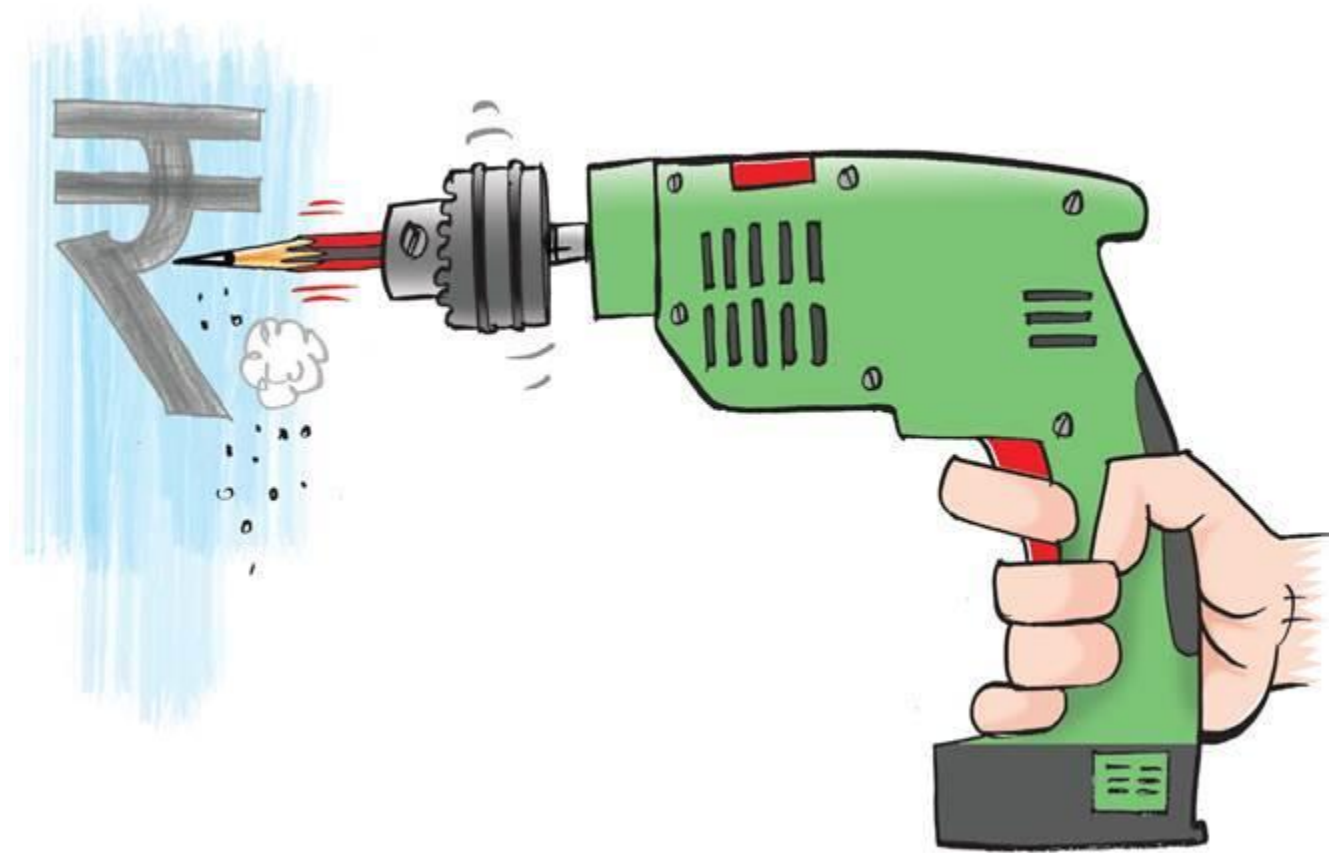


# Return on skill: The widening earnings gap

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Return on skill: The widening earnings gap (Illustration: rohnit phore)

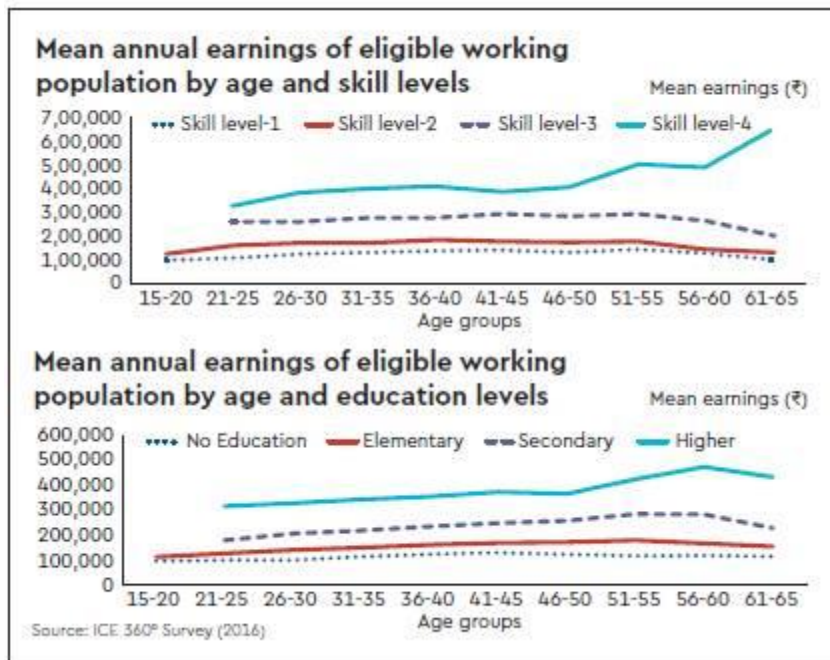
**By Rajesh Shukla, Megha Shree & P Geetha Rani**

