

# Optimal Skill Mixing Under Technological Advancements \*

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## Abstract

Using worker surveys and online job posting data, I document that the U.S. economy has seen a substantial increase in the mixing of skill requirements from 2005-2018, both for incumbent jobs and newly posted vacancies. American workers increasingly work in occupations that demand mixtures of analytical, computer, and interpersonal skills rather than specializing in one of them, even in granular occupations. This change occurred primarily within low- to medium-wage occupations, and the return to working in occupations or studying college majors with more mixed skills has also increased. To understand the sources of these shifts, I build a directed search model with multi-dimensional skills in which firms optimally choose occupations' skill intensities before matching with a worker, delivering endogenous specialization in skill demand. Counterfactual analysis shows that the rise in skill complementarity in production and the decline in the marginal cost of skills for occupation operation account for the majority of skill mixing shifts and corresponding wage and employment dynamics in this period.

**Keywords:** skill demand, technological changes, occupations, search model, worker training

**JEL Codes:** J21, J23, J24, J31, E24

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# I Introduction

The nature of work in the United States has changed dramatically in recent decades. As technology advances, do employers increasingly require a broader range of skills, or *mix* their skill demands, and if so, how should workers face this change? A vast literature documents the decline in the demand for “routine” tasks and related worker skills due to technological shifts (i.e., [Autor, Levy, and Murnane 2003](#); [Acemoglu and Autor 2011](#)) and the rising importance of social skills ([Cortes, Jaimovich, and Siu 2021](#); [Deming 2017](#)). This evidence points toward changes in the mixtures of skills that appear in occupations as employers adopt new technologies. The degree of skill mixing among occupations has important and distinct implications: if occupations demand more of a particular skill, evidencing specialization in skill demand, then it benefits workers to become experts; if, however, occupations mix their use of different skills, evidencing “skill mixing,” multidisciplinary schooling and training is more advantageous.

This paper studies the phenomenon of employer skill mixing, exploring its implications for workers, and seeks to understand the underlying sources of these shifts. The first challenge for this investigation is the compilation of suitable data and the creation of measures to assess skill mixing. To achieve this, this paper primarily draws on the Occupational Information Network (O\*NET), which gathers surveys from incumbent workers of their current jobs and provides the importance of different skill requirements. By considering longer time spans and focusing on continually updated occupations, I demonstrate that O\*NET permits a credible analysis of longitudinal changes in skill demand. Supplementing this, the second dataset, Lightcast (formerly known as Burning Glass), provides real-time skill demand from millions of online job vacancies, enabling the measurement of the extensive margin share of jobs that require specific skills. Equipped with these datasets, I evaluate the degree of skill mixing within each occupation by calculating the cosine similarity between an occupation’s skill vector and the unit vector on which skills along several domains are equally important; consequently, this “mixing index” increases as an occupation’s demand for different skills gets closer.

Drawing on information about skill demand for both incumbent jobs and newly posted

job vacancies, this paper presents compelling evidence that from 2005 to 2018, occupations in the United States increasingly demand mixtures of different skills. Leveraging the O\*NET dataset, I show that even at the 7-digit occupation level, there is a sizable increase in the degree of skill mixing, particularly for analytical, computer, and interpersonal skills that are considered to be non-routine. Compared to their distributions in 2005, the skill mixing indexes of these skills in year 2018 have increased by 9 percentiles on average for the whole economy, and by 4 percentiles for occupations that are constantly updated every 6 years. The growth of skill mixing is even starker in higher-level 4-digit occupations, by 14 and 11 percentiles respectively. Such increases persist within gender, industry, and occupation groups, are unaffected by controls of workers' labor supply, and are robust to alternative measures of skills and indexes of mixing. Lightcast data further confirms the trend of skill mixing: the share of online posted vacancies demanding a mixture of the non-routine skills has increased by 5.1 percentiles in 2017 compared to 2007.

Two facts stand out for the phenomenon of skill mixing. First, a shift-share decomposition shows that skill mixing has occurred primarily within-occupation, with worker reallocation playing a minor role. For example, for the 14 percentile increase in the mixing of the analytical, computer, and interpersonal skills in the full O\*NET data, within-occupation increase contributed 9.5 percentiles; in Lightcast data, 4.4 percentiles of the 4.7 percentile increase in the mixing of the four skills are attributable to within-occupation increases. Thus, the intensive margin shift in occupational skill requirements drives skill mixing, distinguishing it from other labor market changes for which worker reshuffling plays a key role, or the change is mainly across-occupation.<sup>1</sup> Second, the greatest increase in the mixing of the four non-routine skills appear among service and white-collar occupations, while for routine skill, mixing happened at a higher level for blue-collar occupations. Thus, low- to medium-wage occupations are the main drivers of skill mixing. While both genders experience an increase in skill mixing, male workers are more likely to see a higher rise in skill mixing in higher-wage occupations.

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<sup>1</sup>For example, in [Autor and Dorn \(2013\)](#), the polarization of the labor market is attributed to the substitution of medium-skill workers in routine jobs and their flow into service jobs; in [Deming \(2017\)](#) across-occupation employment shift drives the rising importance of social skills.

The phenomenon of skill mixing bears significant distributional consequences in the labor market. A notable structural shift in the U.S. labor market since the 1980s has been job polarization ([Acemoglu and Autor 2011](#); [Goos, Manning, and Salomons 2014](#)), a trend that continues to be evident in the data from 2005 to 2018. Skill mixing emerges as a key factor in explaining these distributional dynamics. For occupations within similar wage ranks in 2005, it is observed that those that have become more skill-mixed experience greater growth in both employment share and wages. Remarkably, the growth in employment and wages during this period is almost exclusively attributed to occupations that have seen an increase in skill mixing. Therefore, skill mixing provides a novel and multi-dimensional lens to understand these labor market transformations.

To evaluate the impact of skill mixing on workers' labor market outcomes, I estimate the wage returns to skill mixing by combining the National Longitudinal Survey of Youth 1979 and 1997 (NLSY 79 & 97), taking advantage of the rich information on participant's abilities employment and educational histories. I find a significant return to skill mixing for both occupational choices and worker skills. To assess the wage premium, I run a regression with multiple skills and their interactions, both for occupations and individual workers with two-way fixed effects in the spirit of [Abowd, Kramarz, and Margolis \(1999\)](#) (hereafter AKM). My preferred specifications indicate that workers in occupations that demand one standard deviation higher in the mixture of analytical and computer, or analytical and interpersonal skills, gain a 1.3 to 1.5 percent wage premium; meanwhile, workers who are more mixed of these skills earn 2.8 to 4.4 percent more. Further, leveraging the education information in NLSY, I calculate the skill content and degree of mixing for each college major. I find that workers studying a college major a standard deviation more mixed of analytical and computer or of computer and interpersonal skills earn 2.1 to 6.5 percent more.

The rich empirical findings on skill mixing necessitate a need for a comprehensive understanding of the underlying driving forces. To meet this challenge, I build a directed search model with several novel features. First, the model represents both firms and workers through multi-dimensional skills, laying the basis for an examination of skill mixing. Second, firms will need to design their occupations before meeting workers,

incurring a cost upon hiring depending on their skill demand choices, as in [Acemoglu \(1999\)](#).<sup>2</sup> This endogenous occupation design is crucial in delivering the dynamic choices of skill mixing based on the skill distribution in the labor market. Third, the model incorporates non-linear production and cost technologies, departing from the common assumption of linear production functions in standard search models. This non-linearity allows the model to capture the varying degrees of skill complementarity in production and the increasing marginal costs of combining skills in occupations. Despite the rich setup, the model remains tractable satisfying Block Recursivity as in [Menzio and Shi \(2011\)](#).

The model provides clear insights into changes in skill mixing, wages, and employment that are tied closely to the empirical observations. Central to its insights is the notion that as skills become more complementary in production or as their marginal costs decrease, firms find it more profitable to mix skills than to specialize. Consequently, jobs demanding a mixture of skills become increasingly prevalent. The model further predicts that these shifts in the production and cost environment enhance the productivity of worker-firm partnerships, leading to wage growth and improved job-finding probabilities for workers. Together, these model predictions offer a robust theoretical lens to understand the empirical trends.

I quantitatively evaluate the model to assess the relative importance of various channels that contribute to the observed skill mixing and to investigate their implications for wages and employment. Employing two periods of NLSY data, I calibrate the model parameters, which provide some key statistics on the elasticity of substitution in production and the cost structure. The results reveal that in a multi-dimensional matching framework, skills are substitutable in production, and firms face increasing marginal costs in designing occupations. Notably, sizable technology shifts have occurred from the early 2000s to the late-2010s, resulting in skills becoming more complementary in

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<sup>2</sup>The endogenous choices of the intensity of inputs were first studied in the appropriate technology literature ([Atkinson and Stiglitz 1969](#); [Basu and Weil 1998](#); [Acemoglu and Zilibotti 2001](#); [Jones 2005](#); [Caselli and Coleman 2006](#); [León-Ledesma and Satchi 2019](#)). Several studies in the labor literature allow firms to adjust labor usage besides the quantity margin. In [Lazear \(2009\)](#), firms choose the weight on the skills workers supplied, and in [Eeckhout and Kircher \(2018\)](#), firms trade-off between more versus higher quality workers.

production and a reduction in firms' marginal costs for mixing skills. Meanwhile, the efficiency differential between high- and low-type workers has compressed for routine skills but has increased or remained stable for interpersonal, analytical, and computer skills. Counterfactual analyses further illustrate that the increase in skill complementarity in production and decrease in marginal costs of skills in occupation operation, followed by efficiency differential variations, emerge as the main drivers of skill mixing changes; whereas the skill level changes of low-type workers negatively impact the degree of skill mixing across the periods. In terms of wage and employment distribution shifts, changes in skill complementarity and occupation costs compress the high-skill occupations' premium, while the increase in low-type worker skills, coupled with changes in efficiency differentials, drives the rise in wage and employment gains in high-skill occupations.

The rest of the paper is organized as follows. The ensuing section connects this paper to a broader set of literature and discusses the contributions. Section III presents the main empirical findings about skill mixing and many of its features. In section IV, I show the returns to mixing both at the occupation and worker levels. Section V presents a directed search model with occupation design to study the skill mixing problem and derive comparative statistics. Estimation of the model parameters and counterfactual analysis are discussed in Section VI. Section VII concludes.

## II Literature Review

I study labor market dynamics emphasizing *skill mixtures* and explore new theoretical perspectives to explain them. The empirical objective aligns with the literature investigating the long-term trend of skill demand and biased technological changes (i.e., [Tinbergen 1974, 1975](#); [Katz and Murphy 1992](#); [Autor, Katz, and Krueger 1998](#); [Autor, Levy, and Murnane 2003](#); [Goldin and Katz 2010](#); [Acemoglu and Autor 2011](#); [Autor and Dorn 2013](#); [Deming and Kahn 2018](#); [Deming and Noray 2020](#)). My finding that the intensive margin within-occupation changes drive skill mixing is consistent with other studies that find the major role played by within-occupation variation for aggregate job attributes ([Autor and Handel 2013](#); [Atalay et al. 2020](#); [Hershbein and Kahn 2018](#); [Freeman, Ganguli, and](#)

Handel 2020; Cortes, Jaimovich, and Siu 2021).<sup>3</sup>

Unlike these studies, this paper focuses on the changes in the degree of mixing of various different skills, which leads to unique policy implications and broadens the understanding of the influence of technological change on the labor market. Two papers closely connected to the phenomenon documented in this paper are [Hershbein and Kahn \(2018\)](#) and [Deming \(2017\)](#). The former illustrates that employers in metropolitan areas hit harder by Great Recession were more likely to post jobs demanding cognitive and computer skills, particularly in routine-cognitive occupations. My analysis differs by demonstrating that skill mixing occurs for a broad set of skills, within a wide array of granular occupations, and is not specific to regions or economic downturns. [Deming \(2017\)](#) highlights that occupations requiring higher math and social skills based on O\*NET 1997 have seen increased employment and wage growth from 1980 to 2012. In contrast, I use various versions of O\*NET to capture longitudinal changes and explore the wage and employment gains stemming from within-occupation skill mixing shifts.

Theoretically, I build a directed search model with multi-dimensional skills and endogenous occupation design, following the recent literature on directed search (i.e., [Menzio and Shi 2010, 2011](#); [Schaal 2017](#); [Baley, Figueiredo, and Ulbricht 2022](#); [Braxton and Taska 2023](#)). Two main contributions of this paper are: First, I allow firms to have endogenous skill demand in the spirit of [Acemoglu \(1999\)](#), which delivers the comparative statics regarding skill mixing. Second, I model skills in a multi-dimensional environment with non-linearity technologies. As such, the model incorporates directed search on both the worker and firm sides with high-dimensional heterogeneity on the two sides, which departs from most search models, but allows me to analyze the changes in skill mixing and the contribution of skill complementarity and cost factors.

A burgeoning literature explores the multidimensional matching of workers and firms that features two-sided heterogeneity and skill transferability (i.e., [Yamaguchi 2012](#);

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<sup>3</sup>[Cortes, Jaimovich, and Siu \(2021\)](#) discovered that from 1980 to post-2010, high-paying occupations in the United States require more social skills. Using worker-reported job tasks, [Autor and Handel \(2013\)](#) found that there is significant within-occupation variation in task requirements. Using vacancy posting data (Burning Glass), [Hershbein and Kahn \(2018\)](#) analyze within-occupation upskilling effects after the 2008 recession. Extracting task information from job ads, [Atalay et al. \(2020\)](#) revealed that the major change in job content during 1950-2000 occurred within-occupation, a pattern that is found to persist post-2000 by [Freeman, Ganguli, and Handel \(2020\)](#).



Lindenlaub 2017; Lise and Postel-Vinay 2020). The focus of the literature has been the assortativeness of the matching between workers and firms and the adjustment of worker skills.<sup>4</sup> My model instead emphasizes incomplete specialization and firms' tradeoff in the demand of horizontally different skills. In explaining skill mixing shifts, I incorporate both changes in relative skill efficiency and changes in the skill complementarity, and show the latter's important role in determining skill mixing, wage shifts, and employment distribution.<sup>5</sup> A related literature, inspired by Rosen (1983), Murphy (1986), and Heckman and Sedlacek (1985), features skill indivisibility or bundling, allowing for nonlinear wage schedules and a flexible degree of occupational specialization. However, these models requires a stance on the aggregation of worker skills within firms, as discussed by Eeckhout and Kircher (2018). I instead apply a matching model to accommodate the indivisibility of skills at the worker level, inherently delivering nonlinear wages and skill mixing.

Quantitatively, I provide model-based identifications of the elasticity of substitution parameters among a number of different skills and the relevant cost parameters under a tractable general equilibrium model of the labor market with endogenous skill intensities. Meanwhile, These results contribute to the recent work on task-based models that has typically assumed exogenously the elasticity of substitution among different types of skills (i.e., Autor, Levy, and Murnane 2003; Autor and Dorn 2013), and also relates to studies on the elasticity of substitution among different types of workers (Johnson 1997; Heckman, Lochner, and Taber 1998; Krusell et al. 2000).

### III Evidence of Skill Mixing

In this section, I first show that the degree of skill mixing in the multi-dimensional skill space can be measured using an angle-based index. I then apply O\*NET and Lightcast data at different granularity to show the increase in skill mixing, the decomposition into

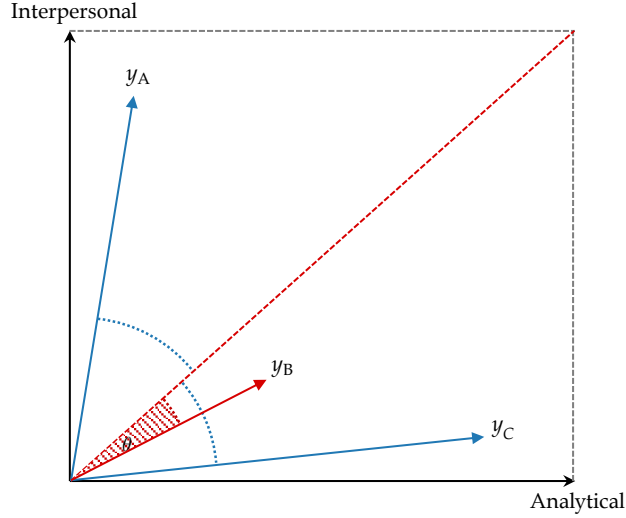
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<sup>4</sup>Exceptions include Ocampo (2022), in which tasks are optimally combined, generating endogenous occupational heterogeneity.

<sup>5</sup>The changes in relative efficiency of inputs is the focus of the skill-biased technological change (SBTC) literature, and has been shown to successful account for the major U.S. wage dynamics. See for example, Katz and Murphy (1992), Autor, Katz, and Krueger (1998), and Goldin and Katz (2010).



Figure 1: Illustrating Skill mixing



Notes: This figure contrasts three occupations—A, B, and C—in the skill space of analytical and interpersonal skills. Each occupation is characterized by its skill vector  $(y_A, y_B, y_C)$ , and also by the angle between the skill vector and the 45-degree line. The angle is used to measure skill mixing as it illustrates the trade-off between skills.

within- and across-occupation changes, the underlying sources of variation as well as occupational heterogeneity. Lastly, I illustrate the importance of the mixing of different skills in terms of its distributional implications for employment and wage dynamics.

### III.A Measures and Data

**The Degree of Skill Mixing:** An intuitive way to evaluate the degree of mixing of an occupation's skill demands is to check the angle difference between that occupation's skill vector and the unit vector on which different skill requirements are equivalent. In figure 1, both occupations A and C are more specialized as their skill vectors point away from the diagonal, whereas occupation B is considered more mixed with a smaller angle ( $\theta$ ).<sup>6</sup> I formalize the idea behind figure 1 by measuring skill mixing using cosine similarity.<sup>7</sup>

<sup>6</sup>A nice feature of angle difference is that it doesn't depend on the length of the skill vector, only on the degree of skill mixing.

<sup>7</sup>Cosine similarity together with other measures, such as Euclidean distance and Manhattan distance, have been used to calculate the similarity between vectors (i.e., [Xia, Zhang, and Li 2015](#)). An angle-based measure is by no means the only measure of skill mixing, though it has the clearest graphical illustration of the trade-off among skills. Online Appendix A.5 discusses two alternative skill mixing indexes: inverse Herfindahl–Hirschman Index (HHI) and normalized absolute distance.

Specifically:

**Definition 1** (Degree of Skill Mixing of an occupation). *The skill mixing index for an occupation  $j$  in a  $K$ -dimensional space characterized by the skill intensity vector  $y_j = \{\alpha_{j1}, \dots, \alpha_{jK}\} \in Y \subseteq \mathbb{R}^{K+}$  is the cosine similarity between its skill vector and the norm  $\hat{v}$  in the skill space.*

$$\text{Mix}(y_j) = \frac{y_j \hat{v}}{\|y_j\| \cdot \|\hat{v}\|}, \text{ where } \hat{v} = [1, 1, \dots, 1]' \subseteq \mathbb{R}^{K+} \quad (1)$$

**Data Construction:** I compute the above index and assess the degree of skill mixing of occupations across years first using the Occupational Information Network (O\*NET). Specifically, I use 4 versions of O\*NET that are released between the years 2008 and 2022 and I selectively use information solely derived from worker surveys. Below I detail the rationale behind this choice, as well as the manner in which the data is handled. Developed by the North Carolina Department of Commerce and administered by the U.S. Department of Labor, O\*NET is designed to replace the Dictionary of Occupational Titles (DOT) and has been used widely to analyze occupation skill requirements and work settings (i.e., [Acemoglu and Autor 2011](#); [Yamaguchi 2012](#); [Deming 2017](#)). O\*NET provides a comprehensive picture of occupations, containing around 270 descriptors about occupations that are grouped into 9 modules.<sup>8</sup> Initial versions of O\*NET comprise legacy ratings of job analysts from DOT data. However, starting in 2003, O\*NET starts to collect responses from random samples of workers (job incumbents). To maintain consistency of measurement, I exclusively use descriptors from questionnaires that are updated by worker surveys.<sup>9</sup>

The key challenge of using O\*NET comes from employing the longitudinal variation of occupation descriptors. Specifically, each version of O\*NET contains around 970 7-digit occupations, but an average of 110 targeted occupations are updated each year.<sup>10</sup> Such a pattern of updates introduces potential selection bias when constructing measures of skill demand based on the descriptors. Different than prior studies that investigate

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<sup>8</sup>Online Appendix [A.1](#) provides a more detailed description of O\*NET and online Appendix [A.2](#) discusses the descriptors used.

<sup>9</sup>Specifically, I use descriptors from Work Context, Work Activities, Knowledge, and Skills questionnaires.

<sup>10</sup>The decision of occupation updating is based on analysts' evaluations of factors such as the size of employment, the demand for labor, and alterations in the type of work involved. See [Tippins and Hilton \(2010\)](#).

worker reallocation across occupations relying on a single version of O\*NET, the focus of this paper is the evolving skill demand, which makes the use of longitudinal variation necessary.

I apply two approaches to analyze longitudinal variation in skill demand using O\*NET data, following i.e., [Ross \(2017\)](#); [Freeman, Ganguli, and Handel \(2020\)](#). First, I focus on larger year intervals. For the analysis period from 2005 to 2018, in analyzing the overall trend, I focus on the difference in skill requirements between 2005 and 2018, for which most occupations have been updated twice over the years. In gaining more granular time patterns, I use 4-year intervals, so more than 50. Furthermore, I use data from online job postings from Lightcast (formerly “Burning Glass Technologies”) for the years 2007 and 2010 to 2017. Lightcast is a labor market analytics firm that collects and analyzes millions of job postings from across the internet and provides detailed profiles of each job posting, including education requirements and thousands of codified skills extracted and standardized from the posting text. The key advantage of Lightcast data is that it provides comprehensive and up-to-date information on labor market conditions, and many recent studies have used this dataset to analyze trends in job skill demand (see, i.e., [Deming and Kahn \(2018\)](#); [Hershbein and Kahn \(2018\)](#); [Braxton and Taska \(2023\)](#)). It is essential to recognize that Lightcast’s skill measurements differ from O\*NET’s in their information content. While O\*NET gauges the level and importance of a skill (intensive margin), Lightcast identifies whether a skill is required for a job (extensive margin). Additionally, Lightcast might overlook jobs advertised through other means, possibly over-representing jobs or sectors that tend to advertise online, inherently favoring growing firms ([Davis, Faberman, and Haltiwanger 2013](#)). I employ Lightcast as a supplementary source to complement the picture of skill mixing changes over time.

**Skill Measures:** From O\*NET occupation descriptors, I obtain measures of skills by combining descriptors directly following [Acemoglu and Autor \(2011\)](#) as these have been widely used and are easily comparable to other studies. To have a feasible dimension of skills to understand their mixing, I collapse all the routine skills (routine cognitive and manual) into one, call them routine skills, and keep non-routine skills (non-routine

analytical and interpersonal) separate.<sup>1112</sup> To more closely capture the rise of computer technology post-2000, I construct a computer skill measure based on two components related to operating a computer.

