COMPARATIVE STUDY OF THE FACTORS ASSOCIATED WITH WAGES AND WAGE DIFFERENTIALS OF GRADUATE EMPLOYEES BETWEEN PUBLIC AND PRIVATE SECTORS IN SRI LANKA

Madumali D.W.S[1]

Department of Economics and Statistics, Sabaragamuwa University of Sri Lanka, Belihuloya, Sri Lanka[1],

Samaraweera G.R.S.R.C.[2]

Department of Economics and Statistics, Sabaragamuwa University of Sri Lanka, Belihuloya, Sri Lanka[2],

ABSTRACT

The main objective of this study is to analyze the differences in earnings between the Public and Private sector graduate employees in Sri Lanka using a sample of 1,421 graduate employees derived from the secondary data in the Sri Lanka Labour Force Survey, 2018. The study used the Endogenous Switching regression model to comparatively study the hourly log earnings between public and private sector graduate employees and their wage differentials under employment switching behavior. The model concludes that being male, being an urban resident, having a non-arts degree, having managerial or professional employment, have significant positive relationships with the earnings of both private and government employment while having post-graduate employment increases earnings only in the public sector. Age squared has an impact on public sector earnings showing increasing returns. Selecting government employment was positively affected by age and being married while being male, being urban and having a non-arts degree have a significant negative association with that, according to the selection function. According to the conditional predictions of the model, switching from the public sector to the private sector will increase earnings of graduates while switching from the private sector to the public sector reduces their log hourly earnings. However, graduates are still willing to move from the private to the public sector, as a result of other non-wage benefits that ensure employment and income security. Reforms in the private sector regarding non-wage benefits including attractive social and employment security options aligned to decent work goals under sustainable development goals are needed to increase attraction towards private sector jobs among Sri Lankan graduates.

KEYWORDS: *Wage, Wage Differentials, Endogenous Switching Regression Model, Public Sector Vs. Private Sector*

Corresponding Author: Madumali D W S E, mail: *dedduwawithanage@gmal.com*

1. INTRODUCTION

Human capital stock has a significant impact on all aspects of growth and development perspectives of a country, leading to the achievement of maximum utilization of the limited physical and human resources. The free education policy practiced in Sri Lanka over 75 years caused the creation of a highly capable, educated workforce in the country and the ultimate outcome of this is the graduates produced by the State universities. Although private sector institutions have rapidly involved themselves in the higher education system within the past decade, by continuously enhancing the opportunities for higher education for the majority of school leavers in Sri Lanka, State universities play a major role in the human capital generation process even at present. Although graduates enter the market with their own different horizons and objectives to shape their life journeys, they face some issues regarding the availability of suitable employment opportunities in line with their education. Employment opportunities available for graduates are generally low because of mismatches between the demand for the labour market and education in Sri Lanka (Senarath et al., 2017).

According to the Sri Lanka Labour Force Survey (2019), the highest unemployment rate was recorded for the educated youth for many years. Out of the graduates unemployed, 54.8 per cent are arts graduates while the rest was represented by the 'all other non-art degree programmes'. Higher expectations of minimum wage levels also affect the long wait for employment. Wages and job security play major roles in the choice of graduate employment between the public and private sectors in Sri Lanka, and the graduates' decision making for selecting and switching employments experienced a similar pattern with graduate schemes offered by the governments. Most of the private sector employed graduates are also switching their employments from the private to public sectors during occasions of implementing graduate schemes in Sri Lanka.

In 2015, the government of Sri Lanka recognized that the country "National Human Resources and Employment Policy" was essential to solve the problem of "wages and believed in ensuring productivity and decency of employment through a carefully designed wage policy (Secretariat for senior ministers: Sri Lanka, 2015)". Burdett and Mortensen (1998) stated that the higher wage rate will attract a larger, steady-state labour force. Well-known efficiency wage theories in economics also explain the importance of paying higher wages for employees than the market-clearing wage to give a proper incentive for the worker to extract their maximum capacity. High recruiting and monitoring costs were reduced by the firms as a result of providing high wages, according to Shapiro and Stiglitz (1984). However, global financial crisis, growth of global real wages shows a fall in 2017 was not only less than in 2016, although fell to growth rate is lowest since 2008, staying far lower the levels obtaining in 2006 or 2007 according to the Global wage report (2018). According to the Central Bank Report (2018), the real wages of both formal private and public sectors in Sri Lanka eroded in 2018 when compared to 2017 and nominal wages is increasing from this period. Based on the statistical evidence, the nominal wages of public sector employees was increased marginally by one per cent in 2018 while their real wages declined marginally by two per cent in 2018 when compared to 2017 (Central Bank Report, 2018). On the other hand, nominal wages of the employees in the informal private sector was increased marginally by 0.6 per cent in 2018 while their real wages declined marginally by 3.5 per cent during 2018, when compared to 2017 (Central Bank Report, 2018).