The slow pace of job generation has been a major cause of concern and is an issue that will continue to be headlined as the Lok Sabha elections of 2019 approach. However, the quality of employment is a topic that is rarely talked about. The widening gap in the earnings of workers with different skill levels is an important aspect that needs to be looked at from a policy perspective. The lack of studies on the return on skills in the Indian labour market, too, poses

a challenge. To this effect, the People Research on India's Consumer Economy (PRICE) analysis of its comprehensive ICE360° Survey, 2016, data—conducted among 60,360 households—provides key insights into the major determinants of return to skills.

Our data suggests that individuals who are classified as having skill Level 4 have the highest average annual individual income of ₹4,20,000 (\$6,000, based on the average exchange rate in 2019). This is about 1.5 times higher than that of a worker with skill Level 3 (₹2,80,000 or \$4,000). This person's earning is approximately 2.4 times higher than that of skill Level 2 type worker (₹1,76,000 or \$3,000). This worker, in turn, has an income that is 3.1 times higher than that of his skill Level 1 counterpart (₹1,37,000 or \$2,000).

Even within the same employment type, there are significant differences in earnings at different skill levels. A regular salaried earner, at skill Level 4, on an average, makes ₹5,00,000 per year (\$7,000), which is about 2.2 times higher than his counterpart at skill Level 1.



The Indian labour market is currently dominated by skill Level 2 workers (56%) who perform tasks such as operating machinery and electronic equipment. Nearly 30% of the labour force constitutes people with skill Level 1, and are engaged in performing simple routine, physical or manual tasks. About 11% of the workforce are individuals at skill Level 3, and are employed to work with written records, make simple calculations, and use interpersonal communication skills in specialised fields. A minuscule share of the workforce (3%) is at skill Level 4, and

performs tasks that need complex problem-solving, decision-making and creativity-based tasks.

A particular characteristic of Indian labour force is that while the higher skill levels are dominated largely by higher educated workers, casual jobs are offered to those with lower educational qualifications. In the past, there was no advantage for female workers to be highly educated, as it did not translate into higher wage earnings when compared to their not-so-well-educated counterparts. However, in recent times, factors such as age, education, skill levels, gender, sector of employment as well as digital access play key roles in income differentials. These correlations have been established using robust statistical exercises.

Skill and education linkages are critical to assessing returns to skills: The central idea being that there is a premium on higher education and hence better educated workers receive higher earnings. Age is normally associated with the person's experience and thus plays a key role in determining the earnings. At the basic skill levels—i.e. Level 1 and Level 2—the earnings increase with age, but the rate of increase is marginal. Entry-level workers at skill Levels 3 and 4 belong to the age group of 21-25 years, implying that there is a certain minimum education needed to accomplish these higher-order skill levels and, therefore, higher earnings. This further widens the gap between workers at skill Levels 1 and 2 in relation with those at skill Levels 3 and 4 (see the accompanying graphic).

Earnings by levels of education are illustrated with the age-earnings profiles of the population in 15-65 years group. As expected, there is a clear positive relationship between the levels of education and earning as experience and on-the-job training add to increased skill over the years. This relationship is strengthened as one moves up the educational ladder (see graphic). Gender is another key determinant in the earnings differential. Data suggests males earn almost 1.2 times the wages earned by females. This earnings gap gives men an advantage in the overall job market. But there has been a healthy upswing in the share of females being recruited for jobs with higher skill levels. Significantly, there is no glass ceiling in the earnings of men and women at jobs that need higher skill sets.

Digital usage, too, has emerged as one of the prominent factors in the earnings differential. Data shows that, as skill levels rise, ICT (information and communications technology) usage too grows. Besides, the use of internet at the individual level also shows a positive relationship

with returns to skills. The internet-using individual earns more than double that of non-users. For example, if an average Indian earns `100, the ICT user earns `169, while the non-ICT user's earnings are only `80. This is evident across all skill level types. Based on this, one can argue that internet usage plays a vital role in increased earnings.

In conclusion, a substantial share of the population is still at skill Levels 1 and 2 (86%), and is thus earning comparatively much lower than those with skill Levels 3 and 4. This is a huge concern for policymakers as well as the youth of India. There is an urgent need to take a serious look at the education system including technical vocational training in order to correct the anomalies that exist, and enable the growing workforce to respond to the demand for skilled workers as well as improve their earnings.

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