

# Overeducation, skill mismatches, and labor market outcomes for college graduates

Overskilling or overskilling plus overeducation are more likely than overeducation alone to harm employee welfare

Keywords: overeducation, skill mismatch, overskilling, graduates

## ELEVATOR PITCH

There is evidence that many college graduates are employed in jobs for which a degree is not required, and in which the skills they learned in college are not being fully used. Most of the literature on educational or skill mismatch is based on cross-sectional data, providing information at just one point in time. Drawing meaningful conclusions about mismatch, its dynamics, and its relationship to wages, job satisfaction, and job mobility requires panel data, which can reach more nuanced conclusions by allowing for individual differences, e.g. choosing a job because it offers compensation.

## KEY FINDINGS

### Pros

- + Many college graduates are employed in jobs for which a degree is not required, and in which the skills they learned in college are not being fully used.
- + Empirical analyses based on cross-section data suggest that overeducation is a sign of market failure.
- + These studies find a significant wage penalty and a reduction in job satisfaction for overeducated workers.

### Cons

- Some studies do not allow for individual differences or preferences; if overeducation is an investment in future earning power, mismatches are temporary and require no policy intervention.
- Some choose to work in jobs for which they are overeducated since they offer compensating non-pecuniary advantages.
- Panel data suggest no wage penalty for men who are overeducated or overskilled, and a small penalty for those who are both.
- Overeducated workers find it easier to change jobs than overskilled workers or workers whose jobs and education are well matched.
- Policymakers should focus on reducing the incidence of widespread overskilling, which reduces worker welfare and harms employers' interests.

## AUTHOR'S MAIN MESSAGE

Labor market mismatches (where employee qualifications do not match job requirements or are not used on the job) can result from overeducation or overskilling, two distinct phenomena. Studies that suggest a wage penalty and/or reduced job satisfaction from overeducation do not account for individual differences or preferences and should hence be treated with caution. Panel data show that policies should be more concerned with overskilling, which is likely to be harmful both to the welfare of employees (lower job satisfaction) and the interests of employers (lower productivity).