The above four skill measures comprise most of the analysis in this paper. To give a fuller view of the changing skill demand, I also incorporate two additional skills that haven't been studied in previous papers: leadership and design, as a complementary to the analysis of the skill mixing of widely used measures. To further reduce noise in the skill measures, particularly in portraying a more granular longitudinal time pattern, I conduct principal component analysis (PCA) on the chosen descriptors following [Guvenen et al. \(2020\)](#) and [Yamaguchi \(2012\)](#), and the final skill measure is rescaled linearly to lie in [0,1].<sup>13</sup> Online Appendix Table [A2](#) shows the detailed composing descriptors for each of the skill measures.

As a check of validity, online Appendix Table [A3](#) shows that my constructed skills correlate highly with other similar skill measures used in the literature. In Online Appendix [A.2](#), I build "broader" skill measures that each include more relevant descriptors, which are also highly correlated with the benchmark ones. Along with the discussion of my empirical results, I demonstrate their robustness to using alternative measures of skills and indexes of skill mixing.

To measure skills from Lighthcast data, I directly use the measures from [Braxton and Taska \(2023\)](#), which follows [Hershbein and Kahn \(2018\)](#) in measure construction. Specifically, for the years 2007 and 2010-2017 of Lighthcast data that this study uses, a vacancy is defined to use the analytical skill if any of the codified skill requirements contain keywords such as "research", "analy", and "decision". Similarly, a vacancy is

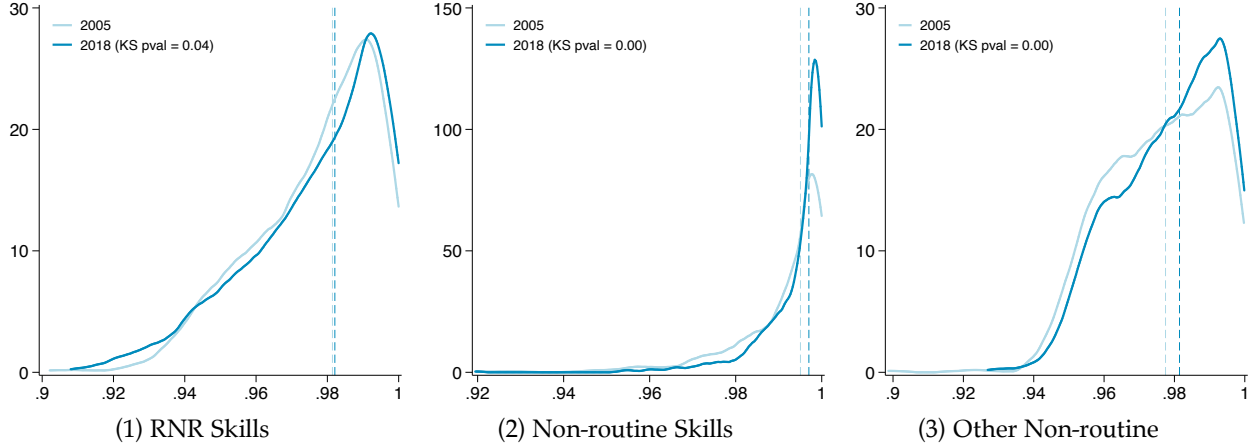
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<sup>11</sup>I didn't use non-routine manual as part of the composing descriptors coming from surveys of job analysts exclusively, and for this study, I only use the descriptors that are updated by job incumbents for consistency purposes

<sup>12</sup>I omit the word "non-routine" when referring to specific non-routine skills and denote by analytical or interpersonal skills hereafter.

<sup>13</sup>Based on Definition 1, it is crucial that skill vectors are in the positive real space for an angle-based measure to be appropriate. In that regard, normalization by standard deviation won't work unless with additional re-normalization, and linear transformation to a positive interval appears most desirable as it also retains the cardinal information that is likely to be useful for an easily interpretable skill comparison (e.g., [Autor and Handel \(2013\)](#), [Deming \(2017\)](#), and [Lise and Postel-Vinay \(2020\)](#)). Alternative measures of skills and skill mixing are discussed in online Appendixes [A.5](#) and [A.6](#).

Figure 2: Density for Skill Mixing Indexes (Cosine Distances), 2005 vs. 2018



Notes: These figures plot the kernel density of different skill mixing indexes in 2005 (light blue line) and 2018 (dark blue line). The x-axis displays the value of skill mixing indexes with a maximum of 1 by construction. “RNR” indicates routine and non-routine skills that are defined by [Acemoglu and Autor \(2011\)](#). “Other non-routine” include leadership and design skills. These plots are created using O\*NET at 7-digit occupations without employment weighting.

defined to require interpersonal skill if the codified job skill contains keywords such as “communication” or “teamwork”.<sup>14</sup> For each occupation, the share of posted vacancies that require a particular skill is then the measure of skill for that occupation, capturing the extensive margin of firm skill demand. In categorizing occupations for Lightcast data, I use a 4-digit consistent census occupation code developed by [Autor and Dorn \(2013\)](#) to match it with employment weight from ACS.

### III.B Aggregate Trends

The degree of skill mixing in occupations has increased significantly from 2005 to 2018, and the rise is particularly sharp for non-routine skills. I start by showing this trend happens at even very granular occupations by checking 7-digit occupations in O\*NET data in the year 2005 and 2018 respectively. Figure 2 depicts the density and median value of three skill mixing indexes, one for routine and non-routine (RNR) skills, another only for non-routine skills, and the last for the other non-routine skills. Since the indexes

<sup>14</sup>More specifically, the keywords used to capture analytical skill are: “research”, “analy”, “decision”, “solving”, “math”, “statistic”, and “thinking”. The keywords used to capture interpersonal skills are “communication”, “teamwork”, “collaboration”, “negotiation”, and “presentation”.

are unweighted by employment for these occupations, the shifting distribution reflects only occupations' skill mixing change, not subject to worker reallocation.

Panel (1) shows that the degree of skill mixing for RNR skills has seen a modest rightward shift over this period. The Kolmogorov-Smirnov (KS) test value shows that the difference in distribution is significant at 5 percent. However, the rightward shift of the density is even larger for the skill mixing index of nonroutine analytical, computer, and interpersonal skills (Panel 2), and for some other non-routine skills that include leadership and design skills (Panel 3). The density of the mixing index of these skills peaked at a higher value in 2018 relative to 2005, and the KS test is significant at a 1 percent level, implying that the occupations in the economy requiring a high level of mixing of has grown significantly.

Further, the overall pattern of increasing skill mixing persists taking into account of changing composition of occupations in the labor force. In online [A2](#), I combine O\*NET data with employment weight Occupational Employment and Wage Statistics (OEWS) at 6 digit level and show that the right shift of all the skill mixing index become more perceivable weighted by employment share across the years.<sup>15</sup> This implies that occupations that employ more workers have shown an even greater increase in the degree of skill mixing, and the overall share of employment in the economy requiring a high level of skill mixing has grown.

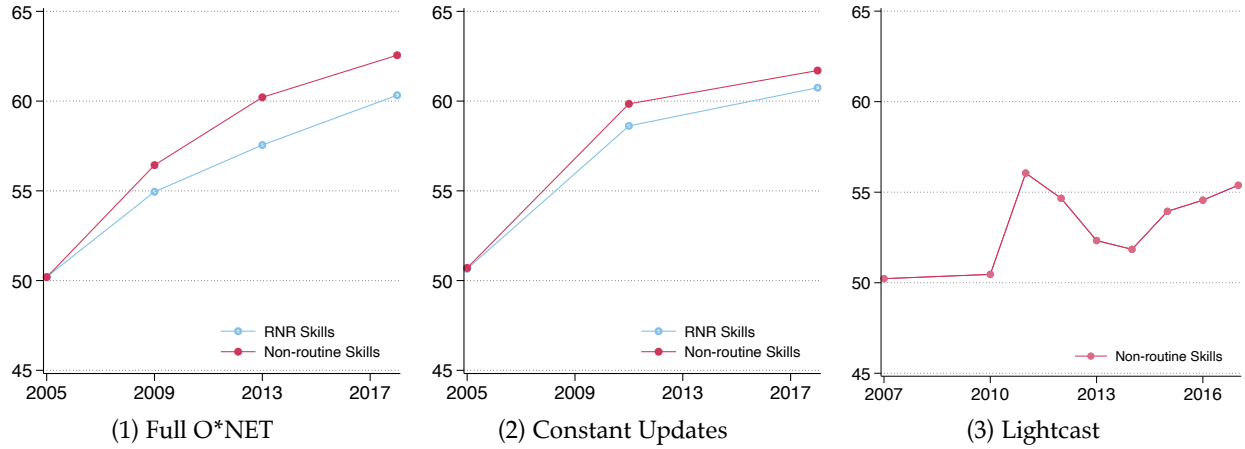
Alternative to using indexes to check the degree of skill mixing, one can non-parametrically plot the density of skill requirements in two-dimensional spaces. Online Appendix Figure [A1](#) depicts the non-parametric plots of six skill pairs in 2005 and 2018 respectively and a similar increase of skill mixing occurred, particularly for non-routine skills.

**Time Pattern:** To more carefully examine the time profile of the changing skill mixing and understand the sources of variation, I combine the longitudinal variation in skill mixing from O\*NET as well as with ACS to conduct further analysis. I show the

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<sup>15</sup>The OEWS uses 6-digit SOC codes, while O\*NET uses 7-digit occupation codes that are based on 6-digit SOC. I match OEWS with O\*NET at a 6-digit SOC level and distribute the employment weight evenly for 7-digit O\*NET occupations within a 6-digit occupation.

Figure 3: Trend of Skill Mixing in the US Economy, 2005-2018



Notes: These figures plot the employment-weighted skill mixing indexes in the U.S. economy from 2005-2018. The y-axis is the percentile of skill indexes in year 2005. By construction, each index has a mean of 50 percentiles in 2005; succeeding points are employment-weighted means mapped to its percentile in 2005. Panel (1) and (2) combine O\*NET and ACS data with consistent 4-digit occupation codes from [Autor and Price \(2013\)](#) and developed by [Deming \(2017\)](#). The matching of different O\*NET releases and ACS years are detailed in online Appendix Table 1. Panel (1) show the trend for the universe of occupations while Panel (2) only include 274 7-digit occupations that are constantly updated between 2005, 2011, and 2018. Panel (3) combines Lightcast job posting data and ACS with same occupation coding. Employment weights from ACS are the total hours of work aggregated to sex-education-industry-occupation cells.

trend pattern at 4-year intervals so that more than half of the occupations (about 60% of employment) are updated between observations. By construction, each index has a mean of 50 percentile in 2005; succeeding points are employment-weighted means of each index mapped to its percentile in 2005 (see [Autor, Levy, and Murnane \(2003\)](#) and [Deming \(2017\)](#) for other examples). I weight each skill requirement from O\*NET data by the total hours of work in each sex-education-industry-occupation cell to implicitly control for changes in task inputs due to variations in gender, education, industry, and occupation mixes in the U.S. economy.

Figure 3 demonstrates that the degree of mixing of non-routine skills has risen sharply between 2015 and 2018. By 2018, the degree of mixing among non-routine skills or an average occupation in the economy is 12.6 percentile higher than its 2005 level. The degree of skill mixing of RNR has also increased to a slightly lesser extent, averaging 10.3 percentiles higher. Meanwhile, the degree of skill mixing for all the occupations in the U.S. economy has steadily increased throughout the sample period from 2015 to 2018.



As mentioned, a potential concern of using O\*NET data to obtain the longitudinal variation of skill demand is that the trend could be affected by the inconsistency in updating occupations. In Panel (2) of Figure 3, I compute these trends focusing only on 274 7-digit occupations that are constantly updated between 2005, 2011, and 2018, thus reflecting a consistent updating of skill demand among these occupations. The same qualitative pattern holds, that is, there has been a sharp increase in the degree of skill mixing, particularly of non-routine skills between 2005 and 2018. Nonetheless, for the constantly updated occupations, the shift is mostly pronounced before 2011.<sup>16</sup>

In Panel (3) of Figure 3, I complement the picture of changing degree of skill mixing using the Lightcast data through a similar paring with O\*NET data, though starting in 2007, the first year when the company starts to collect job postings. Overall, firms are also more likely to post job requirements that contain more mixed-skill demands. By 2017, the degree of skill mixing in job postings averaged 5.1 percentiles higher. The time pattern of skill mixing among job postings appears to be more volatile, first peaking in 2011, then sliding down until 2014, before dramatically rising afterward until 2017. Despite the greater variance, the same qualitative pattern holds that occupations have a higher demand for the mixing of non-routine skills.<sup>17</sup>

Another concern is that the overall patterns shown so far are driven by the choice of skill measures or the choice of skill mixing index. In online Appendix A.5 and A.6, I show that these trend results are robust to alternative measures of skills, alternative indexes of skill mixing, as well as indexes for different skill pairs instead of high-dimensional indexes. For example, using standardized (broader) measures of skills, the increase in the degree of mixing of non-routine skills is 6 (13) percentiles from 2005 to 2018; using inverse HHI, the increases in the mixing of any of the skill pairs are above 10 percentiles during the same period. Across these checks, the qualitative picture remains the same

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<sup>16</sup>In online Appendix Figure A3, I show employment percentages and hourly wages across various job categories in the full and the sample for constantly updated occupations. The hourly wage rates across the categories seem fairly consistent between the full and selected samples with minor discrepancies, only that the selected sample has less presence of professionals and sales occupations.

<sup>17</sup>The higher degree of volatility is partly driven by the nature of the measure and the data. The measures of skills from job postings are whether firms require a particular skill in the text of job ads, naturally noisier than the question on level and importance from O\*NET. Moreover, firm job posting is more influenced by firm entry and exit patterns

Table 1: Time Trend of Skill Mixing Indexes

	Skill Groups	6-digit Occupations			4-digit Occupations		
		total	within	across	total	within	across
Full O*NET	RNR Skills	6.78	4.93	1.85	12.23	9.26	2.97
	Non-routine Skills	9.21	5.62	3.59	14.07	9.53	4.54
Constant Updates	RNR Skills	5.59	6.73	-1.14	9.70	10.57	-0.87
	Non-routine Skills	4.05	5.33	-1.29	10.58	9.50	1.09
Lightcast	Non-routine Skills				4.66	4.37	0.28

Notes: This table shows the shift-share decomposition of changes in the average level of different mixing indexes between 2005-2018 in percentile units. Specifically, for a change in the percentile of a mixing index  $h$  over two periods  $t$  and  $\tau$ , its change  $\Delta T_{h\tau} = T_\tau - T_t$  which can be decomposed to  $\Delta T_h = \sum_j (\Delta E_{j\tau} \alpha_{jh}) + \sum_j (E_j \Delta \alpha_{jh\tau}) = \Delta T_h^a + \Delta T_h^w$  where  $E_{j\tau}$  is employment weight in occupation  $j$  in year  $\tau$ , and  $\alpha_{jh\tau}$  is the level of mixing index  $h$  in occupation  $j$  in year  $\tau$ ,  $E_j = \frac{1}{2}(E_{jt} + E_{j\tau})$  and  $\alpha_{jh} = \frac{1}{2}(\alpha_{jht} + \alpha_{jh\tau})$ .  $\Delta T_h^a$  and  $\Delta T_h^w$  then represent across-occupation and within-occupation change.

such that there has been a significant rise in the degree of skill mixing, particularly for non-routine skills.

**Decomposing the Sources:** The longitudinal variation of skill mixing could be a result of either intensive margin skill mixing index changes within occupations or extensive margin employment shifts across occupations. If the former is a bigger driver of the increase in skill mixing, then it points out that demand-side dynamics play a more primary role. Equipped with the longitudinal variation in skill measures as well as changing occupational employment shares, I now perform the decomposition.

Table 1 shows the decomposition of the changes in the employment-weighted skill mixing indexes into within-occupation index shifts and across-occupation employment changes, at both 6-digit SOC and 4-digit census occupation levels. Across different datasets and skill groups, the within-occupation variation dominates across-occupation variation to account for the bulk of the increase in skill mixing. For example, for the 9.2 percentile increase in the mixing of non-routine skills in the full O\*NET data, within occupation increase contributes 5.6 centiles while only 1.1 percentiles are due to worker reallocation; for the 4.7 percentile increase in the mixing of non-routine skills in Lightcast

Table 2: Time Trend of Skill Mixing Indexes

	RNR Skills	Non-routine Skills
Full O*NET	0.70*** [0.10]	0.71*** [0.09]
Constant Updates	0.75*** [0.11]	0.65*** [0.11]
Lightcast		0.33** [0.15]
Sex $\times$ Industry $\times$ Occ. FE	X	X
Exp. and edu. controls	X	X

Notes: This table reports the results of regressing values of RNR skills and Non-routine skills on a time trend variable (year values) for the full ONET, Constant Updates, and Lightcast datasets combined with ACS. See online Appendix A.1 and A.5 for the data construction. The regressions include controls for sex—industry-occupation fixed effects, as well as 5-category (no high-school, high-school graduate, some college, college graduate, post-college) education fixed effects, polynomials of years of work experience up to power 4, and the interaction of experience polynomials and education fixed effects and gender. Robust standard errors are reported in brackets. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , and \*  $p < 0.1$ .

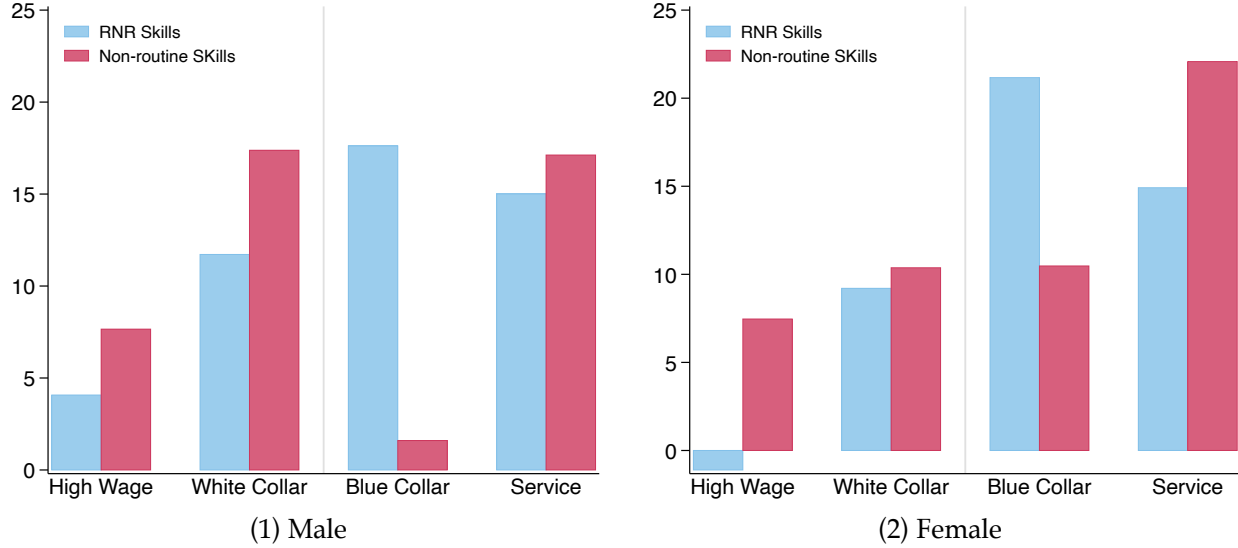
data, within occupation increase account for 4.4 percentiles.<sup>18</sup>

Interestingly, for the constantly updated occupations at 6 digits, worker reallocation contributes negatively to the increase in skill mixing using OEWS data. This pattern implies that for these very granular occupations that have been updated consistently, within-occupation variation more than accounts for the observed increase in skill mixing. At 4-digit occupations, worker reallocation does contribute positively to the increase in skill mixing among constantly updated occupations for non-routine skills but the magnitude is small relative to the within-occupation variation; for RNR skills, the contribution remains negative.

An alternative explanation of the employer-side shifts in accounting for skill mixing is that even within occupations, the supply of labor might have changed, due to, i.e., rising human capital, or labor force participation of females. To further shed light on the sources, Table 2 shows a regression of skill mixing indexes on linear time trend (years) across combinations of O\*NET and Lightcast with ACS data. I further control the interaction of gender, industry, and occupation effects, and flexible polynomials and interactions of

<sup>18</sup>Online Appendix A4 shows the decomposition results using skill mixing indexes for different skill pairs and a similar result holds.

Figure 4: Skill Mixing Index Change by Occupation Groups and Gender, 2005-2018



Notes: This figure plots the changes in skill mixing indexes across different occupation groups for male and female workforce. The units of the index changes are percentiles of their distributions in 2000. Workers are categorized into four occupation groups – High Skill, White Collar, Blue Collar, and Service following [Acemoglu and Autor \(2011\)](#). O\*NET and ACS data are combined for these figures with consistent occupation codes [Autor and Price \(2013\)](#) and developed by [Deming \(2017\)](#).

years of education and experiences. The table shows a universal increase in the degree of skill mixing in the magnitude of 0.65 to 0.75 percentile per annum using O\*NET data, and 0.33 per annum using Lightcast data. Moreover, this increase persists within gender, industry, and occupation groups and is unaffected by controls of worker’s labor supply, therefore highlighting that demand-side dynamics is playing a pivotal role in driving skill mixing.

### III.C Skill Mixing Changes by Occupation

Beneath these general trends of skill mixing are differential patterns among occupations and gender groups. Figure 4 shows the changes in the skill mixing indexes from 2005-2018 for four major occupation categories that are grouped based on wage levels and represent all U.S. non-agriculture employment.<sup>19</sup> for male and female workforce respectively. The changes are in percentiles of their 2005’s counterfactual distributions similar to what was

<sup>19</sup>The grouping is based on [Acemoglu and Autor \(2011\)](#).

used in Figure 3.

First in terms of occupations, service, and white-collar occupations more than the others lead to the increase in mixing non-routine skills. For RNR skills, on the other hand, blue-collar jobs have seen the highest increase in mixing, followed by service. These results indicate that the bulk of skill mixing happens in lower-wage occupations, particularly the service sector. Now turning to gender differences, male workers saw a higher rise in skill mixing for both skill groups in white-collar and high-wage occupations, while female workers saw higher growth in lower-wage blue-collar, and service occupations.<sup>20</sup> This implies that male workers are more likely employed in higher-wage occupations that become more skill mixed, while female workers are more likely to be employed in lower-wage occupations that become more mixed in using skills.<sup>21</sup>

In the online Appendix Figure A4 I show the decomposition of skill mixing by industries, and a similar pattern holds. The private service sector followed by retail trade and construction leads others in the growth of skill mixing, while public, social and professional services have much less increases in skill mixing, particularly for RNR skills.<sup>22</sup> <sup>23</sup> I also show the decomposition of occupations' changing mixing of individual skill pairs, which confirms that non-routine skill drives skill mixing in all occupations, while routine skills are only more mixed with other skills in blue-collar and service occupations.

