

Rethinking the skills gap

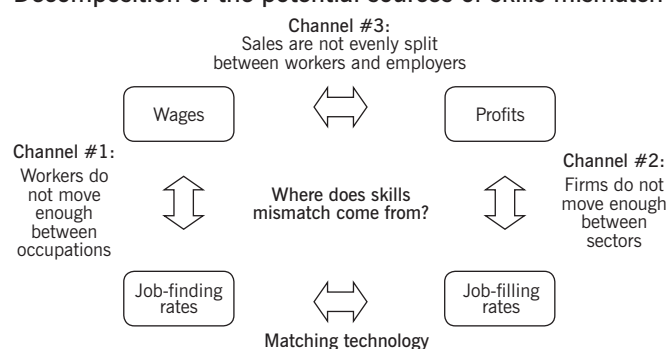
Better understanding of skills mismatch is essential to finding effective policy options

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ELEVATOR PITCH

Evidence suggests that productivity would be much higher and unemployment much lower if the supply of and demand for skills were better matched. As a result, skills mismatch between workers (supply) and jobs (demand) commands the ongoing attention of policymakers in many countries. Policies intended to address the persistence of skills mismatch focus on the supply side of the issue by emphasizing worker education and training. However, the role of the demand side, that is, employers' rigid skill requirements, garners comparatively little policy attention.

Decomposition of the potential sources of skills mismatch



Source: Adapted from [1].

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KEY FINDINGS

Pros

- + Analysis shows that 4% of workers are under-skilled, and 11% are over-skilled for their jobs.
- + Mismatch is an important determinant of productivity and wages.
- + The harmful effect on wages of being mismatched early in one's career is large and persistent.
- + Joblessness in an economic downturn would affect one-third fewer people if the mismatch problem was resolved.

Cons

- Though reliable estimates show that skills mismatch lowers individual workers' productivity, effects on aggregate productivity remain largely speculative.
- Estimates of the effect of skills mismatch on unemployment suffer from serious measurement issues.
- Recent literature indicates that focusing on education and training to boost worker skills may be misguided; rather, firms' situations (e.g. being unable to substitute a niche job with positions that are easier to fill) may be a key determinant of skill mismatch.
- US evidence shows that geographic mismatch has a negligible effect on productivity and unemployment.

AUTHOR'S MAIN MESSAGE

Skills mismatch has large effects on productivity and unemployment, and is therefore an important concern for economic policymakers. Almost all proposed policy interventions suggest reforms of education and training as solutions to perceived shortages of skills, while little attention is paid to the rigidity in employers' job requirements. This is problematic because such reforms, which are often expensive, will be ineffective if employers are over-screening candidates, even when skill supply is abundant. If mismatch instead reflects a restrictive recruitment process, then such barriers of entry for workers will prevent them from getting hired even when they have the right skills.