The private sector provides higher wages for university-educated workers according to Adamchik and Bedi (2000). Education, gender, marital status, age and occupation are the factors of wage differentials in most of the countries and female employees are negatively affected by the wage levels when compared to men, thus wage installment is unequal paid within the sector (Meiyan, 2005). According to Kumara (2015), found that education is a positive impact on earning of the private sectors. And also, when increasing one additional year of schooling, the hourly of wage is increasing with 9% approximately. Further Bowlus and Grogan (2009) stated that gender wage differentials were mainly affected on the differences of education and hours of work. Age, race and sex are considered causes of high wage differentials and the

wage differentials is high among high college leavers and graduate employees and between high school leavers and graduate employees (Murphy and Welch, 1989).

In Sri Lanka, literature and empirical studies examining factors associated with wage differentials of graduate employees between private and public sectors are limited. The main objective of this study is to conduct a comparative study on the factors affecting the earnings and earning differentials among graduates in the public and private sectors in Sri Lanka. It further discusses the impact of wage changes as a result of the switching behavior of graduate employees from private to public employment and vice versa. The research findings will be significant to government and private sector institutions for the purpose of effective employment policy formulations.

2. LITERATURE REVIEW

The literature review of this study consists of both theoretical and empirical reviews. Theoretical literature explains three main concepts while empirical literature formulates three hypotheses for this study. Firstly, theoretical literature presents a review of the aspect of efficiency wages. According to the

Efficiency wage theory, the productivity of a firm is affected by the wage of employees. Moreover, the positive relationship between employee productivity and wages was further established by Campbell and Kamlani (1997). In addition, higher wages in comparison to the market wage causes to increase employee efficiency and to decrease employee turnover (Shapiro and Stiglitz, 1984). According to researchers, the efficiency wage highly affected to attract the most productive workers to any private or public institution.

Secondly, the wage is an important control variable in making critical employment decisions, with risk and uncertainty being high employment efficacies as well. US economistic, Kaufman (1989) discussed the Hedonic wage theory to explain the nature of long-term wage differentials in the aspect of risk-taking. The main focus of that is to understand the impact of risks in the jobs as a result of the possibility to get injured on wage inequalities. As a result of the existence of a positive

relationship between wage and risk of injury, workers are willing to accept a high-risk job only if they are paid a higher level of wages.

Thirdly, the Theory of human capital that provides the importance of education and training on earning profile is another key aspect in the theoretical literature (Dagume and Gyekye, 2016). The essence of this theory is that the expenditure on education and training are important investments that individuals make to sharpen their marketable skills and productivity (Dagume and Gyekye, 2016). Individual differences in the years of schooling and length of on the job training were the key forces under the explanation of Becker (1985). The large size of earning differentials encourages more human capital development and higher earning gaps were not seen among qualified workers and graduates leading to discourage investment in human capital enhancements. However, in the 1950s, economists such as Mincer, Schultz, and Backer reformulated Smith's insight and developed the human capital theory by matching it with the model labour market aspects. According to that, there is a significant effect on the increase of university enrolments on wages and earnings of university graduates (Mincer et al., 1991). If the net present value of the lifetime income is greater for graduates, then many people will try to obtain degrees to increase their relative wage levels.

Fourthly, there is the Dual labour market theory which includes two different markets as primary (good) jobs and secondary (bad) jobs with a lower possibility to switch in between and with greater labour market segregation. This theory argues that employees in the primary sector use wages to maintain and ensure the key disparities of these two segments. Further, the theory argues that secondary workers are trapped in secondary employments leading to a creation of a vicious cycle of disadvantageous employments continuously for generations. When considering the characteristics of wages under this theory, Primary jobs received higher wage rates than secondary employments while primary jobs generally provided more facilities to employees, such as employment stability, superior technology and good working conditions than that of secondary employments

(Harrison and Sum, 1979). Since most of the graduates generally involve in primary occupations in both public and government institutions, there is a rare probability to involve them in disadvantageous secondary occupations. The duality of this study discussed the differences of the main features of public and private sector employment for graduates, such as wages and job security within the sector of primary occupation (Harrison and Sum, 1979).