**Distributional Implications:** One of the key structural changes in the U.S. labor market post-1980 is the pronounced job polarization or hollowing out of middle-skill employment and wage growth, due potentially to the routine-biased technological change and offshoring (Acemoglu and Autor 2011; Goos, Manning, and Salomons 2014). To see how much skill mixing can relate to these distributional dynamics, Figure 5 depicts the smoothed observed changes in both the share of total hours worked and log wage in

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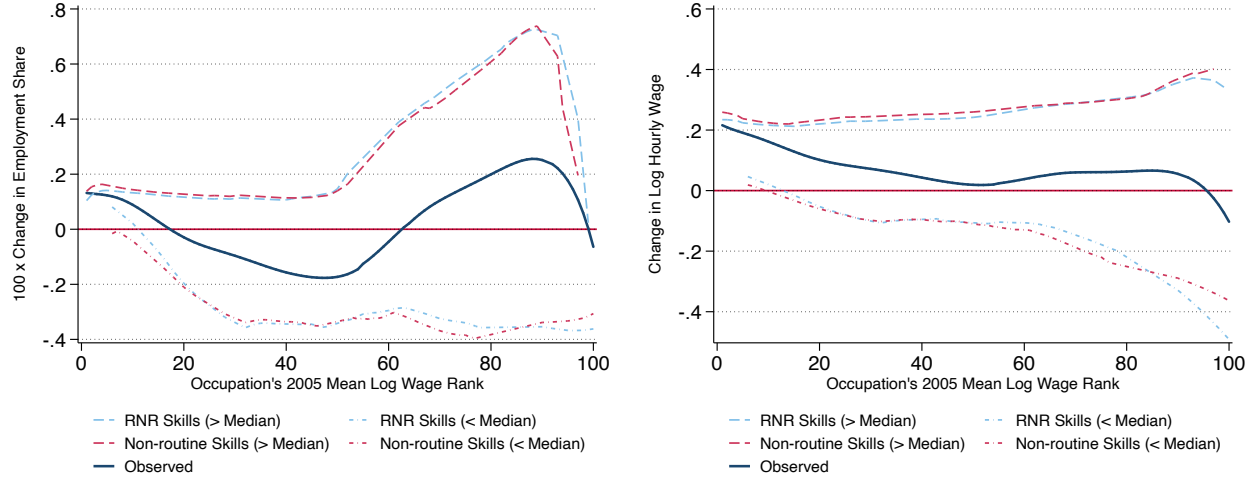
<sup>20</sup>The figure a separating line between these occupations to show this more clearly

<sup>21</sup>Though the discussion of gender gap is out of the scope of the analysis of this paper, part of the result could be driven that male workers are given more opportunities to work in mixed-skill occupations that are at the higher end of the wage distribution due to gender segregation (see Blau, Brummund, and Liu (2013)) on the trends in gender segregation.

<sup>22</sup>The sectors that have the least growth in skill mixing are public and education and social services.

<sup>23</sup>This result is consistent with Hershbein and Kahn (2018) that industries with locally consumed goods are more likely to change skill demand.

Figure 5: Smoothed Employment and Wage Changes by Skill Percentile, 2005-2018



*Notes: These figures plot the smoothed observed as well as counterfactual changes of employment share (Panel A) and hourly wage (Panel B) for occupations between 2005-2018. On the x-axis, occupations are ranked into 100 percentiles by the average log wages of workers in those occupations in 2000. The changes in the share of hours worked and percent wage growth are then calculated for each percentile, which fit into smoothed lines using cubic polynomial fit. Counterfactual lines are the smoothed employment/wage changes only for occupations with above-median increases in the skill mixing indexes.*

2005-2018 for occupations ranked by their hourly wage percentiles in 2005. I reconstruct these smoothed employment/wage changes for two groups of occupations: those with above-median increases in skill mixing indexes and those below the median.

Figure 5 first confirms the inverted bell shape (polarization) of observed employment and to a lesser extent, the change of wage. It illustrates key differences for occupations that have become more skill mixed. For occupations within similar wage ranks in 2005, those that become more mixed in skill use have a higher increase in employment share and wage growth. In fact, almost the entirety of employment and wage growth is accounted for by occupations that have become more skill mixed during this period. Therefore, relating to polarization, the differential growth in employment and wage among occupations at the high and low end of 2005's wage distributions are totally accounted for by skill-mixing occupations during this period. Besides being an important phenomenon for labor market dynamics, skill mixing also provides a unified and multi-dimensional perspective of the changes.

## IV Returns to Skill Mixing

In order to better understand the influence of skill mixing on workers' labor outcomes, this section will examine the wage returns associated with skill mixing in relation to occupational choices and inherent worker skills. Additionally, the return on investment for a college major with a more mixed skill set will be discussed.

### IV.A Data and Measurement

To assess wage returns associated with skill mixing, I use the National Longitudinal Survey of Youth (NLSY) datasets from both 1979 and 1997 cohorts, which offer comprehensive records of the participant's employment and educational histories. I combine these two cohorts to increase the sample size, limiting to the period from 2005 to 2019 to align with the timing of my skill mixing measurements from O\*NET as discussed in the previous section.<sup>24</sup> The NLSY data is connected with O\*NET via the census occupation data in NLSY and the crosswalk formulated by [Autor and Dorn \(2013\)](#). My principal focus is the real log hourly wage, adjusted to 2013 dollars. As [Altonji, Bharadwaj, and Lange \(2012\)](#), I trim values of the real hourly wage below 3 or above 200. The results of wage returns are robust to considering alternative sample constructions, such as excluding respondents over the age of 55 or using the unprocessed real hourly wage. The key advantage of NLSY is that it is a worker-level panel, and also contains information on worker's pre-market abilities. This allows for the control of worker characteristics in assessing occupational wage returns to skill mixing and also facilitates the evaluation of return to a worker-level degree of skill mixing. The selected measures of worker abilities are chosen to align well with the skill measures in O\*NET: the Armed Forces Qualifying Test (AFQT) scores represent analytical skill; the social skills measure developed by [Deming \(2017\)](#) is employed to represent interpersonal skill.<sup>25</sup>; routine skill is measured by the

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<sup>24</sup>The NLSY 1979 and NLSY 1997 are nationally representative surveys of youth, capturing data from individuals aged 14 to 22 in 1979 and 12 to 16 in 1997 respectively. During my sample period, the median age is 37, and 91 percent of the sample aged below 50.

<sup>25</sup>I use the AFQT scores constructed by [Altonji, Bharadwaj, and Lange \(2012\)](#) that are consistent across NLSY waves and account for age-at-test, test format, and other peculiarities. For interpersonal skills, I use the social skill measure developed by [Deming \(2017\)](#) assessing extraversion, which is constructed based on



workers' Armed Services Vocational Aptitude Battery (ASVAB) mechanical orientation scores.<sup>26</sup> As NLSY offers scant information on workers' computer skills, I adopt the worker's occupation or college major's computer skill value in the year 2005 as a proxy for the worker's initial endowment of computer skill. Online Appendix Table 10 lists the corresponding measures.

Moreover, the college education information in NLSY allows me to evaluate the return to studying college majors with different degrees of skill mixing.<sup>27</sup> I calculate for workers who studied a particular major, the employment weighted average of skill intensities and skill mixing indexes of their occupations contained in O\*NET, to be used as measures of skills and skill mixing for that major.<sup>28</sup> In Online Appendix Table A8, I list the top majors both in terms of the levels and changes in the degrees of skill mixing for different skill pairs. Agriculture and Natural Resources stand out as it is the highest in mixing all different skills. Two other majors: Architecture and Environmental Design and Mathematics are among the top majors in mixing analytical, computer, and interpersonal skills. Whereas Engineering and Law surpass other majors in becoming more mixed of routine skills and other skills.

## IV.B Wage Returns

To test for the returns to skill mixing, I regress the log wage of worker  $i$  in occupation  $j$  on the levels of different skills  $k$  required by that occupation, as well as their degrees of

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sociability in childhood and adulthood in NLSY79, and two questions from the Big 5 inventory in NLSY97 respectively

<sup>26</sup>ASVAB test scores are only available for the NLSY79 survey. For NLSY97, I impute their ASVAB scores using a regression model with indicators for gender and ethnicity, and fixed effects that include age, year, census division, metropolitan area, and urbanity.

<sup>27</sup>There are some inconsistencies in NLSY's field of study coding: NLSY79 uses its own major codes that contain 25 two-digit categories, while NLSY97 uses another set codes for years leading to 2010 and transfers to National Center for Education Statistics (NCES)'s 2010 College Course Map (CM10) for years after 2010. For consistency, I map the two different types of major codes in NLSY97 to the 25 two-digit major categories in NLSY79. Online Appendix Table A9 shows the crosswalk of different types of major field of study codes.

<sup>28</sup>I take the first field within a year as representing a worker's major field in the case of multiple fields.

mixing:

$$\begin{aligned} \ln(wage_{ijt}) = & \sum_k \sum_{h \neq k} [\beta_k \text{skill}_{k,jt} + \beta_{kh} \text{Mix}(\{\text{skill}_{k,jt}, \text{skill}_{h,jt}\})] + \\ & \sum_k \sum_{h \neq k} [\omega_k \text{skill}_{k,ijt} + \omega_{kh} \text{Mix}(\{\text{skill}_{k,ijt}, \text{skill}_{h,ijt}\})] + \gamma X_{ijt} + \delta_j + \delta_t + \delta_i + \epsilon_{ijt} \quad (2) \end{aligned}$$

where  $\text{skill}_k, \text{skill}_h \in \{\text{analytical}, \text{computer}, \text{mechanical}, \text{interpersonal}\}$

Conditional on skill levels, the coefficients on skill mixing indexes  $\beta_{kh}$  identify the returns to working in occupations more mixed of those skill combinations. To further examine the worker level returns to skill mixing, I add to the right-hand side the levels of the skills that workers have, and their degrees of mixing. The coefficients on worker-level mixing indexes  $\omega_{kh}$  then identify the wage premium to the mixing of worker skills conditional on occupation skill requirements. Throughout all the specifications, I include ethnicity by gender, age, metropolitan status, individual year, years of education, census region, and urbanity fixed effects. I also include occupation fixed effect to control time-invariant differences across occupations and focus on how the changes in skill requirements within the occupation are affecting wage returns, consistent with the empirical finding that this margin is the main driver of skill mixing. Standard errors are clustered at the individual worker level to account for within-group correlation and heteroskedasticity among repeated observations at the individual level. To focus the discussion on the wage returns to skill mixing, I only present the results on the skill mixing index  $\beta_{kh}$  and  $\omega_{kh}$ , and discuss the returns to individual skills and how they interact with skill mixing in online Appendix [A.7](#).

Table 3: Return to Skill Mixing of Occupation and Worker Skills

Dependent: ln(hourly wage)	(1)	(2)	(3)	(4)
<b>Occupation Skills</b>				
Mix (analytical + computer)	0.007 [0.005]	0.011** [0.005]	0.013*** [0.005]	0.011 [0.008]
Mix (analytical + interpersonal)	0.016*** [0.005]	0.016*** [0.005]	0.015*** [0.004]	0.027*** [0.007]
Mix (computer + routine)	-0.022** [0.009]	-0.029*** [0.009]	-0.021*** [0.008]	-0.026** [0.012]
Mix (computer + interpersonal)	-0.008 [0.006]	-0.012** [0.006]	-0.014*** [0.005]	-0.011 [0.009]
Mix (routine + analytical)	-0.050*** [0.008]	-0.056*** [0.009]	-0.050*** [0.008]	-0.057*** [0.012]
Mix (routine + interpersonal)	0.023*** [0.008]	0.029*** [0.009]	0.019** [0.008]	0.023* [0.012]
<b>Worker Skills</b>				
Mix (afqt + computer)		0.044* [0.023]		0.021* [0.013]
Mix (afqt + social)		0.028* [0.015]		-0.081*** [0.021]
Mix (computer + asvab mech)		0.013 [0.025]		-0.081*** [0.027]
Mix (computer + social)		0.008 [0.013]		0.065*** [0.020]
Mix (asvab mech + afqt)		0.001 [0.009]		0.115*** [0.042]
Mix (asvab mech + social)		-0.040*** [0.011]		-0.064 [0.044]
Ethnicity × Gender, Age, Region, Edu FE	X	X	X	X
Occupation FE	X	X	X	X
Worker FE			X	X
Observations	87,655	78,719	87,655	50,580
R-squared	0.426	0.439	0.758	0.762

Notes: This table reports the result of estimating equation (2) using pooled NLSY79&97 data for employed workers from 2005-2019. Log hourly wages are the outcome variables and person-year is the unit of observation. The occupational skill and skill mixing measures come directly from O\*NET and are merged to NLSY79&97 based on census occupation codes. The worker-level skill measures are constructed as in Table 10 and skill mixing indexes are then calculated accordingly. All measures of skill and skill mixing are normalized to have mean 0 and standard deviation 1. Ethnicity-by-gender, age, year, census region, urbanicity, and a 5-category (no high-school, high-school graduate, some college, college graduate, post-college) education fixed effects are included for all regressions, with additional fixed effects as indicated in the table. Standard errors are clustered at the individual level. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$ .

**Occupation and Worker Level Returns:** Table 3 shows the wage returns to skill mixing at both the occupation and individual levels and indicates a positive premium of mixing non-routine skills. Column (1) shows that workers in occupations that become one standard deviation more mixed of analytical and interpersonal skills earn a wage gain of 1.6 percent per year, significant at the 1 percent level. Workers in occupations that become more mixed of analytical and computer skills also reap wage increases though not significant. Other the other hand, workers in occupations more mixed of routine and other skills saw a wage decline, except for routine and interpersonal, the mixing of which gives a 2.3 percent wage gain.

One potential concern is that workers sort into occupations in which their skills are rewarded higher, making it difficult to estimate the returns to the mixing of occupational skills across workers. In column (2), I further include worker abilities and their degree of mixing. Such a specification serves two purposes. On the one hand, the inclusion of additional worker characteristics improves the precision of the identified wage premiums at the occupation level; on the other, it sheds light on the return to skill mixing at the worker level conditional variations in the workers' occupations. The results indicate that on the occupational level, the wage premium for analytical and interpersonal, as well as routine and interpersonal skills persist, while for analytical and computer has become stronger, at 1.1 percent per year, and significant at 5 percent level. Turning to the worker side, workers that are a standard deviation more mixed of analytical and computer, as well as analytical and interpersonal also earn a wage premium of 3-4 percent, though is not very precisely estimated.

In column (3), I further restrict the analysis to within worker variation by adding worker fixed effects; along with the occupation fixed effects, this specification essentially resembles an AKM model.<sup>29</sup> The magnitudes of the returns to skill mixing shown in column (3) are similar to those in column (2). Workers who are in an occupation that are one standard deviation more mixed of analytical and computer as well as analytical and interpersonal skills see their wage increase by 1.3 and 1.5 percent respectively, and those

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<sup>29</sup>Using within worker variation to study wage growth has been discussed and applied in i.e., [Neal \(1999\)](#); [Gibbons et al. \(2005\)](#); [Lazear \(2009\)](#) and [Deming \(2017\)](#). [Choné and Kramarz \(2021\)](#) found that under a worker assignment model with bundled skills, the implied wage equation also has an AKM form.

who are in occupations that are one standard deviation more mixed of mechanical and interpersonal skills earn 1.9 percent more. Contrarily, workers in occupations that are more mixed with the rest of the skill combinations are associated with a wage reduction of 1.4 to 5 percent.

In online Appendix Table A6, I show that the occupational level returns to skill mixing conditional on worker fixed effects is robust to alternative measures of skills and mixing. Across all these robustness checks, a similar qualitative pattern holds. Specifically, there is about a 1 to 2.5 percent wage premium for working in occupations more mixed of analytical and computer as well as analytical and interpersonal skills and a 3 percent of a wage premium for routine and interpersonal skills. The mixing of other skill combinations is associated with negative wage returns at the occupation level. Further, in online Appendix Table A6 I show that there is also a positive employment premium for workers with a more mixed skill set: workers with a more mixed level of all the skill pairs except for routine and interpersonal are also more likely exit unemployment.

**Returns to College Major's Skill Mixing:** With the calibrated skill accumulation of workers, I test the return to obtaining a more mixing skill set in column (5), conditional on occupational skill requirements and worker fixed effects. Workers don't seem to earn a wage premium as they become more mixing of most skills in switching occupations, except for mechanical and interpersonal skills, the mixing of which brings a 10.8 percent return.<sup>30</sup> At the same time, the positive and significant returns to switching to an occupation more mixing of analytical and computer as well as analytical and interpersonal skills persist conditional time-varying worker characteristics, validating their robustness.

To focus on the role that schooling and college education play in workers' human capital formation and return to skill mixing, in column (6) I represent a worker's human capital by the skill content of a worker's accumulated education experience.<sup>31</sup> Such

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<sup>30</sup>This is consistent with the evidence in Autor and Dorn (2013) that low-skill service occupations attract workers from mid-skill routine occupations and are associated with a wage gain; the result here indicates that such transition is likely to be also accompanied by the mixing of mechanical and interpersonal skills on the workers' side.

<sup>31</sup>I apply rolling averages of skill and mixing measures of a worker's entire education history to represent that worker's education skill content, therefore, there is worker-level variation.

a designation necessarily restricts the analysis to those who have entered college and brings up selection concerns; however, controlling worker fixed effects and fixed and time-varying occupation attributes, the evidence will imply whether it is rewarding to transition to a more mixing major conditional on one's job choices. The result in column (6) shows a positive return of around 5 percent to switching to a college major a standard deviation of more mixing of analytical and computer or of mechanical and interpersonal skills. The wage premium to skill mixing appears to be larger for college major choices relative to occupation choices.

## V A Directed Search Model with Occupation Design

The rich empirical findings on skill mixing pose challenges in understanding their driving forces. In what follows, I attempt to provide an overarching framework to investigate the mechanisms. For this purpose, I build a directed search model with several unique features: First, both firms and workers are represented by multi-dimensional skills; Second, firms must make decisions about occupation design before meeting workers, a process that involves a cost payable upon meeting as in [Acemoglu \(1999\)](#);<sup>32</sup> Third, the model incorporates non-linear production and operation cost technologies. Despite the rich setup, the model remains tractable satisfying Block Recursivity as in [Menzio and Shi \(2011\)](#). Under these specifications, the model offers clear insights regarding changes in skill mixing, wages, and employment that are linked to the empirical findings.

### V.A Environment

**Workers:** Time is discrete. At each period  $t$ , there is a unit measure of heterogeneous workers that lives forever. Each worker is characterized by a vector of multi-dimensional skills  $\mathbf{x} = \{x^1, \dots, x^k, \dots, x^K\} \in S \subset \mathbb{R}^K$ , where  $K$  is the dimension of a closed skill space  $S$ . Workers are risk-neutral, have linear utilities equal to their consumption, and discount the future with a factor  $\beta$ .

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<sup>32</sup>As such, the model incorporates directed search on both the worker and firm sides with high-dimensional heterogeneity on the two sides.

**Firms:** On the other side of the market, there is an endogenous measure of risk-neutral firms each running one vacancy. Potential entrant firms pay a cost  $c$  to post their vacancies across different occupations  $j = \{1, \dots, J\}$ , with  $J \geq 2$ . Each occupation is characterized in the same multi-dimensional skill space as workers' skills,  $\mathbf{y} = \{y^1, \dots, y^k, \dots, y^K\} \in S \subset \mathbb{R}^K$ , which has the interpretation of a vector skill requirement or skill importance for each of the worker skills. Firms share workers' discount factor  $\beta$ . In the exposition below, I subsume time subscript in describing worker and firm characteristics.

The production function of each worker-firm pair takes a CES form of the skill inputs of workers and skill requirements of occupation  $j$  that the firm runs the job:

$$f(\mathbf{x}, \mathbf{y}) = \left[ \sum_{k=1}^K (x^k y^k)^\sigma \right]^{\frac{1}{\sigma}}, \quad (3)$$

where the elasticity of substitution between the two skills is  $\frac{1}{1-\sigma}$ .<sup>33</sup> This production technology represents an extension of the production technology used in the multi-dimensional skill matching literature (i.e., [Lise and Postel-Vinay 2020](#); [Lindenlaub 2017](#); [Ocampo 2022](#)), where there is within-match complementarity between worker and firm attributes, but I also allow complementarity across skills regulated by  $\sigma$ . When multi-dimensional skill distributions of workers and firms are available, such a production technology gives a clearer portrayal of the interaction between skill demand and supply.

A unique feature of this model is that I allow firms to actively *design* the job before meeting the worker ([Acemoglu \(1999\)](#)), delivering a flexible degree of skill mixing. Specifically, firms with both filled and unfilled vacancies design their occupations by optimally choosing the occupational skill requirements  $y(j)$  in each period.<sup>34</sup> Such an intensity choice of each skill in an occupation alters the efficiency of that skill will and essentially leads to different production technologies for that occupation, capturing the

<sup>33</sup>Since labor is the only input in the model, it can be understood as “equipped” labor, and occupations' skill requirement or importance  $\mathbf{y}$  takes a factor augmenting form.

<sup>34</sup>This feature is consistent with the empirical finding that both incumbent jobs and vacancies have changing degrees of skill mixing.



overall quality of the occupation and the optimal degree of skill mixing. In designing the occupation, both worker skill profiles and skill complementary play an important role, as firms would want to exploit what skills that the workers supply given the technology.<sup>35</sup> Nonetheless, such a job design incurs a cost  $C(y)$  that is payable upon meeting with a worker. This cost increases in the skill level that the firm chooses ( $C'(y) > 0$ ), and represents the necessary expenses to operate an occupation. This cost can be understood as an operation cost as in Hopenhayn (1992) that is depends on the skill-level of the occupation.<sup>36</sup>

**Labor Market:** There is a continuum of submarkets that are indexed by worker and occupation skill profiles  $(x, y)$ , as well as the share of worker-firm output  $\omega$  that firms promise to workers.<sup>37</sup> Workers with skill profile  $x$  direct their search towards different occupations and promised utilities, meeting one vacancy at a time. Matching between workers and firms is frictional and is regulated by a standard constant to scale matching function. Under this directed search environment, each submarket has a separate tightness (vacancy-unemployment ratio), denoted by  $\theta(x, y, \omega)$ . In each submarket, workers find job with probability  $p(\theta(x, y, \omega))$ , and firms fill the vacancy with probability  $q(\theta(x, y, \omega)) = p(\theta(x, y, \omega)) / \theta(x, y, \omega)$ .<sup>38</sup>

The timing of the model evolves as follows. At the beginning of each period, a fraction  $\delta$  of worker-firm pairs separate exogenously. Before the labor market opens and unlike standard search models, firms will first need to design the occupations at this stage before they post vacancies across submarkets. The labor market then opens, and both

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<sup>35</sup>For example, in designing an occupation (i.e., sales persons) for lower-skill workers who might have a greater supply of interpersonal than analytical skill, firms may want interpersonal skill to be more intensively used to take advantage the labor supply; on the contrary, if online marketing has increased the complementarity between analytical and interpersonal skills, firms may adjust accordingly to let the analytical skill to be more intensive. In equilibrium, this endogenous intensity will depend on other forces in the model.

<sup>36</sup>For example, to design and operate an occupation that employs high-skill workers, a firms will need to incur higher expenses in terms of better offices and equipment rentals.

<sup>37</sup>This arrangement can be considered as an employment contract simply specifies the output share  $\omega$  promised to the worker contingent on the state for the current period, as well as the continuation value of the match in the subsequent period (see next section). The contract is assumed to be fully committed by both the workers and firms.

