

There is growing interest, worldwide, in the link between education systems and the production of skills that are valued in the labor market. With growth stagnating and unemployment soaring in much of the world, educators are being asked to focus more on producing skills that feed into labor productivity and support the sustainable growth of employment and incomes.

This timely volume contributes important new findings on the dynamics of education systems and labor market outcomes in Latin America and the Caribbean (LAC). It analyzes an important recent shift in labor market trends in LAC: the first decade of the 21st century has witnessed a marked decline in the earnings premia for university and secondary education. This, in turn, is contributing to reduced income inequality across the region. The recent trend contrasts with the sharp rise in tertiary earnings premia that was observed in the 1990s and that helped to reinforce high levels of income inequality in the region at that time.

The authors—a team of education and social protection and labor market economists from the Human Development Department of the World Bank's LAC Region—document this trend through a rigorous analysis of household survey datasets from a dozen countries over the last two decades. They then reflect on the ramifications of the observed shift towards lower earnings premia, asking whether it is good news or bad news for the region.

They conclude that the answer is likely to be a bit of each. On the one hand, the supply and demand analysis presented in chapter three demonstrates that declining premia are related to dramatic increases in the relative supply of skilled labor (in particular at the secondary level). The authors also present time series data from the PISA test (now undertaken in nine countries in the region) showing that the quality of learning outcomes in LAC has been maintained, and even slightly improved, during this process of aggressive expansion. To have achieved such a large expansion of education in so little time, without affecting overall quality of learning achievement, is commendable. And, as noted above, the resulting reduction in earnings premia has contributed to improved income distribution patterns across the region. All this is good news.

But there are also negative connotations. The analysis of the PISA data shows that the stability of learning achievement in the region's expanding education system owes much to improving age-grade correspondence, which has limited scope to continue. Meanwhile, the quality of learning within specific grade levels has not been improving. At the same time, decomposition analyses suggest that the region has experienced a worrying drop in the relative demand for skilled labor. This contrasts with other regions, in particular East Asia, which are absorbing more highly skilled new entrants into their labor force without any decline in earnings premia. An analysis of the underlying causes of these differences raises worrying questions about trends in the quality and relevance of the skills being produced in LAC, which could affect the region's long term growth prospects.

Detailed analysis of trends in the skill content of Latin American jobs presented in chapter five shows that the region is not expanding in sectors which demand “new economy” skills. This suggests that, faced with constraints in the availability of relevant skills, firms might be limiting their choice of products and technologies to second-best options, at the expense of their competitive edge.

The authors recommend that, having achieved very large increases in secondary and tertiary enrollment, the region should now focus on improving the quality of its education systems and the pertinence of education curricula for the needs of the labor market. At age 15, the learning achievement of the average Latin American student still lags two years behind his or her OECD contemporary. That is a huge difference that, if unchallenged, will continue to undermine the region's competitiveness.

The study opens up an important agenda for future research. While the evidence presented on the trends in education earnings premia is clear, the conclusions about the causes and significance of those trends are largely based on suggestive evidence for a limited number of countries, and are not definitive because of data limitations. The findings call for further in-depth analysis of the nature of skill mismatches, to inform policies that can strengthen the region's future economic growth by enhancing the productivity and earnings potential of the workforce.

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