

Macro Roundup Article

Headline: [Multidimensional Human Capital and the Wage Structure](#)

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Tweet: The return to cognitive skills has declined since 2000 and there has been rising demand for “social skills.” “Jobs with the most employment and earnings growth are those where both types of skill are required.” @ProfDavidDeming

Summary: The return to cognitive skills has declined since 2000. A one standard deviation increase in the Armed Forces Qualifying Test (AFQT) score – a widely-used measure of cognitive skill – was associated with about 10 percent higher hourly wages in the 1980s and early 1990s but only 4.5 percent in the 2000s and early 2010s. In contrast, the economic return to a bachelor’s degree increased by 6 percentage points unconditionally and by nearly 15 percentage points after controlling directly for cognitive skills in both waves. What are the implications of the growing importance of social skills for the wage structure? Social skill-intensive occupations grew by nearly 12 percentage points as a share of all jobs in the U.S. economy between 1980 and 2012, and real hourly wages for these jobs grew around 25 percent compared to less than 10 percent for other occupations. This suggests growing relative demand for social skill, and flat or declining demand for cognitive skill. However, because these skills are complements, the jobs with the most employment and earnings growth are those where both types of skill are required. Evidence suggests that cognitive skills and social skills are conceptually distinct and that they work together in non-obvious ways to explain an important recent trend in the wage structure – rising returns to education and social skills, but declining returns to cognitive skills.

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Primary Topic: Wages/Income

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