The empirical literature on the determination of wages is generally categorized into three categories as demographic factors, socio-economic factors and geographic factors. Among demographic factors, age is a key factor associated with wages, in both private and public sectors in the Chinese Household Income Project 1995 covering 11 provinces and CHIP 2007 covering nine provinces and the result found that 1,995 coefficients of the age factor are statistically significant on wages in both private and public sectors and that 2007 coefficients of age factor are not statistically significant on wages in both private and public sectors, according to Ma (2015).

Further, Lokshin and Sajaia (2004) observed that the age factor causes a statistically significant negative impact on wages in the private sector while that shows an insignificant relationship with wages in the public sector. A German economist, Pfeifer (2011) examined that the age square causes a statistically significant and positive impact on wages, showing the increasing returns with age. Age could also be used as a major proxy for the years of experience as well. Since most of the studies create years of labour market experiences, based on the variable of age and the years of education, using both variables of age and experiences will not be possible due to multicollinearity issues.

Gender is the next key demographic aspect associated with the earning profile of workers and that is even common for graduate employees as well. The Global wage report (2018/19) covering 70 countries found that women continue to be compensated roughly 20 per cent lower wages than men globally. Further, the Gender wage gap is wider between high paid workers in high-income countries. On the other hand, the gender wage gap is also getting wider for both low and middle-income workers.

Hyder and Reilly (2005) show that there is a probable wage gap between the genders within the existing private sector than the public sector in Pakistan. More than half of the average wage differential in the typical salary paid for an hour among both private and public sectors represents the differentials of the standard attributes of gender difference (Hyder and Reilly, 2005).

According to Solotaroff et al. (2017), females are having lower wages in Sri Lanka although they are well endowed with education and experience. This was affected by the social norms, cultural beliefs and labour market behaviors of women in Sri Lanka. Mano-Negrin (2000) has found gender as the major determinates of wages in both the public and private sectors among Israeli women managers. Occupation segregation was also identified as one of the major issues for gender based wage differentials, according to Blau et al. [1998] in Agrawal (2021, p.1)]. Based on the above findings of the previous empirical studies, the following first hypothesis was formulated by the study.

H1: There is a relationship between demographic factors and hourly earnings of graduate employees in both public and private sectors in Sri Lanka.

Education & occupations are the leading factors among socio-economic factors. Having tertiary education has a positive impact on the payments of public and private sector employment (Weligamage and Siengthai, 2003). According to Afarian and Kleiner (2003), higher grade point averages earned by the student have significant positive relationships with earnings. Students with higher GPAs earn high marks from IQ and admission tests for most of the high salary employments and that will increase their earning capacity. This will enhance the motivation of students to perform quality work and to promote their intellectual abilities. The area of the degree also affects on the earning potentials of graduates. According to Clifcl and Ulucan (2021) and the wages of law, engineering, manufacturing,

architecture, civil engineering graduates are higher than the education graduates in Turkey.

Nature of occupation is another major determinant of earnings in Sri Lanka. According to Nedlkoska et al. (2018) they found that graduates in the ICT profession employments earn 106% more than technical professionals; Chief executives and production managers earn 33-35% over, engineers earn 25% more; ICT graduate and health professionals earn 24% over than technical professionals (Nedlkoska et al.,2018). Since most of the graduates select teaching as their profession, this base category is important to explain the general considerations in the graduate labour markets. Based on these factors a second hypothesis was developed as follows:

H2: There is a relationship between socio-economic factors and hourly earnings of graduate employees in public and private sectors in Sri Lanka.

Locational and geographical factors are other key considerations associated with earning differentials. According to Agrawal (2021), a large part of the wage disparities in the urban and rural sectors are still unexplained. However, the urban rural segregation in the labour market was mainly affected by the education and occupational profiles of the workers. The wage gap is generally higher in the rural sector than in the urban sector and was mainly affected by the differences in educational attainment by gender (Agrawal, 2021). Based on the above findings of the previous empirical studies, the following third hypothesis was formulated by the study:

H3: Locational factors affect earnings differentials of graduates between public and private sectors.

Research Gap

Most studies explained the determinants of wage differentials at local and international levels in theoretical literature as presented above. Although there are so many studies regarding wages and wage differentials, there are far lesser studies focused on the graduate employees in general. The graduate employees who represent managerial and professional

employments are the top spirit in the labour market and are highly prone to the risk of brain drain due to insufficient wages and poor living standards. The reasons for Sri Lankan graduates seeking government employment were not considered in the aspects of wages and wage differentials. This study will address this gap to propose important policy suggestions to the future labour markets in Sri Lanka.

