

## **Skills Mismatch and All that\***

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One of the most commonly heard platitudes about the labour market in India is that it is characterised by severe “skills mismatch”. And this in turn is presented as the chief problem of the labour market and the main cause of the high rates of open unemployment among the youth as well as persistently low remuneration for those who are forced to remain in informal activities. This approach is summarised neatly in the official website of the [National Skills Development Council](#) of the Government of India: “In rapidly growing economies like India with a vast and ever-increasing population, the problem is two-fold. On one hand, there is a severe paucity of highly-trained, quality labour, while on the other; large sections of the population possess little or no job skills.”

This in turn makes “skill development” the policy of choice for dealing with problems of inadequate employment generation as well as low productivity. The matter is given greater urgency by the fact that the potential advantages of the “demographic dividend” provided by the population bulge that will generate a mostly youthful labour force can be transformed into social disaster if these young people are then unemployed. So it is not surprising that skill development has been among the favoured strategies given significant emphasis by both the previous UPA government as well as the current NDA regime.

Under UPA-2, this was described as a major national priority, such that a special council was created under the direction of the Prime Minister specifically to deal with it. The Prime Minister’s Council for Skill Development set itself the target of developing 500 million skilled workers by 2022. This target was divided among 20 Central Ministries or Departments, half of which were supposed to be directly involved in training programmes themselves, while the other half were supposed to fund external agencies to do the job. All this was to be overseen by the National Council on Skill Development and co-ordinated by the National Skill Development Board. In addition to the public programmes for skill development, there was heavy emphasis on Public-Private Partnerships (PPPs), with the promise of viability gap funding for enterprises and organizations that provide training.

As is usual with the Government of India, the spending under this head led to a proliferation of training schemes without much co-ordination and resulted in all sorts of duplication and working at cross purposes, despite the declared co-ordinating roles of the Council and the Board. And so, in typically Kafkaesque manner, another Committee was set up to examine why this had happened and what could be done about it. So we now have yet another official Report, on “Dovetailing/Rationalisation of Central Government Schemes on Skill Development”, that was released in September this year.

Guess what this Committee discovered, after more than half a year of engagement with the problem? They discovered, first, that there is need for a common definition of skill development and extension work across all government schemes! Clearly, no one in all these Councils and Boards had thought it necessary before this. They also found – surprise, surprise – that it is necessary to link outcomes with skill development, and therefore to monitor and track the post-training record of the

trainees. Once again, this had apparently not occurred to the relevant people before this. Oh wait a minute – it had! Because all this is also contained in the [National Skill Development Policy of 2009](#) – it is just that it was not implemented....

Now we have a new government, and so of course we are to have a whole “new” official strategy for skill development. Prime Minister Narendra Modi has declared that skill development is a top priority of his government as well, to the point to creating a separate Ministry for it, and charging it with ensuring that it is in sync with the much-hyped “Make in India” programme. The existing National Policy on Skill Development is to be revised – though thus far there is precious little information on how exactly this is to happen, or how to ensure that the worthy aims are actually met with equally worthy practice.

The indications so far are that the new policy will effectively be more of the same old policy. There is likely to be even greater emphasis on private sector participation, perhaps through even more viability gap funding – which is really no more than subsidies to the private sector by another name. Once again, the general idea seems to be that skill development is the panacea that will solve the many problems plaguing the Indian employment scene, and when it is combined with the exhortation to “make in India”, it will provide all the expected benefits of the demographic dividend and more.

But there are good reasons to be cautious about such premature euphoria. Of course skilling and education are important and essential – there can be no two opinions on that. But to see lack of skills as the problem holding up India’s development, or inadequate education as the only reason for unemployment or poor quality employment especially among young people, is really to miss the point. It is necessary to look a little more closely at the issue of existing skill gaps to understand the precise nature of the concerns, and the extent of which skilling alone can provide a solution to low aggregate productivity and poor quality jobs.

Three kinds of skill gaps have been identified as important in the Indian labour market. The first is that of “over-education”, when persons with tertiary education (degrees, diplomas and/or some sort of professional training) are hired for jobs that do not require such qualifications. A now classic example is that of signaller in the Indian Railways, a job that effectively requires only education up to Class V, but is hugely sought after by graduates (often with B. Tech. and MBA degrees) because it promises a regular salary with permanent employment, and is therefore rationed out among such over-qualified aspirants. This is not because these people have not been trained or are not skilled, but because the relative remuneration over the life-cycle is deemed to be better even in such low-skilled occupations, and because there are not enough of the skilled jobs to meet the demands of all the aspirants. Ultimately this is a mismatch created by insufficiency of job openings for more skilled jobs – and therefore a failure of the much-glorified market mechanism at the macro level as well as in specific sectors.

A skill mismatch in technical education relates to the situation when people who have been provided technical education (say in engineering) end up in occupations that do not require those skills. This is well known: the phenomenon of young people with civil engineering degrees choosing higher-paid jobs in marketing, or doctors sitting for the IAS examinations to join the elite bureaucracy, and so on. Once again, this is

because market signals generate these perverse incentives, by making some professions significantly more lucrative or socially valorised. This then causes people with such professional or technical education (costly also to society when this training has been publicly provided) to choose activities that effectively waste those expensively acquired skills.

The third kind of skills mismatch is the “quality gap”, when the skills that workers are supposed to possess according to their qualifications are found to be lacking by their employers. This too is quite evident in many places and activities. Surveys of employers, especially those in the corporate sector, regularly reveal that a majority of them are not confident that the existing educational institutions will generate the talents and skills that they require for entry-level workers. This is not about a lack of training per se; rather it is a comment on the nature of the training, which comes not just from specific and dedicated “training institutes” but from institutions of higher education more generally.

The uneven quality of our public educational institutions is well known and much decried. The common response to this is to demand more privatisation, in the expectation that this will deliver better quality and more market-responsive education, even if it will cost more for the students. What is less generally understood is the extent to which our tertiary education system has already become privatised (with more than two-thirds of tertiary enrolment now in private higher education institutions) and the degree to which private higher education is equally if not even more plagued by problems of poor quality and insufficient standards. Further, the overt response to market signals has created huge private sector overcapacity in some areas of professional and technical education. This further reduces the probability of students (most of whom have invested heavily in getting this costly training) eventually finding jobs that meet their aspirations.

So now we have a better understanding of the nature of the skills mismatch in India. It turns out that this is a result of three interlinked factors: not enough skilled jobs; perverse market signals and incentives causing people to shift to jobs that do not require the skills they were trained in; and poor quality higher education generating poor employability. These are not problems that can be solved with more training, especially if the training actually replicates these inadvertently.

Rather, the challenge of good quality employment generation requires a completely different approach, which sees skill development as part of a broader macroeconomic and development strategy that is systematically worked out. In a more rational society, this would point to the need for planning, for both education and job creation. In today’s India, unfortunately, we have at the moment to be content with grandstanding announcements instead.

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