Implications of Investment in Human Capital on Wealth Redistribution: Evidence from Sri Lanka

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Using Quarterly Labour Force Survey data, this paper examines two important issues pertaining to human capital theory in the context of Sri Lanka. The conceptual framework of analysis in this paper is the Mincerian earnings function. In the presence of more than one form of investment in human capital, a rational individual would list out all opportunities in a descending order of rate of returns to investment and choose the one with the highest returns. In this paper, rate of returns to schooling and vocational training are estimated and it is found that in terms of financial returns, vocational training to be worth more than schooling. This suggests that rational individuals should choose vocational training over schooling. It is also found that returns to vocational training and length of schooling are positively related. This finding suggests that the two forms of investment are complementary to each other and it is rational to invest in both rather than choosing the one with the higher returns. High social inequality in terms of gender, ethnicity, and residence are observed in the labour market. Male workers, ethnic Sinhalese, and urban residents earn more than their counterparts with otherwise homogeneous characteristics. Investment in schooling and vocational training reduces the gender gap but only vocational training helps in reducing inequality in terms of ethnicity and residence. In addition to the observed sources of inequality, inequality based on unobserved sources is also expected. To capture inequality based on unobserved sources, the Quantile Regression method was used with the assumption that workers representing lower quantiles are less privileged. As far as the unobserved inequalities are concerned, schooling reinforces the inequality, and vocational training is instrumental in reducing unobserved inequality too.

Keywords: Earnings function, Investment in human capital, Inequality and human capital, Quantile Regression