<sup>38</sup>Functions  $p$  and  $q$  also satisfy usual regularity conditions: twice continuously differentiable;  $p'(\theta) > 0, p''(\theta) < 0, p(0) = 0; q'(\theta) < 0, q''(\theta) > 0, q(0) = 1$ .

unemployed and employed search for unfilled vacancies and form matches with firms under the constant return to scale matching technology. The labor market then closes, firms produce the output, pay the occupation operation cost, as well as the wage which is a share of output to workers. Unemployed workers receive a transfer with a value of  $b$ . Lastly, workers are able to be learning-by-doing, and their skills evolve according to the Markov process depending on their employed occupations.

**Aggregate and Individual State:** The aggregate state of the economy is the distribution of workers across employment status, skill profiles, occupational skill requirements, and promised utilities, denoted as  $\psi \in \Psi$ . I subsume aggregate state in the exposition of model equilibrium in the next section and show that in fact, the model equilibrium is independent of the aggregate state.

Nonetheless, in the model, I allow workers to learn on the job, and their subsequent skill profiles are contingent upon their current employment status, as in [Lise and Postel-Vinay \(2020\)](#). Specifically, considering each skill  $j$  in the worker's skill profile  $\mathbf{x}$  as an element of the finite set  $S$ , the evolution of this skill follows a Markov process  $\pi(x'_j|x_j, y_j)$ , conditional on the worker's current skill level and employed occupation. If a worker is matched with an occupation that requires a skill level exceeding his or her own ( $x_j < y_j$ ), the worker's skill  $j$  will adjust upward in the next period:  $x'_j > x_j$ , and the inverse applies for a worker whose skill is lower than the requirements of their current occupation. The probability, and thereby the speed of skill adjustment, is contingent upon the specific  $j$ . For unemployed workers, they are treated such that their present occupation demands a zero level for all skills. The calibration of the skill adjustment probability is discussed in [Section VI](#).

## V.B Model Equilibrium

I shall now characterize the optimal strategies for workers' job search and firms' job creation and continuation. The value functions for workers are described at the point of the production stage when the labor market comes to a close, while for firms I also consider the job design stage before the labor market opens.

**Worker's Problem:** Let  $U(\mathbf{x})$  denote the value of being unemployed and searching for a worker  $\mathbf{x}$  at time  $t$ . Similarly, let  $W(\mathbf{x}, \mathbf{y}, \omega)$  be the total discounted returns from holding a job of skill requirements  $\mathbf{y}$  and output share  $\omega$  at time  $t$ . These values can be written as:

$$\begin{aligned}
U(\mathbf{x}) &= b + \beta E \left\{ \max_{\mathbf{y}', \omega'} p(\theta_{t+1}(\mathbf{x}', \mathbf{y}', \omega')) W_{t+1}(\mathbf{x}', \mathbf{y}', \omega') \right. \\
&\quad \left. + [(1 - p(\theta_{t+1}(\mathbf{x}', \mathbf{y}', \omega')))] U_{t+1}(\mathbf{x}') \right\} \\
W(\mathbf{x}, \mathbf{y}, \omega) &= \omega f(\mathbf{x}, \mathbf{y}) - C(\mathbf{y}) + \delta U_{t+1}(\mathbf{x}') + \beta(1 - \delta) E \left\{ \max_{\mathbf{y}', \tilde{\omega}'} p(\theta_{t+1}(\mathbf{x}', \mathbf{y}', \tilde{\omega}')) W_{t+1}(\mathbf{x}', \mathbf{y}', \tilde{\omega}') \right. \\
&\quad \left. + [(1 - p(\theta_{t+1}(\mathbf{x}', \mathbf{y}', \tilde{\omega}')))] W(\mathbf{x}', \mathbf{y}, \omega) \right\}
\end{aligned} \tag{4}$$

Unemployed workers gain a utility  $b$  through the current period's transfer. In the subsequent period, their skills may transition to  $\mathbf{x}'$ , which are likely to depreciate due to their unemployed status. Meanwhile, within the submarket that aligns with their skill profiles, workers engage in the search for vacancies that span a variety of occupations  $\mathbf{y}$  and output shares  $\omega$ , looking for the highest continuation value. In choosing  $\mathbf{y}$  and  $\omega$ , workers face the tradeoff between the value of employed and the success probability of a match  $p(\theta_{t+1}(\mathbf{x}', \mathbf{y}', \omega'))$ , both of which hinge on the occupation and output share that the workers target. Should the match prove successful, the workers enjoy the continued value that employment offers; otherwise, their status of unemployment persists.

Workers currently employed in a firm characterized by  $(\mathbf{y}\omega)$  receive a wage equivalent to the share *omega* of the output from their match. When the subsequent period arrives, they face a probability *delta* of an exogenous separation, in which case they become unemployed with a value  $U_{t+1}(\mathbf{x}')$  and engage in job search immediately. Employed workers perform on-the-job searches in their current match for new occupations and output shares  $(\mathbf{y}', \tilde{\omega}')$ , on the premise that there is a positive probability  $p(\theta_{t+1}(\mathbf{x}', \mathbf{y}', \tilde{\omega}'))$  that the continuation value from the new match offers exceeds that of the original firm. In the absence of such possibilities or if the transition is not successful, the worker remains with the initial firm.

**Firm's Problem:** Consider a firm running occupation  $\mathbf{y}$ , offering output share  $\omega$ , and employing worker  $\mathbf{x}$ . Let  $J(\mathbf{x}, \mathbf{y}, \omega)$  denote the total discounted profits to this firm:

$$J(\mathbf{x}, \mathbf{y}, \omega) = (1 - \omega)f(\mathbf{x}, \mathbf{y}) - C(\mathbf{y}) + \beta(1 - \delta)E\left\{(1 - p(\theta_{t+1}(\mathbf{x}', \mathbf{y}', \tilde{\omega}'))J(\mathbf{x}', \mathbf{y}, \omega)\right\} \quad (5)$$

In the current period, firms receive a portion  $(1 - \omega)$  of the worker-firm output, after paying the workers their wages. In addition, firms also need to cover the occupation operation cost  $C(\mathbf{y})$ , which depends on the skill levels required by the occupation in which the firm is engaged. The labor market operates under free entry for firms, hence, maintaining a vacancy bears no value. In the case of exogenous separation, or with a probability  $p(\theta_{t+1}(\mathbf{x}', \mathbf{y}', \tilde{\omega}'))$  that the worker finds another job at an optimal occupation  $\mathbf{y}'$  and output share  $\tilde{\omega}'$  through on-the-job search, the firm accrues no profits. In the case where the match persists, the firm continues to acquire discounted profits from the match.

$$c = \beta E\left\{\max_{\mathbf{y}} q(\theta(\mathbf{x}, \mathbf{y}, \omega))J(\mathbf{x}, \mathbf{y}, \omega)\right\} \quad (6)$$

The free-entry condition further highlights firms' choice of optimal degree of skill mixing and the tradeoff that agents face in the model. Prior to the opening of the labor market in each period, incumbent and entrant firms re-design the occupation, taking into consideration the overall production technology and worker skills within their respective submarkets.<sup>39</sup> Given that the value of a vacancy is zero, firms will opt for an optimal skill mixing that equates the firm's anticipated discounted profits to the cost of vacancy posting as in equation (6). This condition implicitly pins down market tightness  $\theta(\mathbf{x}, \mathbf{y}, \omega)$ . If an occupation for a specific worker type becomes more profitable, the number of vacancies posted will increase, leading to a rise in market tightness but at the same time a reduction in the job-filling rate.<sup>40</sup>

<sup>39</sup>Considering that incumbent firms and new entrants utilize identical production technologies and confront the same worker skills within each submarket, their choices align.

<sup>40</sup>As in other directed search models, only a portion of submarkets may open in equilibrium, depending on firm's value and corresponding market tightness in different markets

The free entry condition also reflects the tradeoff faced by workers. Since workers receive the remaining output claimed by the firms, in markets with higher job-finding probabilities (i.e., tighter markets), the value of employment is likely to be lower. Workers' job finding probability also feedback to firms' discounted profits through worker on-the-job search and the chance that the firm attracts other employed workers.

**Block-recursive Equilibrium:** Despite the multi-dimensional skill setup, the model still achieves great analytical tractability by relieving the dependence on the entire distribution of agents across aggregate states in characterizing agents' value functions and the market tightness. Such a convenient feature was coined as "block-recursive" in [Menzio and Shi \(2010\)](#) and [Menzio and Shi \(2011\)](#) for a broad range of directed search models.<sup>41</sup> This is a result of two features of the model. First, as search is directed and workers choose optimally the occupation and output share, their life utility does not depend on their outside options, and workers do not need to forecast the wage depending on the entire distribution of employment. Second, there are separate markets for workers of different profiles, and workers search for jobs within their own submarket, in which firms carry different occupations. This additional degree of separability implies that the market tightness of a submarket is independent of the worker distribution in other markets, relieving the burden of workers and firms to forecast other markets in making their decisions.<sup>42</sup> In online Appendix B.2, I formally define a Block-recursive equilibrium for the economy and show its existence and uniqueness.

**Skill Mixing, Wages and Employment:** The model yields several predictions regarding changes in skill mixing, wages, and employment that align closely with the empirical findings detailed in Sections III and IV. These predictions emphasize the role of skill

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<sup>41</sup>Block recursivity allows not only analytical tractability but also enables standard numerical techniques to solve the model. The framework considered in this paper involves more heterogeneity and requires an additional degree of directness, as discussed.

<sup>42</sup>Such additional directness implies that, i.e., computer scientists only confront other computer scientists in job search, while sales clerks only compete with other sales clerks. In reality, the degree of separability will depend on specific occupations and the overall economic condition. As reported by [Osberg \(1993\)](#), search directedness is procyclical and is higher when the market is tight. In bringing the model to the data, I use economic recovery periods and more coarse occupations to be consistent with the model.

complementarity within a production framework that features indivisible skills. The formal propositions and proofs of these outcomes can be found in online Appendix B.1, and a concise discussion is provided here.

Under the production technology described in equation (3) and the occupational design cost outlined in (7), increased complementarity in production or a higher degree of increasing marginal costs leads firms to find it more profitable to employ a mixture of different skills rather than specializing in one, leading to increased skill mixing. Additionally, the supply of skills by workers influences these outcomes: as workers supply a more diverse set of skills, it becomes more efficient to design jobs that require this mix of skills. In terms of wages and employment, if skills become more complementary in production or less costly to combine, the output of the worker-firm match rises, leading to wage increases. Through the free entry condition specified in equation (6), this increased joint worker-firm value results in a tighter labor market and an elevated job-finding probability for workers. I quantitatively calibrate the model and test these predictions in the next section.

## VI Quantitative Analysis

In this section, I calibrate the model to evaluate the quantitative importance of different factors contributing to the phenomenon of skill mixing, and explore implications for wages and employment. I first describe data construction and measurement, followed by a discussion of estimation protocol, moment selection, and parameters identified. I then perform counterfactual analyses and show that technological shifts embodied in the changes in complementarity of skills in production, the operation cost of occupation operation, as well as biases towards different worker skills have played a major role in driving the variation in skill mixing. I then show that these forces also account for a significant part of wage and employment shifts.

## VI.A Measurement and Calibration

**Data and Measurement:** I apply the same combination of NLSY 79 & 97 along with O\*NET data as in Section IV to calibrate the model. The datasets provide counterparts to the model variables such as worker skills ( $x$ ), occupational skill requirements ( $y$ ), unemployment rate, and wage levels. The model is calibrated to two periods of data from early 2000s to late 2010s separately, which coincides with a substantial shift in skill mixing and abstracts from the financial recession. Specifically, the steady-state of the model is fitted to the data from 2005–2006 and 2016–2019 to ensure comparability of sample sizes across these two periods, and I restrict to those workers with wage, occupation, and ability information.<sup>43</sup> Finally, for both worker and job skill profiles, I consider the same set of skills (analytical, computer, interpersonal, routine) as in Section IV, only combining analytical and computer skills into one to have skill dimension of three to be feasible for quantitative analysis.

Considering the potential influence of skill supply variation on skill mixing, the model calibrates workers' skills to align with their choice of occupation and college major (if attended), as well as their employment status, following the approach of [Lise and Postel-Vinay \(2020\)](#). This introduces variation in worker skill supply *across* the two periods. Worker skills are adjusted upwards if the requirements of an occupation or a college major exceed their original skills, and downwards otherwise, or if the worker is unemployed. The speed of skill adjustment is asymmetric and skill-specific. The parameters governing the skill adjustment are provided in Online Appendix Table 10.<sup>44</sup>

**Functional Forms:** The model is parameterized as follows. The multi-dimensional skill production function is defined as in equation 3, which accommodates cross-skill complementarity controlled by  $\sigma$  and enables a sensible interaction between skill demand and

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<sup>43</sup>NLSY 1997 was conducted annually during 2005-2006, but only biannually in 2016-2019, so does NLSY 1979 for the later period. The same sizes for the two selected periods are 30,654 and 43,340 respectively.

<sup>44</sup>Using the estimates from [Lise and Postel-Vinay \(2020\)](#) as in online Appendix Table 10, a worker accumulates  $\gamma$  times the gap between the worker's skills and an occupation's requirements in each year, with the value of  $\gamma$  depending on learning or depreciation (upward or downward accumulation). Workers' skills can be lost when not employed but can't be lower than their initial endowments. Finally, for skill changes while in school, I specify that workers spend on average 3 years learning the skills of their majors.



supply, in line with the multi-dimensional matching literature (i.e., [Lise and Postel-Vinay 2020](#); [Lindenlaub 2017](#); [Ocampo 2022](#)). I allow a flexible form of occupation operation cost  $C(\mathbf{y})$  as in equation 7, where  $\rho$  regulates the degree of increasing or decreasing marginal cost of elevated skill requirements, and  $\tau$  governs the overall cost of operating an occupation.<sup>45</sup>

$$C(\mathbf{y}) = \tau \left[ \sum_{k=1}^K (y^k)^\rho \right] \quad (7)$$

The matching function assumes a standard Cobb-Douglas form,  $M(s, v) = \mu s^\eta v^{1-\eta}$ , indicating that  $\eta$  is the elasticity of matches concerning total search effort, and  $\mu$  is the matching efficiency. This function leads to the job finding rate being  $p(\theta) = \mu \theta^{1-\eta}$  and the vacancy filling rate being  $q(\theta) = \mu \theta^{-\eta}$ .

**Calibration Strategy:** The calibration of parameters falls into two categories. For parameters that regulate the search environment, I follow closely the conventions of the search and matching literature. However, for those parameters linked to the technology for skills in production, I estimate them internally through Simulated Methods of Moments (SMM).

The model period is one quarter. Given that all agents are risk-neutral, the discount rate  $\beta$  is assigned a value of 0.99, corresponding to an annual interest rate of approximately 4 percent. The job separation rate  $\delta$  is set at 10 percent per quarter, as in [Shimer \(2005\)](#). For employed workers, their bargaining power  $\omega$  is set at 0.6, mirroring the labor share of GDP in 2005. For unemployed workers, the unemployment benefit  $b$  is set at 0.25 as in [Braxton and Taska \(2023\)](#), which equates to about 51 percent of worker consumption in the calibrated model. The elasticity of the matching function  $\eta$  is set at 0.5 as is standard, and the matching efficiency  $\mu$  is set to 0.65, as in [Mercan and Schoefer \(2020\)](#). Therefore, the internally estimated parameters include: the elasticity among skills in production  $\sigma$ , the scale and elasticity parameter of occupation operation cost  $(\tau, \phi)$ , and the vacancy

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<sup>45</sup>Besides technical convenience, the functional form (7) also implies that for a given cost, firms need to tradeoff the choice of altering different skill intensities.

Table 4: Moments and Model Match

	First Period		Second Period	
	Data	Model	Data	Model
<b>Worker moments</b>				
Relative wage of high type				
Analy/computer	1.23	1.18	0.92	0.97
Interpersonal	1.03	0.98	1.29	1.42
Routine	1.52	1.43	1.63	1.69
Unemploy. Rate	0.09	0.10	0.16	0.16
<b>Occupation moments</b>				
Relative wage of high skill	1.30	1.35	1.56	1.57
Employ. share (low skill)	0.43	0.43	0.37	0.34
Employ. share (high skill)	0.57	0.57	0.63	0.66
100 × Skill mixing (low skill)	97.54	98.36	98.96	98.75
100 × Skill mixing (high skill)	95.74	96.33	94.12	94.92

*Notes: This table reports the average values of the targeted and non-targeted moments both in the data and through model simulation except. The data used for the moment calculation and for SMM estimation are two periods of pooled NLSY79&97 for employed workers: period 1 from 2005–2006 and period 2 from 2016–2019. Two types of moments are included: the worker moments include the relative wage of high type workers as well as the unemployment rate; the occupation moments include the relative wage of high skill occupations, the employment share and the skill mixing in low and high skill occupations.*

posting cost.

Before describing the estimation protocol, I outline how to map occupations and workers in the model to the data and the choice of grid points. I classify occupations into high- and low-skill, as in Section IV, with the former group including high-wage and white-collar jobs, and the latter blue-collar and service jobs. The grid points for occupations' skill requirements  $\mathbf{y}$  are set such that moving up one grid corresponds to 30 percent of the observed median value for each occupation. On the worker side, for each of the worker skill in  $\mathbf{x}$ , a worker belongs to the high type if the skill is above the average value among all workers; with three chosen skills, there are 8 worker types in the model. I internally estimate the relative efficiency of high-type worker relative to low-type for each skill ( $\alpha_k, k = \{\text{analy/computer } (a), \text{interpersonal } (p), \text{routine } r\}$ ). Since labor is the only input in production, these relative efficiencies represent the “efficiency differential”

of high-type workers that leads to higher productivity (i.e., [Katz and Murphy 1992](#); [Autor, Katz, and Krueger 1998](#); [Goldin and Katz 2010](#)).<sup>46</sup>

The SMM procedure starts with solving the steady state policy for the agents given the parameters of the model. A panel of workers, each with a lifespan of 40 quarters, is then simulated. These workers start as unemployed and draw their skill supply from the calibrated empirical distribution. As each model period concludes, the workers' skills evolve following a Markov process,  $\pi(\mathbf{x}'|\mathbf{x}, \mathbf{y})$ , where the skill adjustment probability is calibrated in line with [Lise and Postel-Vinay \(2020\)](#) (see online Appendix B.5 for more details). Each iteration thus results in a distribution of employment statuses and corresponding labor market outcomes. The parameters are then estimated SMM, which minimizes the gap between simulated and empirical moments by searching over the parameter space and offers local identification. Online Appendix B.5 provides further details on the numerical implementation.

The estimation targets 9 moments as shown in Table 4 for both periods that include: i) the relative wage of the high-type worker for each skill; ii) the unemployment rate; iii) the relative wage of high-skill occupation; iv) the share of employment across occupations; and iv) the skill mixing indexes across occupations. The model parameters are jointly identified from the moments, for which a concise summary of the key information for identification is given below with more detailed discussion in online Appendix B.3. I first identify critical elasticity parameters in production and occupation operation costs ( $\sigma$  and  $\rho$ ). To allow for separate identification, I estimate  $\sigma$  relying relative occupational wages within occupations instead of absolute values using maximum likelihood (MLE), isolating the role of  $\sigma$  from other cost parameters. I then delve into identifying cost parameters  $\rho$  and  $\tau$ , leveraging the firm's optimization conditions and skill ratios. The model's employment distribution further aids in estimating  $\tau$ . Lastly, unemployment probabilities and relative wage structures disciplines the vacancy posting cost and the efficiency differential of high-type workers.

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<sup>46</sup>As such, the quantitative analysis explores both the role of changes in relative input efficiency that is the focus of SBTC literature, and changes in skill complementarity.

Table 5: Parameter Estimates

	$\sigma$	$\tau$	$\phi$	$\alpha_a$	$\alpha_p$	$\alpha_r$	$c$
First period	1.0	0.6	6.7	2.2	1.0	1.8	1.1
Second period	0.4	1.5	2.6	2.8	2.5	1.7	8.9

*Notes: This table shows the estimated elasticity in production parameter ( $\sigma$ ), the scale and degree of increasing marginal rental cost ( $\tau$  and  $\rho$ ), vacancy posting cost ( $c$ ) as well as relative productivity of high-skill workers ( $\alpha_k$ ) in two periods using SMM. The data used for the moment calculation and for SMM estimation are two periods of pooled NLSY79&97 for employed workers: period 1 from 2005–2006 and period 2 from 2016–2019.*

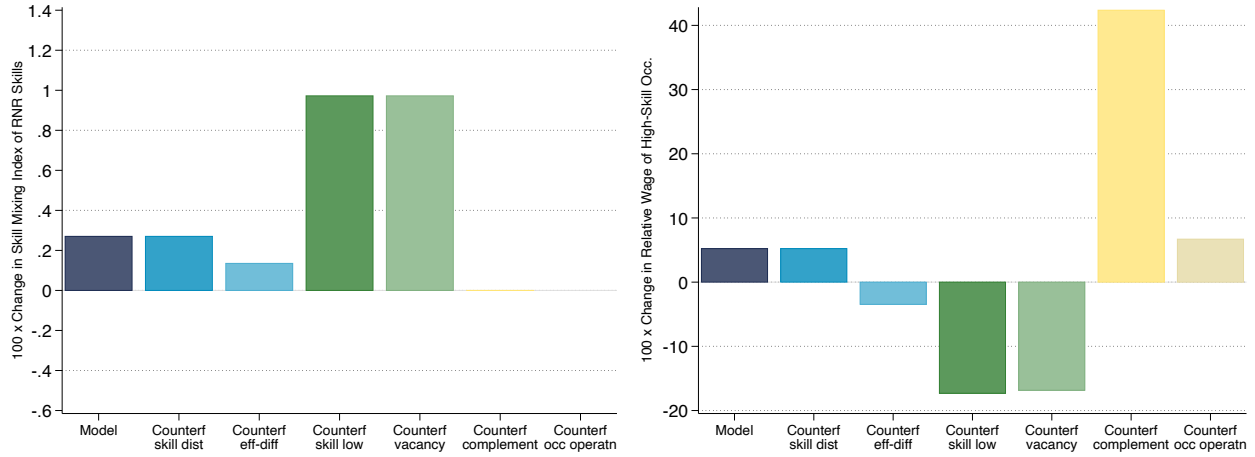
**Estimation Results:** Table 5 presents the identified parameters, indicating considerable technological shifts between the two periods. For the initial period, the estimated  $\sigma$  is 0.5, suggesting that skills are substitutable in production. Firms encounter rising marginal costs as they increase skill requirements ( $\phi \geq 1$ ). When it comes to efficiency differentials, workers with higher levels of interpersonal, routine, or analytical/computer are 1.5 to 2.3 times as productive as those with lower skill. Vacancy posting cost is 1.3 times the quarterly output of a worker-firm match.

In the second period, there is a significant rise in skill complementarity in production, reflected in the reduction of *sigma*. As discussed in Section VI, this increased complementarity intensifies firms' incentives to mix skills. During this period, the occupation operation cost for firms rises, although the convexity in skill requirement choices has declined. Efficiency differential increases for interpersonal skill, declines slightly for analytical/computer skills, while for routine skills, it has considerably declined. This suggests that wage premiums for routine experts becomes much lower compared to other skills; it also implies that the incentive to mix routine with other skills in high-skill occupation declines. Lastly, the cost of posting vacancies decreased to 80 percent of quarterly worker-firm output in the second period.