Problem Statement

Decent work for all is one of the key goals among sustainable development goals which are to be achieved by 2030 in the world context. Wage is one of the key elements in decent work ensuring equal pay for work of equal value. However, there are disparities in wages in Sri Lanka, mainly in the public and private sectors. The majority of workers in Sri Lanka are willing to engage in public sector employment due to the pension benefits, the permanent basis of employment, fringe benefits including paid leave etc. Although the private sector too provides the same or similar types of incentives, the majority has their self-interests to join the public sector in Sri Lanka (Hausmann et al., 2020). This is a common event among the Sri Lankan graduates. Therefore, they prefer to engage in government employment by shifting from the private sector whenever they are provided with employment even via graduate schemes. This research answers the question whether there are any influences of wage differentials on the employment switching behaviour, while comparing the factors associated with wages for graduate employees in both public and private sectors in Sri Lanka. Currently, this has become a serious challenge to the labour market in Sri Lanka and there is a risk of the private sector becoming reluctant to recruit graduates to their institutions because of this switching behaviour. Thereby, this investigation is conducted to comparatively study several factors affecting the wage inequality of graduate employees in the public and private sectors in Sri Lanka.

3. METHODOLOGY

Many researches used the quantitative research approach to identify the factors associated with wage the differential between public and private sectors [Hornstein et al. (2006), Oaxaca (1973), Oboth (2021)

and Weichselbaumer and Winter-Ebmer (2001)]. This research also used the quantitative approach for comparatively identifying the factors that affect the Hourly log wages of graduate employees between the private and public sectors. The hypotheses of the study were already developed under the literature review section.

Secondary data from the Sri Lanka Labour Force Survey 2018 conducted by the Department of Census and Statistics in Sri Lanka was used for the study. The sample frame which is used for the LFS-2018 is prepared as the sampling frame of population and housing units by adopting the two stages stratified sampling procedure. The sample for the study was drawn from the survey which includes 2,073 graduates. This includes 1,578 graduate employees and the rest are unemployed or economically inactive at this moment. The final sample consists of 1,421 Graduate employees after removing the extreme values regarding the earnings. Further sample are divided as public sector denoted by 1043 and private sectors denoted by 378.

The Endogenous Switching Regression Model was used by this study to make a comparison between hourly log wages for graduate employees under two conditions of engaging with the public sector or private sector. Under the study, this model allows to regress the earning functions for both sectors simultaneously by incorporating the section decision of employment into public and private sectors as a probit estimation in the same model with consistent standard errors (Lokshin and Sajaia, 2004).

This is one of the most suitable econometric models to explain the switching behaviour of a certain economic variable such as earning. Demographic, socio-economic and locational factors were used as the explanatory variables to check the research hypothesis of the study.

Most of the research applied this model such as those by Samaraweera and Wijesinghe (2021), Heitmueller (2004), and Van-Ophem (1993) and they have used the Endogenous Switching regression to distinguish differentials in wages and hours. The following model used two regression equations and a with selection function.

If $\gamma^T \mathbf{Z_i} + u_i > 0$ Individual works in Public sector, PS $= 1$

If $\gamma^T \mathbf{Z_i} + u_i \leq 0$ Individual works in Private sector, PS $= 0$

Regime 1: $\ln y_{1i} = \beta_1^T X_{1i} + \varepsilon_{1i}$ If PS=1

Regime 2: $\ln y_{2i} = \beta_2^T X_{2i} + \varepsilon_{2i}$ If PS=0

Where, $\mathbf{X_{1i}}$ and $\mathbf{X_{2i}}$ are vectors of independent variables [including demographic factors (age, age squared and gender), socio-economic factors [education: type of the degree & having post graduate qualification and occupation] and Geographic factors (Residential sector; being urban)]. β_1^T, β_2^T and γ^T denoted by vectors of paramenters. y_{1i} and y_{2i} are dependent variables: Ln hourly earnings of public sector (1) and private sector (0) Ln hourly earnings consist with the earning of primary employment in this study. Being public employee is the dependent variable of the selection function with the explanatory variables of age, age squared, being male, being married, being urban and having non-art degree.

The study further expects to explore the changes of hourly log wages with the mobility of graduate employees from the public sector to private and vice versa using post estimations. Four conditional predictions will be derived as the post estimations of the endogenous switching regression model to explain this more precisely.

