Unbundling Labor

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Abstract

In this paper we provide a theory for the role of technological change in the relative substitutability of workers in the economy. We show the theory to be useful for understanding new trends that we identify in the wages paid to workers. We extend Rosen (1983) to study when the bundled talents of workers that define their comparative ad- vantage lead them to earn rents, and when these talents may be unbundled such that workers are more substitutable and rents are competed away. Allowing firms to choose their technology as in Caselli and Coleman (2006) endogenizes this substitutability. When technologies are adapted to labor supply, an unbundled economy is more likely, rents to workers shrink, and workers get paid more similarly. We provide empirical evidence consistent with the theory. In the US, workers in low skill occupations are paid more similarly now than in the 1980s. Over-time premia, part-time penalties and experience premia have disappeared.