conditions governing exchange relations and the specific structure of Sri Lanka's labour market. Increasing monopoly power of traders drawing away capital out of the rural sector without reinvestment in the cultivation process is an important feature in Sri Lanka driving up food prices while keeping farm gate prices low.

Impact of higher food prices is disproportionately felt by the non-agricultural population. Private sector wages in services and manufacturing were reduced by employers citing the ongoing economic contraction. However, there is credible information to support that manufacturing firms especially in the Export Processing Zones (EPZ) forced workers to work 12 hour shifts six days a week without compensating for overtime work. Other entitlements such as access to healthcare and sanitation were withdrawn by owners leading to the second wave of coronavirus pandemic in Sri Lanka.

Manufacturing firms in EPZs lowered the value of labour by taking advantage from the economic fallout of the pandemic. International brands who also inspect the standard of working conditions of the suppliers would have relaxed their conditions or delayed enforcing them under the prevailing situation. This would have also created the necessary institutional space to lower wages and deteriorate working conditions by the factory owners in EPZs.

In Sri Lanka, lengthening of the working day and increasing intensity of the labour process remains the dominant mode of raising profits by the business elite as opposed to scientific reorganisation of production processes. Extraction of absolute surplus value as opposed to relative surplus value

predominates indicating preservation of the underdeveloped character of the economy by the mode of surplus appropriation.

A Special Correspondent

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Footnotes

[1] Output of coconuts reduced 11.3% in Jan-Aug 2020 (CBSL) possibly due to approximately 50% drop in export prices in 2019 and reduced availability of fertiliser. Increase in coconut oil and coconut milk export volumes by 34% and 30% respectively in Jan-Aug 2020 (Coconut Development Authority) would also decrease its domestic availability and increase the domestic market price of coconuts. Output data of other crops except tea and rubber is not available for the period.

[2] Increased degree of monopoly control of both consumers' and producers' markets by few largescale traders and the destruction of the agricultural surplus appropriated in this way outside the cultivation process in agriculture is the fundamental reason for higher food prices in Sri Lanka among other organisational issues.