4. RESULT AND DISCUSSION

4.1 DESCRIPTIVE ANALYSIS

The researcher used the Endogenous Switching regression model for analysis and this study used the hourly log earning of primary employment as the dependent variable. The mean age for the private sector graduate is lower than that of graduates working in the public sector. The majority of private sector graduates (66 percent) are from the non-art discipline while the public sector only reports 38 percent, showing a considerable difference of graduate employment by the discipline. Male graduates are relatively high in the

private sector than in the public sector. Nearly two-thirds of graduates in both public and private sectors are employed in managerial or professional employment showing the characteristics of primary (good)

employment. The proportions of urban graduates are high in the private sector than the government sector (Table 1.1.).

Table: 1.1. Means and standard deviation of the explanatory Variables

Variables	Total (1421)		Public(1043)		Private (378)	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
Age	39.946	10.136	40.600	8.936	38.140	12.722
Age squared	1698.338	895.708	1728.146	762.471	1616.093	1185.673
Being male	0.439	0.496	0.359	0.480	0.661	0.474
Being urban	0.331	0.471	0.276	0.447	0.484	0.500
Having non art degree	0.454	0.498	0.380	0.486	0.659	0.475
Having post graduate qualification	0.160	0.367	0.170	0.376	0.135	0.342
Having managerial or professional employment	0.672	0.470	0.663	0.473	0.696	0.461
Being married	0.816	0.388	0.862	0.345	0.688	0.464

Note*- Sri Lanka Standard Classification of Occupation - 2008 (SLSCO – 08) was used to classify occupations and the first two ections were considered as managerial and professional employments.
Sources: researcher developed by using LFS data 2018

Base category: Being female, not-having post graduate qualification, rural area, having arts degree, not-having managerial or professional occupation.

According to Table 1.2, this regression shows how the hourly log wage in the public and private sectors varies on various factors. The study of this regression primarily takes in to consideration on several factors affecting public and private sector log hourly earnings and how it effects on wage differentials. This represents the log hourly earnings of public and private sector graduates based on the base category. It has been proven that the log hourly earnings of a graduate in the public sector are higher compared with the log hourly earnings of a graduate in the private sector for the base category.

When considering the demographic variables, age-squared significantly affects the wage level of public sector employees, indicating an age has increasing returns for the earnings. Experience and possible job ladders are relatively high for graduate employees in the public sector, while that is insignificant for the

private sector. Previous researcher estimations show that in both the private and public sectors in 1995, age is statistical, but in 2007 age did not significantly affect the wage in both sectors (Ma, 2015).

Lokshin et al. (2004) also examined that age is statistically significant with a negative sign for the private sector while having a positive sign regarding the same for the public sector. Being a male graduate employee has a positive relationship with the wage level in both the private and public sectors while the rate of increment is high for the private sector than the public sector when compared with the base category.

According to Nedlkoska et al. (2018), the public sector installment is lower than the private sector, where University graduate men earned a 36% installment over A-Levels and University graduate women earned a 25% installment over A-Levels in 2015. Whereas in the private sector, University graduate men earned a 66% installment than A-Levels and University graduate women earned a 128% installment (Nedlkoska et al., 2018).

4.2 ANALYSIS: ENDOGENOUS SWITCHING REGRESSION MODEL

Table 1.2 Coefficient of factors that affect hourly log wages: Endogenous Switching Regression model

Variables	Coef.	Std. Err.	Z	P>z
Ln hourly earnings – Private				
Age	0.0216	0.0217	0.9900	0.3210
Age squared	-0.0002	0.0002	-0.9700	0.3310
Being male	0.1645	0.0712	2.3100	0.0210
Being urban	0.1181	0.0562	2.1000	0.0360
Having non-art degree	0.2067	0.0607	3.4100	0.0010
Having post graduate qualification	-0.0028	0.0680	-0.0400	0.9670
Having managerial or professional employment	0.1732	0.0513	3.3800	0.0010
Constant	4.5471	0.3385	13.4300	0.0000
Ln hourly earnings – Public				
Age	-0.0072	0.0083	-0.8700	0.3830
Age squared	0.0002	0.0001	2.1700	0.0300
Being ale	0.0317	0.0188	1.6900	0.0910
Being urban	0.0371	0.0188	1.9700	0.0480
Having non-art degree	0.1064	0.0177	6.0300	0.0000
Having post graduate qualification	0.0759	0.0211	3.6000	0.0000
Having managerial or professional employment	0.1777	0.0169	10.5200	0.0000
Constant	5.2980	0.1768	29.9600	0.0000
Select-Public				
Age	0.2725	0.0287	9.5000	0.0000
Age squared	-0.0030	0.0003	-9.2200	0.0000
Being male	-0.7089	0.0822	-8.6300	0.0000
Being married	0.3243	0.1105	2.9300	0.0030
Being urban	-0.4572	0.0830	-5.5100	0.0000
Having non-art degree	-0.4677	0.0822	-5.6900	0.0000
Constant	-4.6839	0.5781	-8.1000	0.0000
/Lns0	-0.7569	0.0761	-9.9500	0.0000
/Lns1	-1.3990	0.0221	-63.2700	0.0000
/R0	-0.4968	0.2436	-2.0400	0.0410
/R1	-0.0597	0.1322	-0.4500	0.6520
Sigma0	0.4691	0.0357		
Sigma1	0.2469	0.0055		
Rho0	-0.4596	0.1921		
Rho1	-0.0596	0.1318		
LR test of indep. eqns. : chi2(2) = 3.17 Prob > chi2 = 0.2047				

