Panel session: Skill shortage

Sumon K. Bhaumik

Centre for Economic Development and Institutions

Brunel University, London, UK

Importance

- Growth theory
  - Human capital
- Trade
  - Quality of tradable goods
- Foreign direct investment
  - Ability to attract FDI
  - Ability to absorb new technology transferred by MNCs

Impact

- Loss of competitiveness of economy
- Earnings inequality
  - Premium on skills in labour markets

Reasons

- Out migration
  - More than 30,000 Argentinian scientists *outside* Argentina, and only 15,000 inside the country
  - About 77% of Indians and 88% of Chinese students who receive higher education in the USA stay back in that country
  - During 2000-01 alone, 10% of the registered nurses in Barbados emigrated to other countries
- Supply side constraints
  - While population growth in India averaged just below 2% in the last two decades, and while enrolment in schools increased by 14% over the same period, there was an increase of only 1% in the number of primary and upper-primary schools

Stylised policy prescription

- Greater expenditure on education and training

Demand for education

- Factors influencing decision to acquire higher education
  - Returns on additional education relative to cost
  - Probability of obtaining a job that yields the higher level of return
- Empirical evidence
  - Convex (log) earnings – education profile in countries like India
  - Low probability of upward mobility
- Implications
  - Expected returns on additional education may not be high for people with low-medium level of education
  - Policy may have to target individual incentives

Caveats

- Individual optima may not coincide with social optimum
- Focus on education as a means to eliminating skill shortage involves partial equilibrium analysis
  - Ignores cohort effects and the associated general equilibrium outcomes