## VI.B The Drivers of Skill Mixing and Implications for Wages and Employment

In this section, I employ the model to perform a series of counterfactual experiments to assess the relative significance of each model channel in explaining the shifts in

Figure 6: Model Counterfactual



Notes: This figure shows the model generated changes in skill mixing in low-skill occupations (panel 1) and changes in relative wage of high-skill occupation (panel 2). Different model channels are shut down sequentially by eliminating the relative calibrated values to highlight the contribution of each channel. The full model has all the model features. Worker skill supply distribution variation across the periods are calibrated according to Table 10. The values of efficiency differential, skill level of low-type worker, vacancy posting cost, skill complementarity in production and occupational across two periods are shown in Table 5.

the degree of skill mixing. Additionally, I evaluate the influence of these channels on the changes in earnings and employment distribution. Specifically, I focus on the roles of skill supply variation, efficiency (differential) of low-type (high-type) workers, skill complementarity in production, occupation operation cost, and vacancy posting cost in generating moment variations that align with the data. To gauge the significance of each of these elements, I sequentially suspend the shifts in parameter values associated with these channels and observe the impact on different outcomes.

**Counterfactual Skill Mixing:** I begin by assessing how different channels contribute to the growth in skill mixing within low-skill occupations, which has been noticeably observed in the data.<sup>47</sup> The first panel of Figure 6 illustrates that the full model predicts a rise in skill mixing within low-skill occupations over the two periods. In the absence of

<sup>47</sup>I focus on changes within occupation for my counterfactual analysis, primarily because this appears to be the main area where skill-mixing changes occur, as shown in Section IV. Additionally, in the quantitative part of this study, the number of occupations is far fewer than in the actual data, leading to more fluctuations in employment shares. This could distort the view of skill mixing if worker re-allocation is taken into account.

changes in the supply of worker skills across these periods, the predicted increase in skill mixing remains unchanged. On the other hand, if we ignore changes in the efficiency differential of high-type workers, the predicted increase in skill mixing is almost halved. From the estimation results, the growing efficiency of interpersonal skills, along with the small and large decline in efficiency for analytical-computer and routine skills, makes the combination of these skills within one occupation more favorable. Changes in the efficiency of low-type workers present an opposite effect. If we disregard increases in the efficiency levels of different skills for low-type workers, skill mixing actually rises above the level predicted by the full model, suggesting that these increases actually suppress the growth in skill mixing. Lastly, the costs associated with posting job vacancies appear to have little impact on skill mixing.

The subsequent counterfactual results indicate that the *joint* effects of shifts in the complementarity of skills in production and the occupational operation costs are the main determinants of skill mixing. Since previous exercises isolated all other factors, leaving only the variation in skill complementarity in production and the occupational operation costs, the resulting substantial increase in skill mixing suggests the central role these two factors in driving skill mixing. To delve deeper into their individual contributions, I examine them separately. First, I suppress the increase in skill complementarity while preserving the variation in occupational operation costs. Remarkably, the change in skill mixing became zero. Next, I do the opposite, maintaining skill complementarity at the second period level while eliminating the change in occupational operation cost. Again, the change in skill mixing disappears. These experiments underscore that the joint evolution of skill complementarity and occupational operation cost is the central force driving the increase in skill mixing over the two periods.<sup>48</sup>

**Wage and Employment Effects:** I proceed to investigate how the same model channels influencing skill mixing also impact wage and employment distribution. The second panel of Figure 6 illustrates the unweighted relative wage changes between high-skill and

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<sup>48</sup>Online Appendix B.6 investigates these channels' implications for skill mixing changes in high-skill occupations and a similar pattern holds.

low-skill occupations from the early 2000s to the late 2010s, with the model predicting an approximate 5 percent increase. As observed with skill mixing, variations in worker skill supply and vacancy posting cost appear to have minimal effects. In contrast, the efficiency differential between worker types emerges as a key driver; without it, the wage premium for high-skill occupations would have declined by roughly 2.5 percent. Interestingly, unlike skill mixing, the changes in efficiency of low-type workers act as a primary driver for wage distribution, responsible for an additional 15 percent decline in the high-skill occupation's wage premium if ignored. These results are intuitive: as efficiency differentials and low-type worker skill levels increase, the absolute skill difference between high- and low-type workers grows, leading to higher wage gains in high-skill occupations.

Regarding wage distribution, the shifts in the complementarity of skills in production and variations in occupation operation costs predominantly compress the wage gap between high- and low-skill occupations. Ignoring skill complementarity while maintaining occupation cost variations would have shifted the high-skill occupation's wage premium from a 17 percent decrease to a 41 percent increase. Meanwhile, if we only vary occupational operation costs would have changed this premium from a 17 percent decrease to a 7 percent increase. These two factors collectively work to diminish wage disparities across occupations.<sup>49</sup>

In summary, the complementarity of skills in production and changes in occupation operation costs, followed by efficiency differential variations, emerge as the main drivers of skill mixing changes, with the skill levels of low-type workers negatively impacting the degree of skill mixing across the periods. For changes in wage and employment distributions, shifts in skill complementarity and occupation costs compress the high-skill occupations' premium, while the increase in low-type worker skills, coupled with changes in efficiency differentials, drives the rise in wage and employment gains in high-skill occupations.

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<sup>49</sup>Online Appendix B.6 presents an examination of these channels' implications for employment gains in high-skill occupations and a similar pattern holds. The only difference is that for employment variation, worker skill supply variation becomes another important contributor.

## VII Conclusion

Skills are inevitably embedded in workers and understanding the demand for skill *mixtures* is important in studying the dynamics of the labor market. I present a rich set of empirical findings on the phenomenon of “skill mixing”, and show that between 2005-2018, there has been a sizable growth in the degree of mixing, particularly for analytical, computer, and interpersonal skills. To understand the heterogeneous within-occupation variation in skill mixing of different occupations, I provide an integrated explanation incorporating insights from the directed search and endogenous technological change literature. Bringing the model to the data, I estimate parameters that are important in understanding the interaction among skills and show that technological change is the main driver of skill mixing.

The phenomenon of skill mixing brings forth very different policy implications for worker training and college consulting. Using NLSY 79 and 97 combined with O\*NET data, I show that workers in occupations that become more mixed of analytical, computer, and interpersonal skills earn a positive wage premium. Further, I calculated the degree of mixing for each college major and show that students who have studied a college major more mixed of analytical and interpersonal skills earn as much as 5 percent more. In sum, this paper’s results suggest that in a world with an increasing trend of skill mixing with positive wage premiums due to technological advancements, educators and policymakers should consider providing more “mixed” skills to workers rather than focusing solely on nurturing expertise and specialization.

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# Appendix for Online Publication

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## A ADDITIONAL EMPIRICAL RESULTS

### A.1 Data Construction

In this section, I give more details on data construction for the two primary datasets on job skill demand employed in Section III and IV, namely O\*NET (Occupation Information Network) and Lightcast (previously known as "Burning Glass"). Specifically, I discuss strategies for leveraging the longitudinal information in these datasets with higher precision. I also present an overview of their inherent characteristics, advantages and disadvantages, and how they are cross-walked with other datasets used in the analysis.

**O\*NET:** Administered by the U.S. Department of Labor, O\*NET is a replacement to the Dictionary of Occupational Titles (DOT). It is more comprehensive and more frequently updated and has been used widely to analyze occupation skill requirements and work settings (i.e., [Acemoglu and Autor 2011](#); [Yamaguchi 2012](#); [Autor and Price 2013](#)).

Nonetheless, to use the longitudinal variation from O\*NET, the key challenge concerns partial updating – each new version of O\*NET only update an average of 110 of targeted occupations among the 970 7-digit occupations. Online Appendix Table A1 lists different versions of O\*NET, the release year, and the year composition for 3 of the modules. Specifically, for each release of O\*NET, I assign a “Considered Year” such that at least 55% to 60% of occupations are updated after that year.

Moreover, I use 4-year intervals. The last column of online Appendix Table A1 show the percent of occupations that are updated from the last considered year of data included in the analysis. On average, more than 50 percent of the occupations are updated across the succeeding years included in the analysis.

O\*NET contains around 270 descriptors about occupations that are grouped into 9 modules: abilities, knowledge, skills, work context, work activities, experience/education requirement, job interest, work values, and work styles. For my main analysis, I only use descriptors from 3 modules: work context, work activities, and knowledge that are more interpretable as the skill requirements, and are consistently evaluated by incumbent

workers for each new release. These descriptors come as importance, level, extent, and relevance. To interpret the skill measures as gauging the intensity, I use the importance information, similar to i.e., [Acemoglu and Autor \(2011\)](#) and [Guvenen et al. \(2020\)](#), but the level and importance pieces of information are highly correlated and don't affect the qualitative patterns of skill mixing shown in the paper.

In Section [III](#), I show the longitudinal changes in skill mixing by combining O\*NET and ACS datasets. O\*NET uses SOC 2000 occupation classification for releases between 2000 and 2010 and SOC 2010 for years after 2010. To link O\*NET and ACS, I first bridge SOC codes to the census' OCC 2000 and OCC 2010 codes respectively using crosswalks provided by the [Analyst Resource Center](#) and the [Bureau of Labor Statistics](#). Then different years of OCC codes are homogenized using a balanced and consistent panel of occupation codes developed by [Autor and Dorn \(2013\)](#) and updated by [Deming \(2017\)](#). The same code is also used for combining all years of ACS and O\*NET data.

**Lightcast:** Lightcast (formerly "Burning Glass Technologies") is an analytics software company that has developed a comprehensive and detailed dataset derived from online job postings, capturing real-time labor market information, reflecting the current demand for skills and occupations. One of the key advantages of Lightcast data is its extensive coverage and high-frequency updates. By examining over 40000 online job boards and company websites, it provides near universe of online posted vacancies; moreover, it provides a level of detail that is rarely matched by other sources of labor market data, such as job titles, employer information, and specific skill requirements. This allows for a very granular analysis of job skill requirements and labor market dynamics across different industries and regions.

The information that Lightcast collected is then parseed and deduplicated into a systematic list of thousands of codified skills. Similar to [Hershbein and Kahn \(2018\)](#) and [Braxton and Taska \(2023\)](#), the dataset that this study uses defines different skills if the codified skills from Lightcast contains relevant key words. Specifically, the key words used to capture analytical skill are: "research", "analy", "decision", "solving", "math", "statistic", and "thinking". The key words used to capture interpersonal skill are "communication",



"teamwork", "collaboration", "negotiation", and "presentation". For each occupation, the share of posted vacancies that require a particular skill is then the measure of skill for that occupation, capturing the extensive margin of firm skill demand.

However, like any data source, Lightcast data also has its limitations. For instance, it only covers online job postings, which may not represent the entire labor market, especially for low-skilled jobs or jobs in small firms that do not typically advertise online. It may also have a bias towards certain types of jobs or industries that use online job advertisements more frequently, and online vacancies by nature overrepresent growing firms (Davis, Faberman, and Haltiwanger 2013). One note of Lightcast data is that the measure of skill as introduced above focuses on the extensive margin – whether a job uses a skill or not – this is very different than the level and importance information that O\*NET contains.

Table A1: O\*NET Versions and Corresponding Years

	Released Year	Division	Work Context	Work Activities	Knowledge	Considered Year	Percent Updated
<b>O*NET 13.0</b>	2008	Post 2005	73.79%	73.79%	73.79%	2005	–
		Before 2005	26.21%	26.21%	26.21%		
<b>O*NET 18.0</b>	2013	Post 2009	57.15%	57.21%	57.21%	2009	59.8
		Before 2009	42.85%	42.79%	42.79%		
<b>O*NET 22.0</b>	2017	Post 2013	57.84%	57.67%	57.67%	2013	45.8
		Before 2013	42.16%	42.33%	42.33%		
<b>O*NET 25.0</b>	2022	Post 2018	54.52%	54.52%	54.52%	2018	64.2
		Before 2018	45.48%	45.48%	45.48%		

*Notes: The table summarizes different versions of the O\*NET (Occupational Information Network) database, along with their released year, year division for the 5 modules (work context, work activities, knowledge, skills, abilities), and the considered year for each version. The “Post” and “Before” rows indicate whether the data in each version was collected post or before a particular year. The “Considered Year” column represents the year considered to be corresponding to each release of O\*NET based on the year division of data.*

## A.2 Details of Skill Measures

In this section I briefly discuss the choice of skill measures used in the main analysis. Specifically, I show the composition of descriptors of each skill used in the main analysis. I also discuss the composite skill measures' validity and correlation with other measures used in the literature.

Table A2: O\*NET Skill Measures and Composing Descriptors

<b>Non-routine Analytical</b>	<b>Routine</b>
<ul style="list-style-type: none"> <li>Analyzing data/information</li> <li>Thinking creatively</li> <li>Interpreting information for others</li> </ul>	<ul style="list-style-type: none"> <li>Importance of repeating the same tasks</li> <li>Importance of being exact or accurate</li> <li>Structured v. Unstructured work (reverse)</li> </ul>
<b>Non-routine Interpersonal</b>	
<ul style="list-style-type: none"> <li>Establishing and maintaining personal relationships</li> <li>Guiding, directing and motivating subordinates</li> <li>Coaching/developing others</li> </ul>	<ul style="list-style-type: none"> <li>Pace determined by speed of equipment</li> <li>Controlling machines and processes</li> <li>Spend time making repetitive motions</li> </ul>
<b>Computer</b>	<b>Leadership</b>
<ul style="list-style-type: none"> <li>Interacting With Computers</li> <li>Programming</li> <li>Computers and Electronics</li> </ul>	<ul style="list-style-type: none"> <li>Making Decisions and Solving Problems</li> <li>Developing Objectives and Strategies</li> <li>Organizing, Planning, and Prioritizing Work</li> <li>Coordinating the Work and Activities of Others</li> </ul>
<b>Design</b>	<ul style="list-style-type: none"> <li>Developing and Building Teams</li> <li>Guiding, Directing, and Motivating Subordinates</li> <li>Provide Consultation and Advice to Others</li> </ul>
<ul style="list-style-type: none"> <li>Design</li> <li>Drafting, Laying Out, and Specifying Technical Devices, Parts, and Equipment</li> </ul>	

Table A2 lists the O\*NET descriptors for each of the constructed composite skill measures. The analytical measure corresponds to “non-routine cognitive analytic” and the interpersonal measure corresponds to “non-routine interpersonal” from [Acemoglu and Autor \(2011\)](#). I collapse [Acemoglu and Autor \(2011\)](#)’s “routine cognitive” (the first three items under Routine) and “routine manual” (the last three items under Routine) into a big routine skill, as occupations using these skills have been shown to have had similar labor market dynamics ([Autor, Levy, and Murnane 2003](#); [Acemoglu and Autor 2011](#)). I didn’t include the “non-routine manual” from [Acemoglu and Autor \(2011\)](#), since

it involves descriptors from the “Abilities” module of O\*NET that is evaluated solely by job analysts, and for consistency purposes I focus on occupation descriptors that are evaluated by incumbents workers.

Further, I include two additional composite skills that are be non-routine. First, I include a “leadership” composite skill that is comprised of descriptors of problem-solving, strategic thinking, teamwork, and communication. They all demand an ability to guide and manage teams, strategize and plan, solve problems, coordinate activities, and communicate effectively within a team or organizational context. Second, I include a “design” composite skill measure revolves around technical proficiency and creativity. The composing descriptors necessitate a strong understanding of design principles, the ability to draft and layout specifications for technical devices.

Table A3: Correlations Among Skill Measures

Skill Measures	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) analytical	1.00								
(2) routine	-0.45	1.00							
(3) interpersonal	0.44	-0.49	1.00						
(4) computer	0.92	-0.27	0.25	1.00					
(5) math skill	0.50	-0.11	0.12	0.46	1.00				
(6) social skill	0.34	-0.54	0.61	0.24	0.09	1.00			
(7) analytical (broader)	0.84	-0.59	0.55	0.68	0.63	0.57	1.00		
(8) mechanical (broader)	-0.43	0.58	-0.24	-0.38	-0.11	-0.38	-0.49	1.00	
(9) interpersonal (broader)	0.10	-0.35	0.73	0.02	-0.09	0.70	0.28	-0.22	1.00

*Notes: This table reports the correlation among different skill measures constructed using O\*NET data from 2000-2020. The first four skills measures in rows (1) to (4) are the ones used in the main text and are constructed using the O\*NET descriptors shown in Table A1. The next two measures in rows (5) to (6), math skill and social skill are constructed based on Deming (2017). Math skill is the average of 1) mathematical reasoning ability, 2) mathematics knowledge, and 3) mathematics skill. Social skill consists of the average of four variables, 1) social perceptiveness, 2) coordination, 3) persuasion, and 4) negotiation. Rows (7) to (9) contain the broader analytical, mechanical, and interpersonal skills constructed using factor analysis as discussed in online Appendix A.5 with their specific component variables.*

Table A3 shows the correlation among the chosen skills used in the main analysis, as well as math skill and social skill are constructed based on Deming (2017), and broader skill measures skills constructed using factor analysis as discussed in online Appendix A.5. It reveals the analytical skill (row 1), exhibits a strong positive correlation with computer skills (0.92) and a moderate correlation with math skills (0.50). This pattern suggests that

positions requiring analytical skills frequently necessitate computer and mathematical proficiency. Interpersonal skills (row 3) indicate a moderate-to-strong positive correlation with social skills (0.61) and broader interpersonal skills (0.73). This correlation suggests that occupations demanding interpersonal skill also emphasize social abilities. These results validate the interpretation of the analytical and interpersonal skills with strong positive correlation with math and social skills used in other studies.

On the other, a strong negative correlation exists between routine and interpersonal skills (-0.49) and between routine and interpersonal skills (-0.45), indicating that these skill sets rarely overlap in job requirements. The broader skill categories (rows 7 to 9) align well with their narrower counterparts, reinforcing the validity of these categorizations. In sum there exist specific, identifiable skills in the labor market, some of which are more align with each other, but they tend not to overlap, reflecting distinct competencies.

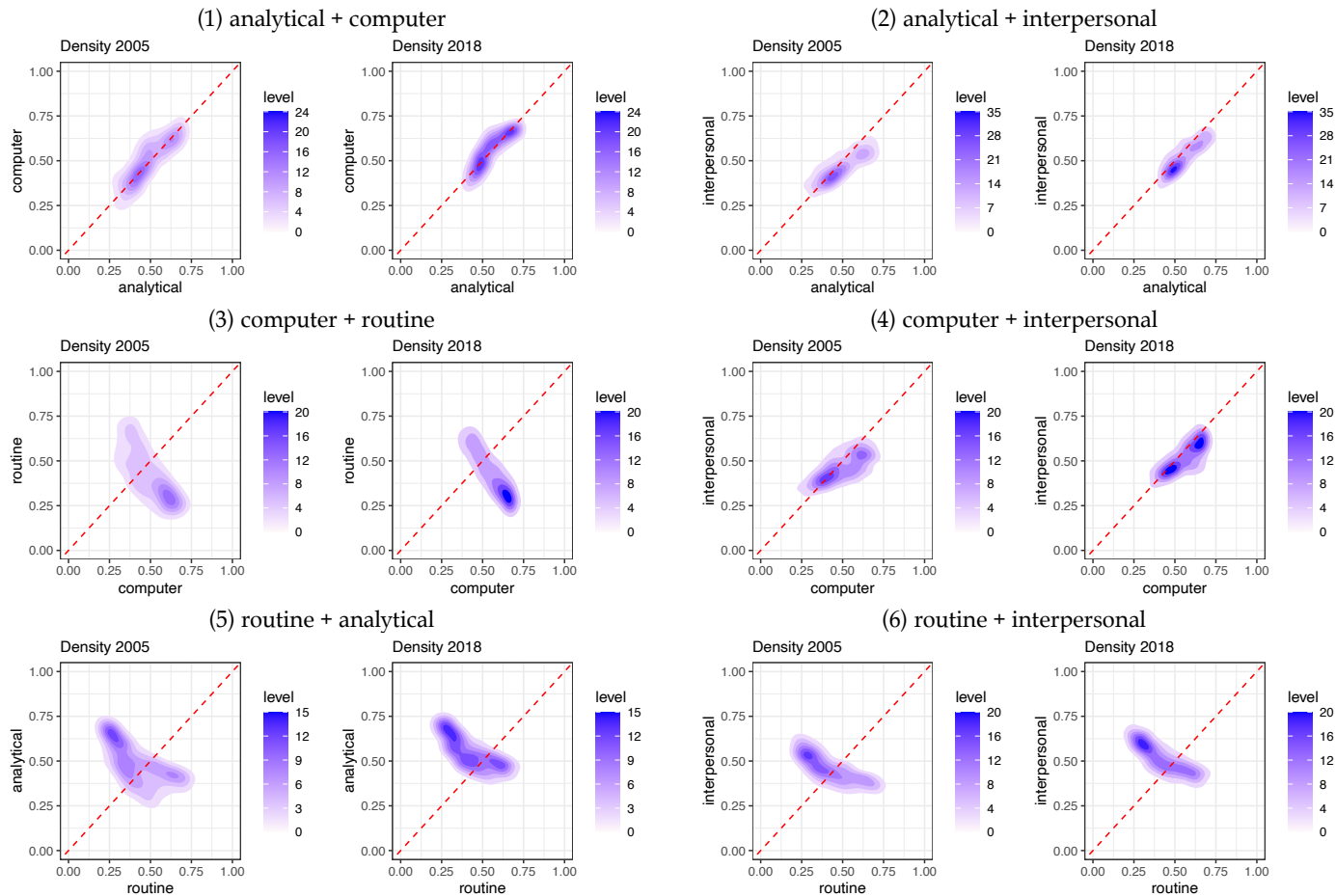
### A.3 Alternative Non-parametric Examination of Trend

An intuitive alternative check of the changes in the degree of skill mixing across periods is to non-parametrically plot the density of skill intensities in different skill dimensions. Figure A1 depicts the density of skill requirements of six skill pairs out of the four constructed skills in 2005 and 2018 respectively using O\*NET data combined with ACS. As in previous studies of job attributes, I aggregate the ACS to sex-education-industry cells that implicitly control for changes in task inputs due to variations in skill and industry mixes in the U.S. economy. Employment weights are obtained as the total hours of work aggregated to each cell. The ACS then supplies the O\*NET data with employment across worker types to present an overarching picture of skill intensities in the economy.

From the figure, there is a clear shift towards mixed skill requirements in panel (1) pertaining to analytical and computer skills where these skills are positively correlated. Two salient changes happened in this period: first, the entire distribution of skill intensities moves near the 45-degree line; second, there is a significant increase in density around the 45-degree line. Both of these changes will lead to an increased degree of skill mixing, according to how it is defined based on the position of skill vectors relative to the 45-degree line. Such a change is also salient for other non-routine skill combinations: in the analytical and interpersonal skills space (panel 2), as well as in the computer and interpersonal skills space (panel 4).