Note: Level of significance is 0.1 (90% percent of confident level) Source: Researcher developed by using LFS, 2018

Among the socio-economic variables, the Endogenous Switching Regression model found that having non-artsdegrees increase wages in both the government and private sectors, while the rate of increment is high for the private sector when compared with the base category. Further, estimations show that having post-graduate qualification increases wages in the government sector and having post-graduate degrees has a negative relationship with the private sector

function of public sector employment was negatively affected by age-square, being male, having a non-arts degree, being in the urban sector while it has a positive relationship with age and being married.

Therefore, the researcher attempts to study the impact of hourly log wages on the restricted and unrestricted transition from the public sector to the private sector and vice versa, relative to the final objective of the research using the Table 1.3

Table 1.3 Post Estimation of Endogenous Switching model
Source: Researcher developed by using LFS, 2018

Post estimation	Obs	Mean	Std. Dev.	Min	Max
Xb1	1,421	5.5659	0.1754	5.2461	6.4472
Xb2	1,421	5.3550	0.1937	4.9485	5.7365
Yc1_1	1,043	5.5489	0.1649	5.2368	6.3912
Yc1_2	378	5.6129	0.1951	5.2606	6.4473
Yc2_1	1,043	5.2512	0.1669	4.5006	5.5997
Yc2_2	378	5.6421	0.1822	5.1289	5.9467
mills1	1,421	0.4590	0.3896	0.0659	3.7990
mills2	1,421	1.3851	0.5397	0.0007	2.2960

compared with the base category.

The researcher identified how the factor of having non-arts degree is affecting the wages under the findings of previous tests**.** Weligamage and Siengthai (2003) examined that tertiary education has a positive impact on the payments of public and private sectors. Ciftci and Ulucan (2021) also established supportive arguments. Many economists believe that education brings positive benefits, that is, attracting a highly educated person to the company will help increase the company's productivity and hence the company is willing to pay them higher wages.

Further, estimates show that the factor of having managerial or professional occupations increase wages in both the government and private sectors, while the rate of increment is high for the public sector when compared with the base category.

When considering the locational variables, wage levels of both private and public sectors are high in the urban sector than the in rural sector, while the rate of increment is high for the private sector when compared with the base category. Under this study, the selection

Xb1 $\longrightarrow$ Unconditional expectation of Hourly log wage of graduate employee in the public sector

Xb2 $\longrightarrow$ Unconditional expectations of Hourly log wage of graduate employee in the private sector

Yc1_1 $\longrightarrow$ Conditional expectations of Hourly log wage, of public sector graduate employee with public sector employment

Yc1_2 $\longrightarrow$ Conditional expectations of Hourly log wage, of public sector graduate employee with private sector employment

Yc2_1 $\longrightarrow$ Conditional expectations of Hourly log wage, of private sector graduate employee with public sector employment

Yc2_2 $\longrightarrow$ Conditional expectations of Hourly log wage, of private sector graduate employee with private sector employment

According to Table 1.3, it is evident that the unconditional expectations of hourly log earning in the public sector are higher than in the private sector. According to the conditional predictions of the model, switching from the public sector to the private sector

will increase earnings of graduates while switching from the private sector to the public sector reduces their log hourly earnings. For example, after the 2020 Presidential election in Sri Lanka, the government provided jobs for graduates and most of the private sector employees shift to the government sector. Shifting employment by graduates from the private to public sector will reduce earnings conditionally according to this study and this was further proved in the literature.

Previous research provided evidence that if a graduate person shifts from the private sector to the public sector; wages will decrease by 5% per cent (Vodopivec and Withanachchi, 2010). The public sector is also advantageous in the aspect of non-wage benefits practiced in the public sector, such as

higher training, pension scheme and job security. This suggests that an employee can earn more money by switching from a public sector job to a private-sector job. Another conclusion is that if a graduate person shifts from the private sector to the public sector, then the level of wages decreases.

