Adult education, labour market outcomes and income distribution in India: An Analysis using a CGE model

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1. Research question:
The linkages between adult education and the skill level of labour force is well recognized as a crucial factor determining the overall economic performance of a country. Empirical assessment of this linkage and its impact on the economy, however, is far and few especially in the Indian context. This paper attempts to study this issue for India.

2. Method:
The paper uses a recursive computable general equilibrium (CGE) model of the Indian economy to study this issue.

3. Data:
The model is based on a new Social Accounting Matrix (SAM) for the base year 2011-12. The SAM reflects the structure of the economy observed in the base year as per the new series of the National Accounts Statistics (NAS) with base year 2011-12. It may be noted that the new series of the NAS was released recently in January 2015. The SAM combines NAS data with nationally representative household surveys on consumption, employment and unemployment conducted by the National Sampling Survey Organisation (NSSO), Government of India.

4. Novelty in the research:
A key feature of this CGE model is that it endogenizes the linkage between adult education levels and composition of labour supply in terms of unskilled, semi-skilled and skilled labour. To the best of our knowledge, hardly any study exists, at least in the Indian context, that brings forth this linkage.

5. Key results:
Projections over the period 2015-16 to 2030-31 for a Business As Usual scenario show that progress in adult education â€" as measured by the average years of schooling and the percentage of adult population that has completed higher education â€" has a significant impact on the size of unskilled, semi-skilled and skilled labour force. Semi-skilled and skilled labour force expands while unskilled labour force declines in absolute numbers. These changes in the composition of the labour force affect labour market outcomes, with unskilled wage rates rising sharply relative to the wages of semi-skilled and skilled labour. The change in the relative wage rates in turn have a favourable impact on the overall income distribution across households through a reduction in inequality within rural areas and between rural and urban areas, even though urban inequality rises. Simulations also show that additional public expenditure to enhance the progress in adult education only accelerates these labour market and income distributional outcomes.