On the other hand, one can scarcely observe changes towards mixing in the routine skill spaces, as shown in panel (3),(5) and (6). From these three plots, there is an increase in density towards the non-routine direction, losing density in routine skill, and the resulting change in relationship with the diagonal doesn't indicate a strengthening of mixing.

Figure A1: Non-parametric Depiction of Skill Intensities, 2005 vs. 2018

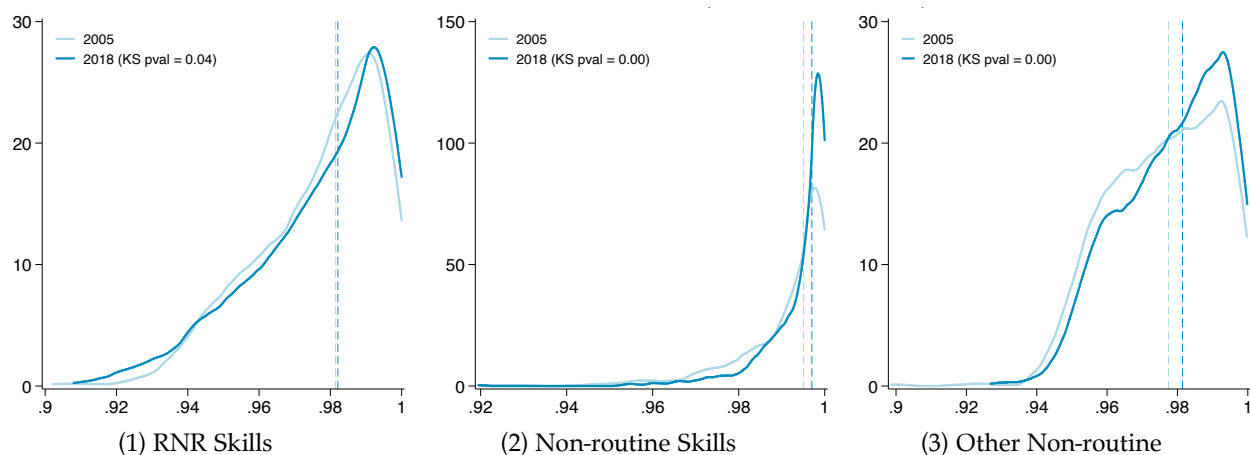


Notes: These density plots show the intensity of occupation skill requirements across the U.S. economy in 2005 (column 1) and 2018 (column 2) in six two-dimensional skill spaces, as illustrated in the six panels. Darker colors indicate higher density and the 45-degree line is also plotted. O\*NET and ACS data are combined for the construction of these plots. The two datasets are merged using consistent occupation codes constructed by [Autor and Price \(2013\)](#) and further developed by [Deming \(2017\)](#). Skill measures are constructed using the O\*NET descriptors shown in Table A1. All measures are normalized to [0,1].

## A.4 Robustness of Trend Results to Different Weights and Groupings

In this section, I discuss the robustness of the trend results to different weighting, granularities, and groupings. In particular, I show the density results using weighted skill mixing indexes instead of unweighted in the main analysis; the trend of skill mixing using indexes for different skill pairs, instead of high-dimensional indexes; the heterogeneity of skill mixing increases across occupations using indexes for different skill pairs; and the differential changes in skill mixing across industries.

Figure A2: Density for Skill Mixing Indexes (Weighted Cosine Distances), 2005 vs. 2018



Notes: These figures plot the PDF of different mixing indexes in 2005 (light blue line) and 2018 (dark blue line). The x-axis displays the value of mixing indexes with a maximum of 1 by construction. These plots are created using O\*NET and ACS data merged with occupation codes constructed by [Autor and Price \(2013\)](#) and developed by [Deming \(2017\)](#).

One concern of analysis of skill mixing shown in 2 is that as it shows the changes in the density of skill mixing indexes without weighting, it might not accurately represent the overall picture of mixing in the whole economy. In A2, I weight the skill mixing indexes using employment weight at 6-digit SOC level occupation from OEWS. The results show a similar message that there is sizable increase in skill mixing particularly for non-routine skills. The only difference is that with employment weighting, the increase in the skill mixing of RNR skill is more discernable. This implies relative higher weight of occupations intensive in RNR skills that also increase in skill mixing in these skills.

Next, I discuss the changes in skill mixing using indexes of different skill pairs instead



of high-dimensional indexes. Figure A5 panel (1) shows the results. The figure shows similar results as the main analysis: there is a stronger increase in skill mixing among non-routine skills. For the skill combinations involving routine skills, the change in skill mixing is negligible.

In Table A4, I show the decomposition results of the changes in the skill mixing indexes for different skill pairs across different datasets. A similar pattern as the main analysis in 1, that is within-occupation variation surpassed across-occupation variation in accounting for the increase for skill mixing. This is particularly true using constantly updated occupations at 6-digit occupation level for non-routine skill pairs, and also quite apparent in the Lightcast data. The only slight difference is that for full O\*NET data at 6-digit level, across-occupation variation do contribute to a comparable amount to the change in skill mixing for skill pairs with routine skill.

Additionally, in Figure A3, I show employment percentages and hourly wages across various job categories in the full and the sample for constantly updated occupation. This information gives the occupational structure and return for these two samples. It can be seen that while professionals make up a smaller percentage in the selected sample, they exhibit a higher average wage, suggesting a focus on higher-earning professionals in the selected sample. Conversely, the sales category shows a drastic reduction in the selected sample, indicating its limited representation. The hourly wage rates across the categories seem fairly consistent between the full and selected samples, with minor discrepancies.

Table A4: Decomposition of Mixing Indexes' Changes by Skill Pairs

	Skill Groups	6-digit Occupations			4-digit Occupations		
		total	within	across	total	within	across
Full O*NET	analytical + computer	10.52	6.40	4.12	10.49	6.60	3.89
	analytical + interpersonal	5.36	2.90	2.46	8.17	4.08	4.09
	computer + routine	4.38	2.41	1.97	5.16	2.94	2.22
	computer + interpersonal	7.23	3.60	3.63	11.81	7.51	4.30
	routine + analytical	4.00	2.29	1.71	4.23	3.16	1.07
	routine + interpersonal	1.93	0.12	1.81	2.35	1.08	1.26
Constant Updates	analytical + computer	5.59	6.03	-0.44	6.42	5.89	0.53
	analytical + interpersonal	3.53	4.58	-1.05	4.00	3.00	1.00
	computer + routine	2.88	3.69	-0.81	0.52	1.93	-1.42
	computer + interpersonal	0.78	1.86	-1.09	6.86	5.93	0.93
	routine + analytical	2.04	2.13	-0.09	1.48	3.60	-2.12
	routine + interpersonal	0.81	0.82	-0.01	-0.33	1.47	-1.80
Lightcast	analytical + computer				12.64	11.74	0.90
	analytical + interpersonal				2.51	2.20	0.31
	computer + interpersonal				-4.18	-3.79	-0.39

Notes: This table shows the shift-share decomposition of changes in the average level of different mixing indexes between 2005-2018 in percentile units. Specifically, for a change in the percentile of a mixing index  $h$  over two periods  $t$  and  $\tau$ , its change  $\Delta T_{h\tau} = T_\tau - T_t$  which can be decomposed to  $\Delta T_h = \sum_j (\Delta E_{j\tau} \alpha_{jh}) + \sum_j (E_j \Delta \alpha_{jh\tau}) = \Delta T_h^a + \Delta T_h^w$  where  $E_{j\tau}$  is employment weight in occupation  $j$  in year  $\tau$ , and  $\alpha_{jh\tau}$  is the level of mixing index  $h$  in occupation  $j$  in year  $\tau$ ,  $E_j = \frac{1}{2}(E_{jt} + E_{j\tau})$  and  $\alpha_{jh} = \frac{1}{2}(\alpha_{jht} + \alpha_{jh\tau})$ .  $\Delta T_h^a$  and  $\Delta T_h^w$  then represent across-occupation and within-occupation change.

Figure A3: Mixing Index Change by Industry and Occupation Groups, 2005-2018

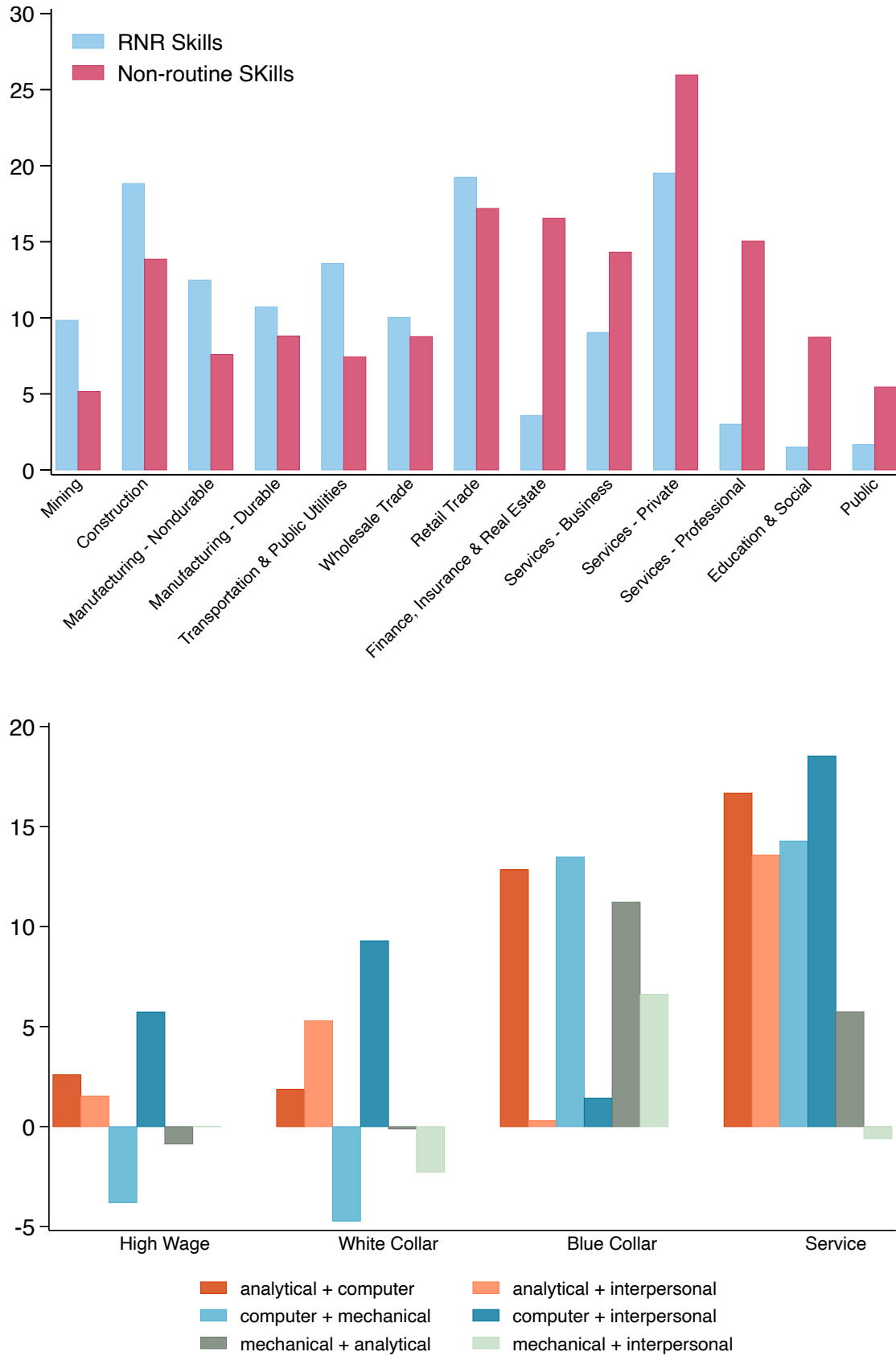


Now, I turn to discuss the robustness of the occupation heterogeneity in skill mixing changes. Figure A3 provides a detailed view of the changes in the skill mixing of different skill pairs across various occupations. Overall, the increase in the degree of mixing of non-routine skill pairs is higher than the increase in the mixing of skill pairs that include routine skills. Service and blue-collar occupations experience the highest increases in skill mixing of different skills, surpassing white-collar and high-wage occupations. When it comes to routine skills, blue-collar jobs lead other occupations in terms of increase in mixing.

Figure A3 also provides a detailed view of the changes in the skill mixing of RNR and non-routine skills across various industries. The main patterns indicate that the private service sector, followed by retail trade and construction, leads others in the growth of skill mixing, while public, education, social, and professional services experience the least increases in skill mixing. There is also noticeable heterogeneity across industries in terms

of the skills that are mixed. For instance, in finance, real estate, and professional services, there is much higher mixing in non-routine skills relative to RNR skills; conversely, in industries like mining, transportation, public utilities, and construction, RNR skills are mixed in a higher degree.

Figure A4: Mixing Index Change by Industry and Occupation Groups, 2005-2018



## A.5 Robustness of Trend Results to Measures of Skills

In this section, I discuss the robustness of the trend results to using alternative measures of skills. Specifically, I present alternative trend results using different ways of processing skill descriptors from O\*NET, such not using PCA, and standardizing rather than rescaling. I also show the robustness using broader skill measures than those applied in the main analysis.

**Alternative Construction of Skills:** Since O\*NET contains a large number of descriptors, many of which capture the same dimensions of skill requirements, it becomes standard practice to first abstract useful information from the descriptors to construct lower-dimensional measures of skills. The first approach, as in [Autor, Levy, and Murnane \(2003\)](#), [Acemoglu and Autor \(2011\)](#) and [Deming \(2017\)](#), takes the average of a subset of variables and assumes that such average represents a particular broader skill intensity and not others. The other approach, as in [Lise and Postel-Vinay \(2020\)](#), applies PCA to the entire set of variables, which assumes that each of the variables contains information about underlying components that are orthogonally distributed. Both approaches impose different assumptions, with the first one giving more easily interpretable skill groups while the second being more data-driven. A third approach, as in [Yamaguchi \(2012\)](#), first picks descriptors that are ex-ante most easily interpretable with respect to each skill dimension, and then conducts PCA on those descriptors to abstract the most relevant variation. The main body of the paper adopts the third approach; here I show robustness checks using alternative skill measures.

Online Appendix Figure [A5](#) presents the trend results using skill measures constructed by taking an average of the descriptors without imposing PCA (panel 2) and using skill measures normalized by standard deviation rather than linearly scaled to  $[0, 1]$  (panel 3). Normalizing by standard deviation necessarily creates negative values for the skills; since the mixing index is defined based on positive real values, having these negative values invalidates the mixing index in measuring skill mixing. One solution is to add a positive number to the skill measures. As any number chosen is essentially arbitrary, here I added the negative of the smallest value such that the re-scaled measure lies exactly above 0.

For both of these robustness exercises, the main message is similar to the main text: there is a significant increase in mixing for non-routine skills, and less so for RNR skills.

**Skill Measures:** Another concern is that by using skill measures from [Acemoglu and Autor \(2011\)](#), each of which is constructed from a few descriptors, the resulting skill measures could be relatively “narrow” and don’t provide a comprehensive depiction of the skill spaces. To alleviate this concern, I construct skill measures using a broader set of descriptors, similar to that of [Lise and Postel-Vinay \(2020\)](#). I first select descriptors from abilities, knowledge, skills, and work activities files that are more relevant for job skill demand, leaving me with around 163 descriptors. I then combine each year’s O\*NET data with ACS and conduct PCA on the merged data from the year 2005-2018.

The result from this approach supports the choice of analytical, routine, and interpersonal skills in the main text. The first three factors out of PCA explain around 60% of the variation across all the descriptors for years. The first factor has a strong positive association with reason and math skills, such as "Deductive Reasoning", "Inductive Reasoning" and "Mathematics", while the second factor relates more to motor coordination and mechanical work, such as "Multi-limb Coordination", "Mechanical" and "Equipment Maintenance". The third factor is clearly more associated with interacting with other people, such as "Selling or Influencing Others" and "Resolving Conflicts and Negotiating with Others". I interpret the second factor as "mechanical" rather than routine for the broader skill measures.

After conducting PCA, one could directly extract the factors imposing the assumptions that these factors are orthogonal to each other. While this is obviously quite convenient, it nevertheless creates the challenge of interpretability, since each of the factors has been constructed such that it is positively or negatively correlated with all of the 163 descriptors, and the assumption of orthogonality appears strong if the underlying skills are complementary in production across occupations. To take a fine balance between comprehensibility and interpretability, I adopt an approach similar to the measurement validation literature ([Costello and Osborne 2005](#); [Thompson and Daniel 1996](#)), where I first conduct PCA/factor analysis to reveal the underlying dimensionality and structure

of the measure (as has been done in the previous step). Guided by the factor loadings, I then hand-pick the skill descriptors into three broad groups “analytical”, “mechanical” and “interpersonal” without imposing the orthogonality assumption.

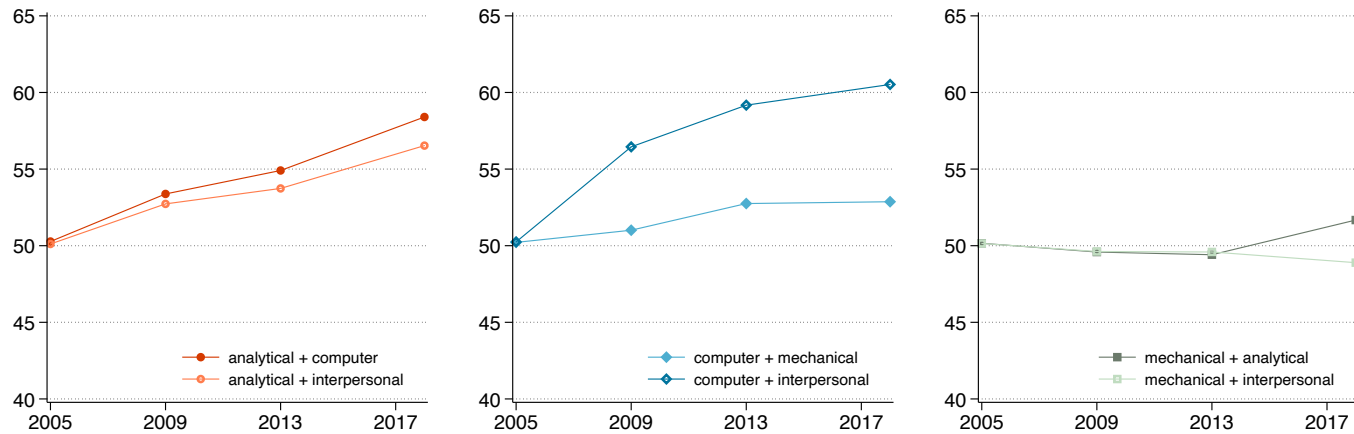
Online Appendix Table A5 illustrates the selected descriptors for each of the composite skill measures. These descriptors are broadly in line with [Acemoglu and Autor \(2011\)](#) but have several distinctions. First, the descriptors coming from factor analysis lean more toward reasoning, comprehension, and expression. Second, the mechanical skill used in the main text is the average of two ASVAB test scores that are constructed by the weighted average of 26 O\*NET descriptors. The ASVAB “Mechanical Comprehension” tests contestants’ “understanding of the principles of mechanical devices, structural support, and properties of materials” and the ASVAB Electronics Information tests contestants’ “understanding of electrical current, circuits, devices, and systems”, both stressing one’s knowledge basis. On the other hand, the descriptors chosen by conducting PCA relate more to physical control, coordination, and machine operation aspects rather than mental perception. Third, the descriptor choices for interpersonal skill from factor analysis also emphasize interactions with others as in [Acemoglu and Autor \(2011\)](#) but are more comprehensive.

Online Appendix Figure A5 panel (4) illustrates the trend results using these broader skill measures. The message on the growth of skill mixing remains the same as the main text, that is there is strong growth of skill mixing for non-routine skills. Nonetheless, for RNR skills, the degree of skill mixing has decreased using the broader measures.

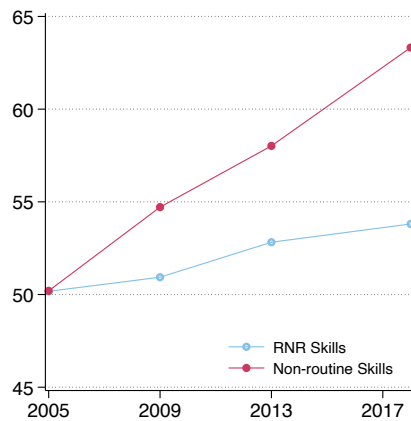


Figure A5: Trend of Skill Mixing with Alternative Skill Measures

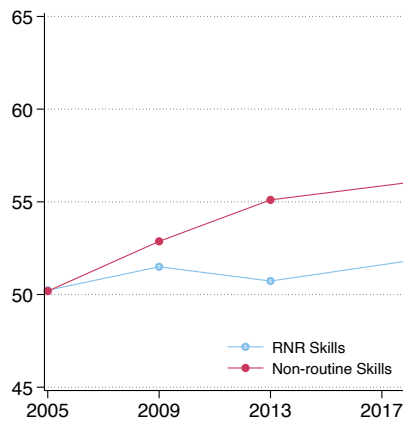
(1) Skill Pairs



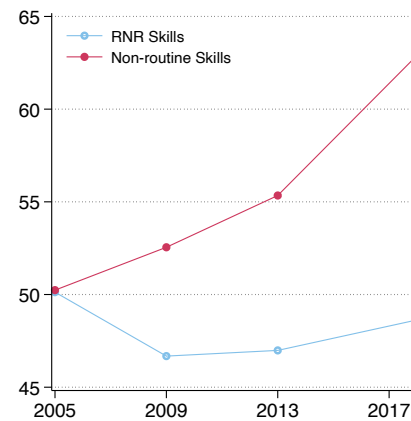
(2) Without PCA



(3) Standardized Skill Measures



(4) Broader Skill Measures



Notes: These three panels plot the employment-weighted mixing indexes of different skills in the U.S. economy from 2005-2018 using O\*NET and ACS data. Panel (1) shows the changes in skill mixing indexes of 6 skill pairs of the 4 skills. In panel (2) mixing indexes are calculated using skill measures without using PCA, and in panel (3), skill measures are normalized to have mean 0 and standard deviation 1. Panel (4) shows the changes in mixing indexes using broader skill measures as described in online Appendix A.5.

Table A5: Components of Broader Skill Measures

<b>Analytical</b>	<b>Mechanical</b>	<b>Interpersonal</b>
• Deductive Reasoning	• Multilimb Coordination	• Assisting and Caring for Others
• Inductive Reasoning	• Speed of Limb Movement	• Selling or Influencing Others
• Mathematical Reasoning	• Mechanical	• Resolving Conflicts and Negotiating
• Number Facility	• Performing General Physical Activities	• Coaching and Developing Others
• Mathematics	• Handling and Moving Objects	• Staffing Organizational Units
• Economics and Accounting	• Controlling Machines and Processes	• Service Orientation
• Reading Comprehension	• Operate Vehicles, Mechanized Devices or Equipment	• Administration and Management
• Writing	• Repairing and Maintaining Mechanical Equipment	• Customer and Personal Service
• Speaking	• Repairing and Maintaining Electronic Equipment	
• Oral Comprehension	• Installation	
• Written Comprehension	• Equipment Maintenance	
• Oral Expression	• Repairing	
• Written Expression	• Production and Processing	

*Notes: This table lists the O\*NET descriptor components for each of the constructed (broader) composite skill groups as discussed in online Appendix A.5.*

## A.6 Robustness of Trend Results to Measures of Skill Mixing

I introduce two additional measures and show the robustness of the trend results using these alternative mixing measures.