5. CONCLUSION AND RECOMMENDATION

The result of the study found that graduates are major contributors to the attainment of human capital and this has a profound effect on the public sector. Due to the low human capital of a worker in the private sector, there is always a reduction in earnings when such a worker moves to the public sector because human capital has a special place in the public sector. According to Mincer (1991), education is a factor that influences the onset and continuing earning of the economy. The investment cost for an additional education year is considered a high return on investment; meaning that higher education moves in line with higher wage levels, which in turn increases labour productivity. Finally, this research has also confirmed that while transitioning between the public and private sectors, earnings increase when an individual transfer from the public sector to the private sector. A comparative study of wage inequality in the public and private sectors in Sri Lanka can make several suggestions in line with the findings.

Furthermore, in line with the concept of the International Labour Organization, the transition from the private sector to the public sector or from the public sector to the private sector should take place to facilitate the concept of decent employment in the future. Non-wage benefits, such as job security, union rights, and compensation policies during a job loss are widespread concepts in the public sector. The Covid-19 pandemic situation is a strong example of this from Sri Lanka due to the higher income security face faced by the government employees. That is, the jobs of workers who were employed in most of the businesses in the private sector have faced some issues regarding income and employment insecurity. The major reason for recommending proposals for a secure employment programme in the private sector would be a better solution to overcome the conflict of interests towards private sector employment by graduate workers. Then Ministry of Labour should implement policies and acts to overcome the disparities of income between male and female, mainly in the public sector as found by the study. And also Ministry of Labour should empower the job security of private-sector employees under unexpected risks and uncertainties to improve the trust of highly educated people towards the private sector. Further knowledge, skills, attitudes and mindset of graduates in public universities should be changed in ways to match with the requirements of private sector employments at the curriculum development process.

In addition to employability skills such as analytical reasoning and critical thinking, skills with teamwork, communication ethics in curricula etc. should be implemented in university education and this will help the future workforce to be flexibly adapted and standardized with various labour market demands and required competencies. Finally, graduates should be recruited via comparative examinations and based on the human resources requirements. Such long term recruitment programmes should be prepared for both the public and private sectors after studying the long-run economic and development plans for the next decades.

6. ACKNOWLEDGEMNT

micro-level data from the Sri Lanka Labour Force Survey 2018 for this research.

7. REFERENCES

Adamchik, V. and Bedi, A., (2000). Wage differentials between the public and the private sectors: evidence from an economy in transition. Labour Economics, 7(2), pp 203-224.

Afarian, R. and Kleiner, B., (2003). The relationship between grades and career success. Management Research News, 26(2/3/4), pp 42-51.

Agrawal, T., (2020). Gender segregation and wage differentials in India: the role of educational attainment and occupational choices. International Journal of Manpower, 42(1), pp1-20.

Becker, G., (1985). Human Capital, Effort, and the Sexual Division of Labor. Journal of Labor Economics, 3(1, Part 2), pp S33-S58.

Bowlus, A. and Grogan, L., (2009). Gender wage differentials, job search, and part-time employment in the UK. Oxford Economic Papers, (61(2), pp 275-303.

Burdett, K. and Mortensen, D., (1998). Wage Differentials, Employer Size, and Unemployment. International Economic Review, 39(2), p.257.

Campbell, C. and Kamlani, K., (1997). The Reasons for Wage Rigidity: Evidence from a Survey of Firms. The Quarterly Journal of Economics, 112(3), pp 759-789.

CBSL, (2019). Annual report (2018). Sri Lanka: Central Bank of Sri Lanka.

Ciftci, C. and Ulucan, H., (2021). College majors and wages in Turkey: OLS and quantile regression with sample selection correction. International Journal of Development Issues, ahead-of-print (ahead-of-print).

Dagume, M. and Gyekye, A., (2016). Determinants of youth unemployment in South Africa: evidence from the Vhembe district of Limpopo province. Environmental Economics, 7(4), pp 59-67.

Department of Census and Statistics, (2019). Sri Lanka Labour Force Survey Annual report-2018. Department of Census and Statistics: Ministry of National Policies & Economic Affairs Sri Lanka.

Department of Census and Statistics, (2020). Sri Lanka Labour Force Survey Annual report-2019. Department of Census and Statistics: Ministry of National Policies & Economic Affairs. Sri Lanka.

Harrison, B. and Sum, A., (1979). The Theory of "Dual" or Segmented Labor Markets. Journal of Economic Issues, 13(3), pp 687-706.

Hausmann, R., Nedelkoska, L. and Noor, S., (2020). You Get What You Pay For: Sources and Consequences of the Public Sector Premium in Albania and Sri Lanka. SSRN Electronic Journal.

