

Earning Differentials During the Economic Crisis: With Special Reference to Job Sectors in Sri Lanka

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This research examines the earning differentials among workers by job sectors during the economic downturn in Sri Lanka by comparing the two years of 2017 and 2021 to observe the structural influences of the economic crisis on the labour market. Secondary data from the Sri Lanka Labor Force Surveys in 2017 and 2021 conducted by the Department of Census and Statistics were used for this study. This paper used the Endogenous Switching Regression Model to analyze the data (between Public and formal private sector workers and between informal private and formal private sector workers) for two years. The study has revealed that the years of schooling, age, age square, gender, marital status, residential area, and occupation are key factors of workers' earnings. The results show that the informal sector workers are relatively better off. In comparison, formal private sector and public sector workers are worse off regarding earning differentials in 2017 and 2021, mainly in the gender and residential aspects. Shifting a worker from the informal sector to the formal sector causes to decrease in predicted earnings while it works vice versa for moving from the formal sector to the informal sector during the crisis. This would encourage highly skilled, educated human capital to brain drain due to the insufficient rate of returns to their education. The gender earnings gap for formal sectors has narrowed in comparison to the informal sectors from 2017 to 2021. Structural changes in the working culture after Covid-19 with online working platforms have a greater impact on reducing disparities in gender-specific earnings in the labor market. Possible policy implications for maintaining optimal earnings differentials in the Sri Lankan labor market were suggested as the final contribution of the study.

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