A first commonly used measure for concentration or specialization based on the share of a total quantity is the Herfindahl–Hirschman Index (HHI).<sup>50</sup> Equation (8) shows how to use inverse HHI to measure skill mixing for an occupation represented by  $(\alpha_{ja}, \alpha_{js})$ . Observe that this index is maximized when  $\alpha_{ja} = \alpha_{js}$ , exactly corresponding to the case when the skill vector lies on the unit vector and becomes most mixed. If one skill's intensity is greater than the other, the occupation becomes less mixed and this index becomes smaller. Similar to an angle-based mixing index, this measure is insensitive to the length of a skill vector, since each skill is normalized by the total quantity of skills in that occupation.

$$\left[ \left( \frac{\alpha_{ja}}{\alpha_{ja} + \alpha_{js}} \right)^2 + \left( \frac{\alpha_{js}}{\alpha_{ja} + \alpha_{js}} \right)^2 \right]^{-1} \quad (8)$$

$$- \frac{|\alpha_{ja} - \alpha_{js}|}{\alpha_{ja} + \alpha_{js}} \quad (9)$$

Under a similar vein, the degree of skill mixing could also be measured by normalizing the absolute distance between skill intensities for a skill vector: as this distance decreases, the overall skill portfolio becomes more balanced; normalization then eliminates the effect of the length of the skill vector. Equation (9) gives a particular specification of such a measure. As can be seen from this construction, as the absolute distance between skill intensities decreases and the degree of mixing increases, this measure also increases, though from the direction of  $(-\infty, 0)$ .

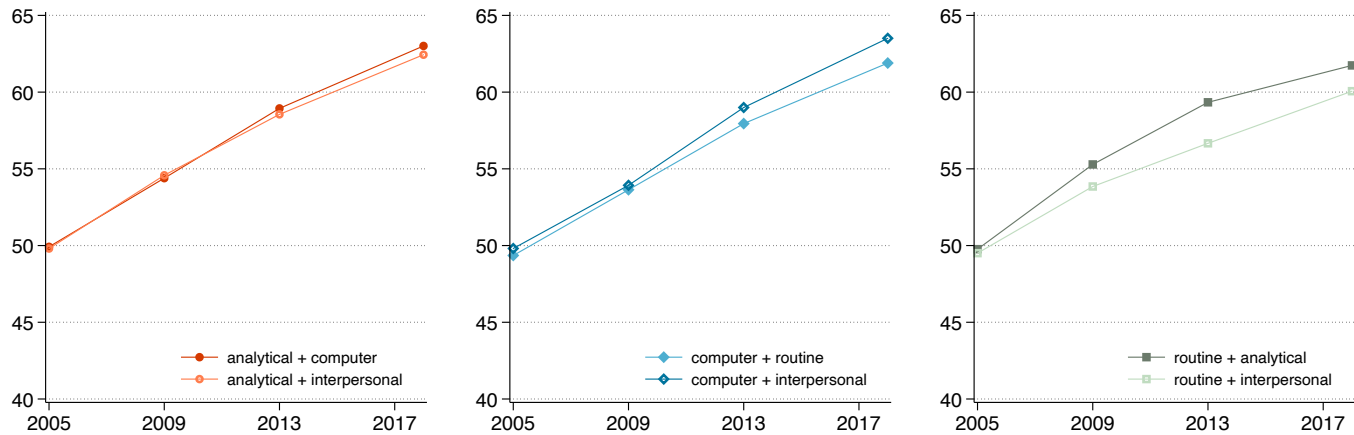
In Online Appendix Figure A6, I show the robustness of the trend results using these alternative measures in panels (1) and (2). Both measures deliver the same message as

<sup>50</sup>For applications in the labor literature, [Ransom and Phipps \(2017\)](#) and [Jin \(2017\)](#) use the inverse of HHI as the “variety index” to examine how diverse the jobs held for students who graduated from a certain major. Similar logic can be applied to the measurement of skill mixing: in the context of 2-dimensional skill space, the more “varied” skills an occupation uses essentially means that skills are more mixed.

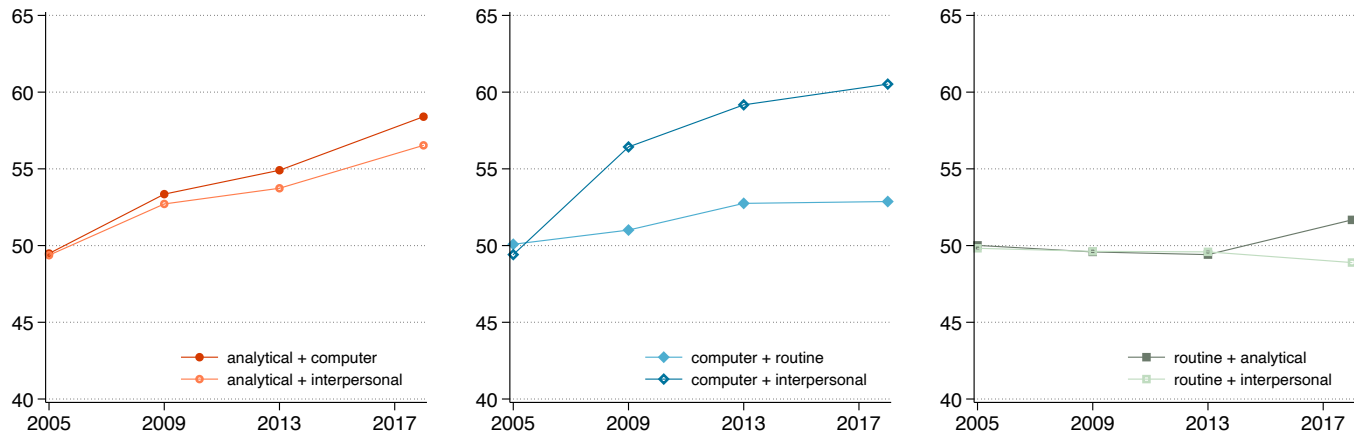
the cosine mixing index in the main text, that is, there is a sizable increase in skill mixing, particularly for non-routine skills. The only difference is that for the HHI skill index, there is also comparable increase in skill mixing for RNR skills.

Figure A6: Trend of Skill Mixing with Alternative Indexes

(1) Inverse Herfindahl



(2) Absolute Distance



Notes: These three panels plot the employment-weighted mixing indexes of different skills in the U.S. economy from 2005-2018 using O\*NET and ACS data. In panels (1) and (2), mixing indexes are calculated using the Inverse Herfindahl index and Absolute Distance as discussed in online Appendix A.6.

## A.7 Additional Results on Wage and Employment Returns

In this section, I provide more detailed results on wage returns, and results relating employment to occupation skill mixing. I also provide robustness results to the analysis of the returns to skill mixing in the main paper.

**Detailed Results on Wage and Employment Returns:** I first check the returns to individual skills and how they interact with the returns to skill mixing. Table A6 column (1) shows that in a cross-sectional regression analytical and computer skills both have significant positive returns. Workers employed in occupations requiring a higher degree of these two skills earn more. Nonetheless, worker in occupations that requiring a higher level of interpersonal skills have a wage reduction.

Column (2) of Table A6 shows that by restricting to within-occupation variation and including skill mixing measures and an important pattern appears: the coefficients for most individual skills become slightly more negative (except for routine skill),<sup>51</sup> while the skill mixing indexes of analytical paired with interpersonal skills, as well as of routine and interpersonal skills show significant positive returns. Such a pattern persists in column (3) and (4) including worker skills and fixed effects, only that the skill mixing of analytical and computer skills are more precisely estimated to have a positive return. This indicates that the mixing of skills earns separate and additional rewards beyond those predicted by individual skills.

Turning to employment, there is also a positive employment premium for workers with a more mixed skill set. Column (6) of Table A6 shows that workers with a more mixed level of computer and interpersonal routine skills, or computer and interpersonal skills, or routine and interpersonal skills, are more likely to move from unemployment to employment. Workers with a more mixed level of analytical and computer, or analytical and interpersonal skills, are also more likely to exit unemployment, but the results are not precisely estimated. On the other hand, workers with a more mixed level of routine

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<sup>51</sup>The insignificant or even negative return to analytical skill over time also finds support from the literature. Lise and Postel-Vinay (2020) shows a strong negative 14.4 percent return on cognitive skill using NLSY data with 3-digit occupation fixed effects. Deming (2017) found that the return to cognitive skills has declined across the NLSY79 and NLSY97 cohorts, similar to Castex and Kogan Dechter (2014).

and interpersonal skills are less likely to find employment.

**Robustness Checks:** Table A7 shows the robustness checks to the results in Table 3. Specifically, Columns (1) and (2) utilize the Absolute Distance and Inverse Herfindahl measures to formulate mixing indexes (refer to online Appendix A.6 for details), while Columns (3) and (4) employ standardized and broader measures of skills (refer to online Appendix A.5 for details).

The findings presented in Table A7 clearly indicate a consistent trend: workers experience a positive return when they are employed in occupations that are more mixed of analytical with computer skills, analytical with interpersonal skills, and routine with interpersonal skills. Specifically, a notable increase in wage is observed with workers are in occupations more mixed of analytical and computer skills, especially when applying standardized and broad skill measures; similarly, occupations becoming more mixed of analytical and interpersonal skills, when assessed using the Absolute Distance and Inverse Herfindahl measures, also show a significant positive return. The mixing of routine and interpersonal skills exhibits a positive return as well across the different measures.

On the other hand, the mixing of computer and routine skills, computer and interpersonal skills, and routine and analytical skills all exhibit significant negative wage returns at the occupational level. These negative coefficients may indicate that the combination of these particular skills is less beneficial or leads to inefficiency

Table A6: Return to Skill Mixing Full Table with Individual Skills

Dependent: ln(hourly wage)	(1)	(2)	(3)	(4)
<i>Occupation Skills</i>				
Analytical	-0.019** [0.009]	-0.019** [0.009]	-0.012 [0.008]	-0.033*** [0.011]
Computer	-0.002 [0.010]	-0.008 [0.011]	-0.003 [0.009]	-0.017 [0.013]
Interpersonal	-0.019** [0.009]	-0.022** [0.009]	-0.021*** [0.008]	-0.027** [0.011]
Routine	0.027*** [0.010]	0.035*** [0.011]	0.025*** [0.009]	0.047*** [0.015]
Mix (analytical + computer)	0.007 [0.005]	0.011** [0.005]	0.013*** [0.005]	0.012 [0.008]
Mix (analytical + interpersonal)	0.016*** [0.005]	0.016*** [0.005]	0.015*** [0.004]	0.028*** [0.007]
Mix (computer + routine)	-0.022** [0.009]	-0.029*** [0.009]	-0.021*** [0.008]	-0.026** [0.012]
Mix (computer + interpersonal)	-0.008 [0.006]	-0.012** [0.006]	-0.014*** [0.005]	-0.012 [0.009]
Mix (routine + analytical)	-0.050*** [0.008]	-0.056*** [0.009]	-0.050*** [0.008]	-0.058*** [0.012]
Mix (routine + interpersonal)	0.023*** [0.008]	0.029*** [0.009]	0.019** [0.008]	0.023* [0.012]
<i>Worker Skills</i>				
Afqt (analytical)		0.065*** [0.012]		-0.038 [0.023]
Computer		0.045*** [0.006]		0.017 [0.023]
Social (interpersonal)		0.015*** [0.005]		-0.003 [0.029]
ASVAB (routine)		-0.008 [0.016]		-0.012 [0.022]
Mix (afqt + computer)		0.044* [0.023]		0.017 [0.013]
Mix (afqt + social)		0.028* [0.015]		-0.075*** [0.020]
Mix (computer + asvab mech)		0.013 [0.025]		-0.070*** [0.026]
Mix (computer + social)		0.008 [0.013]		0.061*** [0.019]
Mix (asvab mech + afqt)		0.001 [0.009]		0.096** [0.039]
Mix (asvab mech + social)		-0.040*** [0.011]		-0.045 [0.042]
Ethnicity*Gender, Age/Year, Region, Edu FE	X	X	X	X
Occupation FE	X	X	X	X
Worker FE			X	X
Observations	87,655	78,719	87,655	50,580
R-squared	0.426	0.439	0.758	0.761

Notes: See Table 3 notes.



Table A7: Robustness Checks of Return to Skill Mixing

Dependent: ln(hourly wage)	(1)	(2)	(3)	(4)
<i>Occupation Skills</i>				
Analytical	-0.014*	-0.008	-0.009	-0.013
	[0.008]	[0.033]	[0.008]	[0.008]
Computer	-0.002	0.069**	0.002	-0.038***
	[0.009]	[0.027]	[0.009]	[0.010]
Interpersonal	-0.019**	-0.118***	-0.018**	-0.014*
	[0.008]	[0.030]	[0.008]	[0.008]
Routine	0.026***	0.091***	0.005	0.010
	[0.009]	[0.017]	[0.008]	[0.008]
Mix (analytical + computer)	0.007	-0.040	0.008*	0.020***
	[0.005]	[0.036]	[0.005]	[0.007]
Mix (analytical + interpersonal)	0.010**	0.156***	0.006	0.025***
	[0.004]	[0.042]	[0.004]	[0.005]
Mix (computer + routine)	-0.028***	-0.045***	-0.021**	-0.087***
	[0.007]	[0.015]	[0.008]	[0.013]
Mix (computer + interpersonal)	-0.011**	-0.019	-0.013***	-0.021***
	[0.005]	[0.033]	[0.005]	[0.008]
Mix (routine + analytical)	-0.033***	-0.080***	-0.041***	-0.041**
	[0.007]	[0.015]	[0.008]	[0.018]
Mix (routine + interpersonal)	0.010	0.033**	0.033***	0.026**
	[0.007]	[0.016]	[0.006]	[0.012]
Ethnicity × Gender, Age, Region, Edu FE	X	X	X	X
Occupation FE	X	X	X	X
Worker FE	X	X	X	X
Observations	87,655	87,655	87,655	87,655
R-squared	0.757	0.757	0.757	0.758

Notes: This table reports the robustness checks to the results in Table 3. Columns (1) and (2) use Absolute Distance and Inverse Herfindahl measures to construct mixing indexes (see online Appendix A.6 for details) and Columns (3) and (4) use standardized and broad measures of skills (see online Appendix A.5 for details). Log hourly wages are the outcome variables and person-year is the unit of observation. The occupational skill and skill mixing measures come directly from O\*NET and are merged to NLSY79&97 based on census occupation codes. All measures of skill and skill mixing are normalized to have mean 0 and standard deviation 1. Ethnicity-by-gender, age, year, census region, urbanicity, and a 5-category (no high-school, high-school graduate, some college, college graduate, post-college) education fixed effects are included for all regressions, with additional fixed effects as indicated in the table. Standard errors are clustered at the individual level. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$ .

Table A8: Top College Majors in Skill Mixing

Mixing Index – Level	Mixing Index – Change
<b>analytical + computer</b>	
Physical Sciences	Agriculture and Natural Resources
Social Sciences	Mathematics
Area Studies	Letters
<b>analytical + interpersonal</b>	
Education	Mathematics
Military Sciences	Architecture and Environmental Design
Theology	Agriculture and Natural Resources
<b>computer + routine</b>	
Military Sciences	Agriculture and Natural Resources
Health Professions	Law
Mechanics	Engineering
<b>computer + interpersonal</b>	
Physical Sciences	Agriculture and Natural Resources
Education	Letters
Psychology	Architecture and Environmental Design
<b>routine + analytical</b>	
Mechanics	Agriculture and Natural Resources
Military Sciences	Area Studies
Transportation	Engineering
<b>routine + interpersonal</b>	
Mechanics	Law
Military Sciences	Theology
Transportation	Mathematics

Notes: This table lists the top 3 college majors for each mixing index both in terms of levels and in terms of changes from 2005 to 2019. To calculate the degree of skill mixing for college majors, I first map the occupation level degree of skill mixing contained in the O\*NET data to NLSY, and then calculate for each college major's students, the employment weighted average of skill intensities and mixing indexes of their occupations. I use both NLSY79&97 to get the employment weight on occupations.

Table A9: Return to Skill Mixing Full Table with Individual Skills

NLSY97 Code (before 2010)	Major Field of Study	NLSY79 Code	NLSY97 Code (CM10)	Major Field of Study	NLSY79 Code	NLSY79 Code	Major Field of Study
0	None, no major yet (didn't/don't) have to declare yet;	.	1	Agriculture, agriculture operations, & related sciences	1	0	None, General Studies
1	Agriculture/Natural resources	1	3	Natural resources and conservation	1	1	Agriculture and Natural Resources
2	Anthropology	22	4	Architecture and related services	2	2	Architecture and Environmental Design
3	Archaeology	22	5	Area, ethnic, cultural, gender, and group studies	3	3	Area Studies
4	Architecture/Environmental design	2	9	Communications, journalism, and related programs	6	4	Biological Sciences
5	Area studies	3	10	Communications technologies/technicians & support services	6	5	Business and Management
6	Biological sciences	4	11	Computer & information sciences & support services	7	6	Communications
7	Business management	5	12	Personal and culinary services	49	7	Computer and Information Sciences
8	Communications	6	13	Education	8	8	Education
9	Computer/Information science	7	14	Engineering	9	9	Engineering
10	Criminology	22	15	Engineering technologies & engineering-related fields	9	10	Fine and Applied Arts
11	Economics	22	16	Foreign languages, literatures, and linguistics	11	11	Foreign Languages
12	Education	8	19	Family and consumer sciences/human sciences	13	12	Health Professions
13	Engineering	9	22	Legal professions and studies	14	13	Home Economics
14	English	15	23	English language and literature/letters	15	14	Law
15	Ethnic studies	3	24	Liberal arts and sciences, general studies & humanities	49	15	Letters
16	Fine and applied arts	10	25	Library science	16	16	Library Science
17	Foreign languages	11	26	Biological and biomedical sciences	4	17	Mathematics
18	History	22	27	Mathematics and statistics	17	18	Military Sciences
19	Home economics	13	28	Military science, leadership, and operational art	18	19	Physical Sciences
20	Interdisciplinary studies	49	29	Military technologies and applied sciences	18	20	Psychology
21	Mathematics	17	30	Multi/interdisciplinary studies	49	21	Public Affairs and Services
22	Nursing	12	31	Parks, recreation, leisure, and fitness studies	21	22	Social Sciences
23	Other health professions	12	32	Basic skills development/remedial education	8	23	Theology
24	Philosophy	15	33	Citizenship activities	21	24	Mechanics
25	Physical sciences	19	34	Health-related knowledge and skills	12	25	Transportation
26	Political science and government	21	35	Interpersonal and social skills	6	49	Interdisciplinary Studies
27	Pre-dental	4	36	Leisure and recreational activities	49	99	Other
28	Pre-law	14	37	Personal awareness and self-improvement	8		
29	Pre-med	4	38	Philosophy and religious studies	15		
30	Pre-vet	4	39	Theology and religious vocations	23		
31	Psychology	20	40	Physical sciences	19		
32	Sociology	22	41	Science technologies/technicians	24		
33	Theology/religious studies	23	42	Psychology	20		
36	Nutrition/Dietetics	4	43	Homeland security, law enforcement, firefighting, and related protective services	18		
37	Hotel/Hospitality management	5	44	Public administration and social service professions	21		
38	Other - Recoded to Liberal Arts and Sciences	49	45	Social sciences	22		
39	Other - Recoded to Automobile/Automotive Mechanics Technology/Technician	24	46	Construction trades	24		
40	Other - Recoded to Human Services, General	21	47	Mechanic and repair technologies/technicians	24		
41	Other - Recoded to Social Work	21	48	Precision production	24		
42	Other - Recoded to Electrical/Electronics Maintenance and Repair Technology	24	49	Transportation and materials moving	25		
43	Other - Recoded to Geography	22	50	Visual and performing arts	10		
44	Other - Recoded to International Relations & Affairs	21	51	Health professions and related programs	12		
45	Other - Recoded to transportation & materials moving	25	52	Business, management, marketing, & related support services	5		
46	Other - Recoded to security and protective services	21	53	High school/secondary programs and certificates	8		
47	Other - Recoded to legal support services	14	54	History	22		
48	Other - Recoded to other sciences/applied sciences	49	60	Residency programs	12		
99	UNCODABLE	99	999	Uncodable	99		

## B THOERY AND QUANTITATIVE

### B.1 Propositions and Proofs

**Lemma 1.** *An occupation  $\mathbf{y} = \{y^1, \dots, y^k, \dots, y^K\} \in S \subset \mathbb{R}^K$  within a closed skill space  $S$  of dimension  $K$  is more mixed in skills based on Definition 1 if for any pair of skills  $(j, k)$ , the ratio of  $\frac{y_j}{y_k}$  becomes closer to 1.*

**Proof of Lemma 1:** For the occupation  $\mathbf{y}$  and we want to establish how the degree of skill mixing changes if the skill dimensions for  $j$  and  $k$  are to vary. The lemma can be simply proved by considering the skill mixing index for for this occupation. Let  $y_k = ry_j$  and denote  $y_j$  by  $y$ , the mixing index for  $\mathbf{y}$  is:

$$\frac{y + ry + A}{\sqrt{K}\sqrt{y^2 + r^2y^2 + B}},$$

where  $A$  and  $B$  are two constants that don't depend on  $y_k$  and  $y_j$ . The above equation is maximized at  $r = 1$ . Therefore, for any  $y_j$ , the occupation is more skill-mixed if the ratio  $r$  is close to 1. This completes the proof. *Q.E.D.*

**Proposition 1** (Changes in Skill Mixing). *Consider an occupation  $\mathbf{y}_t = \{y_t^1, \dots, y_t^k, \dots, y_t^K\} \in S \subset \mathbb{R}^K$  within a closed skill space  $S$  of dimension  $K$ . Assume that firms operate the occupation with a production technology as described by equation (3) and under an occupational rental cost defined by equation (7). Under these conditions, occupation  $\mathbf{y}_t$  will show an increased degree of skill mixing given the following conditions:*

(i) The skills within the vector  $\mathbf{y}_t$  demonstrate an rise in complementarity in production (a decrease in  $\sigma$ ), provided that  $\sigma$  does not undergo a change in sign.

(ii) The skills within the vector  $\mathbf{y}_t$  exhibit an higher increasing marginal cost (an increase in  $\phi$ ), under the condition that  $\phi > \sigma$ .

Additionally, occupation  $\mathbf{y}_t$  will exhibit a increased degree of skill mixing in the  $(y_t^k, y_t^h)$  dimension if the ratio between  $(x_t^k, x_t^h)$  approaches unity.

**Proof of Proposition 1:** Lemma 1 posits that an occupation  $\mathbf{y}_t$  exhibits greater skill mixing if the ratio across all skill dimensions approximates 1. Therefore, establishing the influence of the ratio on the degree of skill mixing suffices. The initial step concentrates on any two skills within the vector  $(y_t^k, y_t^h)$ .

