

Unbundling Labor

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Abstract

This paper presents two new facts on changes in occupational skill requirements and wage inequality in US data and develops a theoretical framework to interpret these facts. First, we show that low-skill occupations have become more similar to one another in terms of skill requirements while high-skill occupations have become more different from one another. Second, we show that residual wage inequality has fallen within low-skill occupations but has risen within high-skill occupations. Our model, a generalization of Rosen (1983) and Heckman and Scheinkman (1987), shows how these facts are naturally linked. Heterogeneous workers supply an *indivisible bundle* of skills when they choose an occupation. In equilibrium, a given skill can command a premium in occupations that are relatively intensive in its use. As occupations become more similar in their skill requirements, the rents earned by workers with high comparative advantage in the skills hitherto most intensively used in that occupation are competed away, decreasing within-occupation wage inequality. Likewise, as occupations become more different in skill requirements, workers with high comparative advantage in intensively used skills earn even larger rents, increasing within-occupation wage inequality. We also document a number of other facts consistent with our framework: relative decreases in low-skill occupation hours premia and experience premia, and increased occupational mobility.