Returns to Skills around the World: Evidence from PIAAC
PIAAC: Overview

• Programme for the International Assessment of Adult Competencies (PIAAC)
• “PISA for adults”
• Initiated by the OECD
• 24 participating countries
• Individuals aged 16-65
• At least N=5,000 per country
• Total costs: €100 mn.
Countries participating in PIAAC Round I
Australia, Austria, Canada, Cyprus, Czech Republic, Denmark, England/N. Ireland (UK), Estonia, Finland, Flanders (Belgium), France, Germany, Ireland, Italy, Japan, Korea, Netherlands, Norway, Poland, Russian Federation, Slovak Republic, Spain, Sweden, United States
Returns to Skills around the World

• How do individuals’ skills relate to productivity and labor-market outcomes in modern knowledge-based economies?

• Existing evidence on returns to education almost exclusively based on **years of schooling** (ever since Mincer 1974)
  – Such quantity-based measure ignores inherent differences between education systems across countries:
  – “For example, a year of schooling in Papua New Guinea is assumed to create the same increase in productive human capital as a year of schooling in Japan.” (Hanushek/Woessmann JEL 2008, p. 629)

• Existing evidence on returns to cognitive **skills** surprisingly limited

• **PIAAC** dramatically changes ability to understand **how economies value skills**

→ We estimate **earnings returns to cognitive skills** for 23 countries
Returns to Skills around the World

Notes: Coefficient estimates on numeracy score (standardized to std. dev. 1 within each country) in a regression of log gross hourly wage on numeracy, gender, and a quadratic polynomial in actual work experience, sample of full-time employees aged 35-54. Replicates baseline model from Table 2. Data source: PIAAC.
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Returns to Skills by Age Group

Notes: Coefficient estimates on numeracy score (standardized to std. dev. 1 within each country) for indicated 5-year age groups in a regression of log gross hourly wage on numeracy, gender, a quadratic polynomial in actual work experience, and country fixed effects, sample of full-time employees pooling all countries. Slopes of solid lines reflect average change in returns by age groups (separately estimated for ages 16-34 and 35-54). Data source: PIAAC.
What Accounts for Cross-Country Differences in Returns to Skills?
Simulation: How Would Returns to Skills Change with Other Institutions?

**Union Density**: share of wage and salary earners who are trade union members.

**Employment Protection Legislation**: composite indicator measuring strictness of employment protection for individual and collective dismissals.

**Public Sector Share**: share of workers employed in the public sector. The country with the lowest (highest) value is Estonia (Finland) for union density; the United States (Belgium) for employment protection legislation; and Japan (Sweden) for public sector share.

**Notes**: The graph shows predicted returns to skills assuming counterfactual institutions. Returns are predicted for each country assuming the maximum (red bar) and the minimum (blue bar) level of the respective institution across all countries.
Returns to Skills around the World

• Higher cognitive skills systematically related to higher wages in all 23 PIAAC countries
  – An increase in numeracy skills by one out of five proficiency levels is associated with increased hourly wages averaging almost 18 percent across countries

• Substantial heterogeneity in returns to skills across countries

• Focus on early-career earnings leads to underestimating lifetime returns to skills by about one quarter

• Returns to skills systematically lower in countries with higher union density, stricter employment protection, and larger public-sector shares

• Returns to skills are systematically higher in countries with higher wage inequality
This presentation is based on:

Thank you for your attention!