Heitmueller, A., (2004). Public-private sector wage differentials in Scotland: An endogenous switching model. Available at SSRN 494227.

Hornstein, A., Krusell, P. and Violante, G., (2006). Frictional Wage Dispersion in Search Models: A Quantitative approach, SSRN Electronic Journal.

Hyder, A. and Reilly, B., (2005). The public and private sector pay gap in Pakistan: A quantile regression analysis. The Pakistan Development Review, pp 271-306.

ILO, (2018). Global wage growth lowest since 2008, while women still earning 20 per cent less than men. [online] Available: <https://www.ilo.org/global/about-the-ilo/mission-and-objectives/features/WCMS_650551/lang--en/index.htm> [Accessed: 26th November 2018].

ILO, (2018). Global Wage Report 2018/19: What behind gender pay gaps? Geneva: ILO, p.2.

Kaufman, (1989). The Economics of Labor Market. 3rd ed. USA: the Dryden Press.

Kumara, A., (2015). Wage differentials in Sri Lanka: the case of a post-conflict country with a free education policy. International Journal of Education Economics and Development, 6(4), p.343.

Lokshin, M. and Sajaia, Z., (2004). Maximum Likelihood Estimation of Endogenous Switching Regression Models. The Stata Journal: Promoting communications on statistics and Stata, 4(3), pp 282-289.

Ma, X., (2015). Economic Transition and Wage Differentials between Public and Private Sectors in China. China-USA Business Review, 14(10).

Mano-Negrin, R., (2000). Israeli women managers and public/private sector wage determination. Women in Management Review, p.15.

Meiyan, W., (2005). Gender Wage Differentials in China's Urban Labor Market [J]. Economic Research Journal.

Mincer, J., (1962). Labor force participation of married women: A study of labor supply. In Aspects of labor economics Princeton University Press.

Mincer, J., (1991). Human capital, technology, and the wage structure: what do time series show? National Bureau of Economic Research, No. w3581.

Murphy, K. and Welch, F., (1989). Wage premiums for college graduates: Recent growth and possible explanations. Educational researcher.

Nedelkoska, L., O'Brien, T. and Stock, D., (2018). Does the Sri Lankan economy need more university graduates? Centre for International Development at Harvard University.

Oaxaca, R., (1973). Male-Female Wage Differentials in Urban Labor Markets. International Economic Review, 14(3), p.693.

Oboth, A., (2021). Determinants of Wage Differentials in Uganda. Case Study Maganjo Grain Millers. (Doctoral dissertation, Makerere University).

Pfeifer, C., (2011). Risk aversion and sorting into public sector employment. . German Economic Review, 12(1), pp 85-99.

Samaraweera, G.R.S.R.C. and Wijesinghe, M.D.J.W., (2021). Social Media Addiction of Employees: Does it Affect Labor Supply?. SLJER, 8, p.97.

Secretariat for senior ministers: Sri Lanka, (2015). National Human Resources and Employment Policy-Sri Lanka, Colombo.

Senarath, S.A.C.L., Patabendige, S.S.J. and Amarathunga, S., (2017). Sri Lankan Graduate Labour Market: A Status Mismatch. Journal of Economics.

Shapiro, C. and J. Stiglitz. (1984). "Equilibrium Unemployment as a Worker Discipline Device." American Economic Review 74, June.

Smith, S., (1976). Pay Differentials Between Federal Government and Private Sector Workers. . Industrial And Labor Relations Review, 29(2).

Solotaroff, J., Joseph, G. and Kuriakose, A., (2017). Getting to Work: Unlocking women's potential in Sri Lanka's labor force. World Bank Group.

Sri Lanka Standard Classification of Occupation – (2008) SLSCO – 08 , www.statistics.gov.lk/ref/classiOccupation-2008

Van- Ophem, H., (1993). A Modified Switching Regression Model for Earnings Differentials between the Public and Private Sectors in the Netherlands. The Review of Economics and Statistics, 75(2), p.215.

Vodopivec, M. and Withanachchi, N., (1993). School-to-Work Transition of Sri Lankan University Graduates. The Challenge of Youth Employment in Sri Lanka, pp115.

Weichselbaumer, D. and Winter-Ebmer,, R. (2001). The effects of markets, politics, and society on gender differentials.

Weligamage, S. and Siengthai, S., (2003). November, Employer needs and graduate skills: the gap between employer expectations and job expectations of Sri Lankan university graduates. In 9th International conference on Sri Lanka Studies. Matara, Sri Lanka.