

The Cost of Vertical Mismatch in Canadian Labour Markets: How Big is It?

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Abstract:

Inappropriate matches between workers and jobs in terms of education cause a surplus or deficit in schooling. One measure that allows us to quantify this mismatch is based on how much worker education levels deviate from the level required in their occupation. If workers are substantially overeducated, in that their actual education exceeds the required level of education, this implies underutilization in labour markets, a phenomenon that has been referred to, in the literature, as the “great training robbery”. A deficit in schooling, on the other hand, means a loss in productivity for firms and the economy as a whole. A second measure is a possible mismatch between workers’ field of study and that required in their occupation. The aim of this study is to understand the importance of these issues for the Canadian economy by analyzing the economic costs of educational mismatch. We explore both dimensions of the mismatch in Canada by using the 20 percent sample of the 2001 Census. Our results indicate that, although the annual cost of underutilization and productivity loss in Canada due to educational mismatch is not as sizeable as envisioned in policy circles, it is large enough to warrant further investigation.

JEL Classification: J6, J15, J61

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