The firm value function indicates that the firm re-optimizes the choice of  $\mathbf{y}_t$  in each period. Consequently, within a given submarket at a particular time instance  $(\mathbf{x}_t, \mathbf{y}_t)$ , the firms' choices of  $\mathbf{y}_t$  remain uninfluenced by the continuation value, rendering it a static problem. Time subscript is subsumed in the subsequent proof.

By deriving the first-order condition of firms' optimization problems in the submarket  $(\mathbf{x}, \mathbf{y})$  and taking ratios, one obtains the following condition:  $\frac{y_h}{y_k} = \left(\frac{x_h}{x_k}\right)^{\frac{\sigma}{\rho-\sigma}}$ . Therefore, the ratio of firms' optimal skill requirement choices for any two skills  $(y_h, y_k)$  is influenced by three variables: the elasticity parameter of substitution in production  $\sigma$ , the degree of increasing marginal occupational rental cost  $\rho$ , and the ratio of worker skills in the submarket  $(x_h, x_k)$ .

From the equation, it is evident that as  $\sigma$  decreases, indicating an increase in skill complementarity in production,  $\frac{y_h}{y_k}$  will converge to 1 for any two skills  $(y_h, y_k)$ , under the assumption that  $\sigma$  does not change sign. Similarly, as  $\rho$  increases,  $\frac{y_h}{y_k}$  will approximate 1 for any two skills  $(y_h, y_k)$ , given that  $\rho - \sigma$  does not change sign.

The influence of worker skill bias on the degree of skill mixing of  $\mathbf{y}$  presents a more complex scenario, as a change in the ratio  $\frac{x_h}{x_k}$  does not directly imply a change in the ratio of other skill pairs. Consequently, to gauge its impact on the degree of skill mixing, the focus must remain on the  $(y_h, y_k)$  dimension. For this specific dimension, if  $\frac{x_h}{x_k}$  converges to 1, then  $\frac{y_h}{y_k}$  also approaches 1. Q.E.D.

**Proposition 2** (Changes in Wage and Job Finding). *Consider an occupation  $\mathbf{y}_t \in S \subset \mathbb{R}^K$  within a closed skill space  $S$  of dimension  $K$ . Assume that firms operate the occupation with a production technology as described by equation 3 and under an occupational rental cost defined by equation 7. Also, these firms offer a output share  $\omega$  to workers and have value functions described by equation 5. Further, let worker value described by equation 4. Under these conditions, workers in occupation  $\mathbf{y}$  will earn a higher wage and have a higher job finding probability under condition (i) and (ii) of Proposition 1*

**Proof of Proposition 2:**

*Wages:* To establish the change in wages, one need to show that the output of the worker-firm match increases as the elasticity parameter  $\sigma$  decreases and approaches 0 from 1, or if  $\sigma$  decreases in the negative range, consistent with skills becoming more complementary in production. At a particular output share rate  $\omega$ , such value changes of  $\sigma$  will lead to higher wages.

Now, let's obtain the first derivative of  $\rho$  for the production function 3. WLOG, let's consider the case of two skills, and express  $y_1x_1$  and  $y_2x_2$  as  $m$  and  $n$ . The output of a worker-firm match can be expressed as  $q = (m^\rho + n^\rho)^{1/\rho}$ . We can take log of the production function  $\ln(q) = \frac{1}{\rho} \ln(m^\rho + n^\rho)$  and then take logarithmic differentiation that gives the following:

$$\frac{1}{q} \frac{\partial q}{\partial \rho} = -\frac{1}{\rho^2} \ln(m^\rho + n^\rho) + \frac{1}{\rho} \frac{1}{m^\rho + n^\rho} (m^\rho \ln(m) + n^\rho \ln(n))$$

Solving for  $\frac{\partial q}{\partial \rho}$  gives:

$$\begin{aligned} \frac{\partial q}{\partial \rho} &= q \left[ -\frac{1}{\rho^2} \ln(m^\rho + n^\rho) + \frac{1}{\rho} \frac{1}{m^\rho + n^\rho} (m^\rho \ln(m) + n^\rho \ln(n)) \right] \\ \frac{\partial q}{\partial \rho} &= q \left[ -\frac{1}{\rho} \ln(q) + \frac{1}{\rho} q^{-\rho} (m^\rho \ln(m) + n^\rho \ln(n)) \right] \end{aligned}$$

In the case of the calibration of the model, since  $m$ ,  $n$ , and  $y$  are all in the range of  $[0, 1]$ , one can show that the above derivative is negative when  $0 < \rho < 1$  or when  $\rho < 0$ .

With respect to (ii) of Proposition 1, it is easy to see that since for the analysis of this paper, both  $(\mathbf{x}, \mathbf{y})$  are in the range  $[0, 1]$ , therefore the occupation rental cost is decreasing

in  $\phi$ , so wage should increase as occupation rental cost increases.

*Employment:* For job finding probability, it suffices to show that  $p(\theta_t(\mathbf{x}, \mathbf{y}, \omega))$  is increasing in  $\sigma$  and  $\phi$ . This becomes simpler, since the above proof establishes that worker-firm output is increasing in both  $\sigma$  and  $\phi$ , so does firm's value  $J(\mathbf{x}, \mathbf{y}, \omega)$ . By the free entry condition in equation (6), at a fixed vacancy posting cost, an increase in  $J(\mathbf{x}, \mathbf{y}, \omega)$  implies a decrease in  $q(\theta_t(\mathbf{x}, \mathbf{y}, \omega))$  and therefore implies an increase in  $p(\theta_t(\mathbf{x}, \mathbf{y}, \omega))$  under constant return to scale matching technology. *Q.E.D.*

## B.2 Equilibrium Definition and Block Recursivity

In this section I define the a block-recursive equilibrium (BRE) for the economy following [Menzio and Shi \(2011\)](#). I further show that the equilibrium of the economy is unique and is block recursive.

**Definition 2** (Block-recursive Equilibrium). *Let  $\psi \in \Psi$  be the aggregate state of the economy, which is a distribution of agents across employment status  $e = U, W$ , skill profiles  $\mathbf{x}$ , occupational skill requirements  $\mathbf{y}$ , and output shares  $\omega$ .*

*A block-recursive equilibrium for this economy consists of value functions for both unemployed and employed workers  $U(\mathbf{x}) : S \rightarrow \mathbb{R}$ ,  $W(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow \mathbb{R}$ , and their respective policy functions  $y'_U(\mathbf{x}) : S \rightarrow S \times [0, 1]$ ,  $y'_W(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow S \times S \times [0, 1]$ ; firms' policy function  $J(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow \mathbb{R}$  and corresponding policy function  $y'_J(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow S \times S \times [0, 1]$ ; labor market tightness  $\theta(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow \mathbb{R}_+$ ; and aggregate state  $\psi \in \Psi$  such that:*

1. *The worker's value functions  $U(\mathbf{x})$  and  $W(\mathbf{x}, \mathbf{y})$  satisfy (4) for all states  $\psi \in \Psi$  and  $y'_U(\mathbf{x})$ ,  $y'_W(\mathbf{x}, \mathbf{y}, \omega)$  are the associated policy functions respectively*
2. *Firms' value function  $J(\mathbf{x}, \mathbf{y}, \omega)$  satisfy (5) for all states  $\psi \in \Psi$  and  $y'_J(\mathbf{x}, \mathbf{y}, \omega)$  is the associated policy function*
3. *The labor market tightness  $\theta(\mathbf{x}, \mathbf{y}, \omega)$  in each submarket  $(\mathbf{x}, \mathbf{y}, \omega)$  for all states  $\psi \in \Psi$  is consistent with free-entry condition in equation (6)*

From the above definition of block-recursive equilibrium that agents' value functions and policy functions, as well as the market tightness are independent of the aggregate state, only requiring that they are consistent with the aggregate state distribution of agents. Such an equilibrium is easier to characterize analytically and solve numerically. Note a key difference between the above definite of BRE and the one defined in [Menzio and Shi \(2011\)](#). In the economy studied in this paper, because I use the model to study the steady state equilibrium, the value functions, policy functions, and market tightness are entirely independent of the aggregate state. Whereas [Menzio and Shi \(2011\)](#) studies out-of-steady-state dynamics, so the value functions, policy functions, and market tightness are still



depend on the aggregate productivity shocks, but are independent of the distribution of agents across employment status and match-specific shocks.

Now, I show that a block-recursive equilibrium exists and is unique.

**Proposition 3** (Existence and Uniqueness of BRE). *Under the model specification of linear utility and invertible and constant returns to scale matching function, also assume that the support for worker and occupation skill profiles  $S$  has bounded, then: i) all equilibria are block recursive as defined in definition 2; ii) there exists a unique block-recursive equilibrium.*

**Proof of Proposition 3:**

The proof first establishes the uniqueness of value functions  $(U, W, J)$ , as well as policy functions and market tightness  $(y'_U, y'_W, y'_J, \theta)$ ; then, the proof establishes their independence from aggregate state.

*Uniqueness:* I first show that the value functions for workers and firms as defined in equation (4) and (5) are contractions. Let  $\Theta = S \times S \times [0, 1]$ , which is bounded based on the assumption that  $S$  is bounded. Let  $B(\Theta)$  the space of bounded functions  $V : \Theta \rightarrow \mathbb{R}$  and the operator associated with worker or firm value functions denoted by  $T : B(\Theta) \rightarrow B(\Theta)$ . It is straightforward to verify that  $T$  satisfy monotonicity and discounting properties:

1. (monotonicity) For  $V, V' \in B(\Theta)$ ,  $V \leq V'$  implies  $T(V) \leq T(V')$
2. (discounting) For  $V \in B(\Theta)$  and  $\epsilon > 0$ ,  $T(V + \epsilon) =$

The above conditions establish that the operator  $T$  associated with either firm or worker values functions is a contraction under Blackwell's sufficient conditions. Therefore, the optimal values workers and firms obtain through dynamic optimization problems are unique.

Next, I show that the policy functions and market tightness are also unique. Since the optimal values firms and worker obtain for their dynamic optimization problems (4) and (5) are unique, the associated policy functions  $(y'_U, y'_W, y'_J)$  are also unique due to concavity of the production function defined in equation (3) and workers have linear utility over consumption. To show the uniqueness of market tightness, first note that since

it is assumed that the matching function is invertible, one may directly obtain market tightness through the market clearing condition (6) with  $\theta > 0$ . The uniqueness of  $\theta$  then follows from the uniqueness of firms' value function.

*Independence of Aggregate State:* In the model economy, workers with different skill profiles  $\mathbf{x}$  search in their own market, and firms with different skill requirements  $\mathbf{y}$  post jobs in these separated markets, therefore, one can establish that the value functions of firms, workers and the market tightness are all independent of the aggregate state  $\psi$ . I establish this argument more rigorous through a backward induction argument as in [Braxton and Taska \(2021\)](#). For this purpose, I introduce back time subscript in the notation.

At the terminal period  $t = T$ , for an employed worker, the continuation value is zero for  $T + 1$  onward, so the worker's dynamic programming problem does not depend on the aggregate distribution across states, and is equal to the worker's share of output  $W_T(\mathbf{x}, \mathbf{y}, \omega) = \omega f(\mathbf{x}, \mathbf{y})$ .

Similarly, the firm's value function also remains independent of the aggregate distribution  $J_T(\mathbf{x}, \mathbf{y}, \omega) = (1 - \omega)f(\mathbf{x}, \mathbf{y})$ . As a result, through the free entry condition in equation (6), the market tightness  $\theta_T(\mathbf{x}, \mathbf{y}, \omega)$  is also independent of the aggregate distribution.

Firms at  $T - 1$  make occupation design choices  $\mathbf{y}$  to solve the firm dynamic programming problem in equation (5); workers at  $T - 1$  make labor market search choices over occupations  $\mathbf{y}$  to solve the worker dynamic programming problem in equation (4); As long as  $\mathbf{y}$  is within a bounded interval, the extreme value theorem assures at least one solution to this problem. This process is repeated stepping back from  $t = T - 1, \dots, 1$ , which completes the proof. *Q.E.D.*

### B.3 Identification of Parameters

First, I focus on identifying the elasticity parameters in production and occupation operation cost, denoted by  $\sigma$  and  $\rho$ . As highlighted by [Caselli and Coleman \(2006\)](#), the challenge arises when allowing for the endogenous choice of the efficiency of inputs under constraints, as the elasticity parameters cannot be separately identified. To overcome this challenge, I begin by estimating  $\sigma$  using the *relative wage within occupation* instead of relying on absolute wage levels.

Specifically, based on the model, the wage that workers receive per period is given by the share  $\omega$  of the output of the worker-firm match, reduced by the occupation design cost, formulated as  $w(\mathbf{x}, \mathbf{y}) = \omega f(\mathbf{x}, \mathbf{y}) - C(\mathbf{y})$ . Consequently, within each occupation, the difference in wage relative to a base worker type  $\Delta w(\mathbf{x}, \mathbf{y})$  can be articulated as follows:

$$\Delta w(\mathbf{x}, \mathbf{y}) = \omega \left[ \sum_{k=1}^K (x^k y^k)^\sigma \right]^{\frac{1}{\sigma}} - A, \quad (10)$$

where  $A$  is occupation-specific and does not depend on the cost parameter  $\tau$  or  $\rho$ . This formulation enables the identification of  $\sigma$  independent of the cost parameters. To carry out the estimation equation (10), I first adjust the wage for occupation fixed effects in order to account for  $A$  and  $\omega$ , and for other factors like ethnicity by gender, age, metropolitan status, individual year, years of education, census region, and urbanity fixed effects. These adjustments help control for other variables that might influence the worker-firm output and enhance the precision of the estimation. Next, I compute the within-occupation difference of the adjusted wage relative to the lowest skill type worker.<sup>52</sup> Last, I employ the maximum likelihood estimation (MLE) method to calculate  $\sigma$ .

I now turn to the identification of the cost parameters  $\rho$  and  $\tau$ . To begin with, note that the first-order condition of firms' optimization problems in the submarket  $(\mathbf{x}, \mathbf{y})$  can be simplified in ratios to:  $\frac{y_h}{y_k} = \left( \frac{x_h}{x_k} \right)^{\frac{\sigma}{\rho - \sigma}}$ , a relationship that exclusively depends on the parameters  $\sigma$  and  $\rho$ . With  $\sigma$  already estimated through MLE, the Simulated Method of Moments (SMM) then targets the skill ratio  $y_j/y_k$ , which aligns with the moment of the

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<sup>52</sup>Refer to Section VI for an in-depth discussion on how worker skill types are calibrated.

degree of hybridization of occupations. Further, for employed workers, the distribution of employment across various occupations is governed by wages  $w(\mathbf{x}, \mathbf{y})$ . Given the parameters described above, this functional relationship allows the estimation of  $\tau$ .

I'll now discuss how the vacancy posting cost  $c$  and the relative skill level of the high-skill worker  $\alpha_k$  are identified. Given the calibrated unemployment benefit  $b$ , the parameters of the matching function, and the parameters of the production and cost function, the identification process unfolds as follows. First, the free entry condition (6) and the value function of unemployed workers (4) reveal that the probability of exiting unemployment is solely determined by the vacancy posting cost. By targeting the level of unemployment,  $c$  is thus identified. Second, the identification of  $\alpha_k$  is achieved by examining the relative wage of high- to low-skill workers, expressed as  $\frac{w(\mathbf{f}\mathbf{x}^1, \mathbf{y})}{w(\mathbf{x}^1, \mathbf{y})}$ , where  $\mathbf{x}^1$  is the calibrated skill level of the low-skill worker. Given the previously calibrated parameters, this relative wage depends only on the relative skill level of the high-skill worker, leading to the identification of  $\alpha_k$ . This completes the identification of all the parameters in the model.

## B.4 Calibration of Skill Supply

I carry out the calibration of two key aspects of skill supply variation: the Markov probability of worker skill adjustment over a single model period and the variation in worker skill supply spanning two data periods that the model aims to align with two steady states. I'll first delve into the details of the skill variation between data periods and then explore the skill evolution within a model period as guided by the Markov process, following the approach of [Lise and Postel-Vinay \(2020\)](#).

**Across-period Skill Supply Variation:** Considering the potential influence of skill supply variation on skill mixing, I calibrate the model to reflect workers' choices in occupation, college major (if attended), and employment status, in line with the approach of [Lise and Postel-Vinay \(2020\)](#). This calibration introduces variation in worker skill supply across two periods. Worker skills are adjusted based on the requirements of an occupation or a college major; they increase if the requirements exceed the original skills and decrease if the requirements are lower or if the worker is unemployed. The speed of this adjustment is asymmetric and skill-specific.

Specifically, following the estimates from [Lise and Postel-Vinay \(2020\)](#), as presented in online Appendix Table 10, a worker's skills accumulate at a rate of  $\gamma_j$  times the gap between the worker's skill  $j$  and the occupation's requirement for that skill each year. The value of  $\gamma_j$  depends on whether it relates to learning or depreciation (upward or downward accumulation). Additionally, workers can lose skills when not employed, with unemployment treated as requiring a zero level for all skills. However, I specify such that a worker's skill level cannot fall below their initial endowments. For changes in skills while in school, I specify that workers spend an average of three years learning the skills of their majors.

I incorporate two modifications into this framework. First, since [Lise and Postel-Vinay \(2020\)](#)'s estimates are based on weekly data, I adjust them by multiplying by the number of working weeks, set at 47. Second, I align [Lise and Postel-Vinay \(2020\)](#)'s estimates of cognitive, interpersonal, and manual skills with my analysis's categories of analytical,

interpersonal, and routine skills.<sup>53</sup> Since Lise and Postel-Vinay (2020)'s estimates do not include computer skills, I use their cognitive skill estimates as a proxy.

In calculating the skill adjustment, I first standardize both worker skills and occupation skill requirements. Then, for example, if a worker is employed in an occupation that requires a standard deviation higher in analytical skill compared to the worker's analytical skill, the worker will accumulate 0.36 standard deviations of analytical skill in a year due to learning on the job. Conversely, if a worker's interpersonal skill is higher than required, it will decrease by only  $3 \times 10^4$  standard deviations, almost remaining unchanged, as interpersonal skills are estimated to be very hard to lose.

**Markov Skill Supply Adjustment:** I now discuss the Markov process of skill adjustment. Specifically, considering each skill  $j$  in the worker's skill profile  $\mathbf{x}$  as an element of the finite set  $S$ , the evolution of this skill follows a Markov process  $\pi(x'_j|x_j, y_j)$ , conditional on the worker's current skill level and employed occupation. If a worker is matched with an occupation that requires a skill level exceeding his or her own ( $x_j < y_j$ ), the worker's skill  $j$  will adjust upward in the next period:  $x'_j > x_j$ , and the inverse applies for a worker whose skill is lower than the requirements of their current occupation.

The calibration of the Markov adjustment probability is conducted in a similar manner to that of the across-period skill supply variation. Since a model period corresponds to a quarter, the annual adjustment rates for different skills are divided by 4, resulting in  $\frac{\gamma}{4}$ . This value represents the rate at which worker skills approach to occupation skill requirements, and it is regarded as the probability that a worker's skill  $j$  will adjust to the corresponding value.

The key challenge in this calibration process arises when quantifying the model: both worker skill and occupation skill requirements are discretized as grid values. To accommodate this discretization, the probability that a worker moves up or down a grid for skill  $j$  based on the occupation is scaled as below.

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<sup>53</sup>Their exclusion restriction imposes that (i) the ASVAB mathematics knowledge score only reflects cognitive skills; (2) the ASVAB automotive and shop information score only reflects manual skills; (3) the Rosenberg self-esteem score only reflects interpersonal skills.

The Markov probability of upward adjustment is determined by:

$$\frac{x_j^{up} - x_j}{y_j - x_j} \mathbf{1}(x_j^{up} < y_j) \times \frac{\gamma_j^{up}}{4}$$

Similarly, the Markov probability of downward adjustment is given by:

$$\frac{x_j^{down} - x_j}{y_j - x_j} \mathbf{1}(y_j < x_j^{down}) \times \frac{\gamma_j^{down}}{4}$$

Here,  $x_j$  represents the current grid value of worker skill  $j$ , while  $x_j^{up}$  or  $x_j^{down}$  denotes the value of worker skill  $j$  up or down a grid, respectively. The indicator variables  $\mathbf{1}(y_j < x_j^{down})$  or  $\mathbf{1}(x_j^{up} < y_j)$  evaluates whether the skill  $j$  grid value of the worker's current employed occupation is greater or smaller than the value of the worker's skill  $j$  grid. This means that a worker will only adjust up or down a grid if the occupation's skill is larger or smaller than the corresponding up or down grid value for the worker's skill. This process specifies the interplay between skill adjustment and occupation requirements, and allows for a precise calibration within the model's framework.

Table 10: Annual Skill Learning and Depreciation Rate

O*NET Measure	NLSY Measure	$\gamma_{\text{school}}^{\text{learn}}$	$\gamma_{\text{job}}^{\text{learn}}$	$\gamma_{\text{no job}}^{\text{depreciate}}$
analytical	AFQT score	0.33	0.36	0.10
interpersonal	Deming (2017) social skill	0.33	0.05	0.00003
routine	ASVAB	0.33	1	0.36
computer	OCC/Major's 2005 Value	0.33	0.36	0.10

Notes: This table illustrates for each O\*NET skill measure, its corresponding skill measure using NLSY79&97 data, and the learning and depreciation rate for these different skills. The AFQT is the same as the one used by [Altonji, Bharadwaj, and Lange \(2012\)](#) followed by [Deming \(2017\)](#), which controls for age-at-test, test format, and other idiosyncrasies. [Deming \(2017\)](#)'s social skill measure consists of sociability in childhood and sociability in adulthood in NLSY79, and two questions from the Big 5 inventory gauging the extraversion in NLSY97. The average of workers' ASVAB mechanical orientation and electronics test scores are used for mechanical skill. Since ASVAB scores are not available for the NLSY97 survey, they are imputed based on predictive regression using the NLSY79 survey. Workers' occupations' or college majors' O\*NET computer skill scores in the year 2000 are used as their endowed computer skill. The skill accumulation/depreciation rate is directly from [Lise and Postel-Vinay \(2020\)](#)'s estimates based on monthly data converted to annual values. Skill learning/depreciating while attending college is specified to be 33% per year.

## B.5 Algorithm and Solution Method

The quantitative method used for estimation is SMM. Given the parameters in the model that are internally estimated  $\Theta = \{\sigma, \rho, \phi, c, \alpha_k\}$ , each iteration of SMM first solves the steady state firm and worker policy function, after which a panel of worker is simulated to obtain the equilibrium distribution of labor market outcomes.

Specifically, to find the steady state policy of agents, I use value function iteration:

1. Fix the number of periods  $T$
2. Starting from the terminal period  $T$ , solve the firm problem as in equation (4)
3. Use the free entry condition in equation (6) to obtain the market tightness  $\theta_T(\mathbf{x}, \mathbf{y}, \omega)$
4. With the market tightness, solve the worker dynamic programming problem in equation (4)
5. Repeated stepping back from  $t = T - 1, \dots, 1$

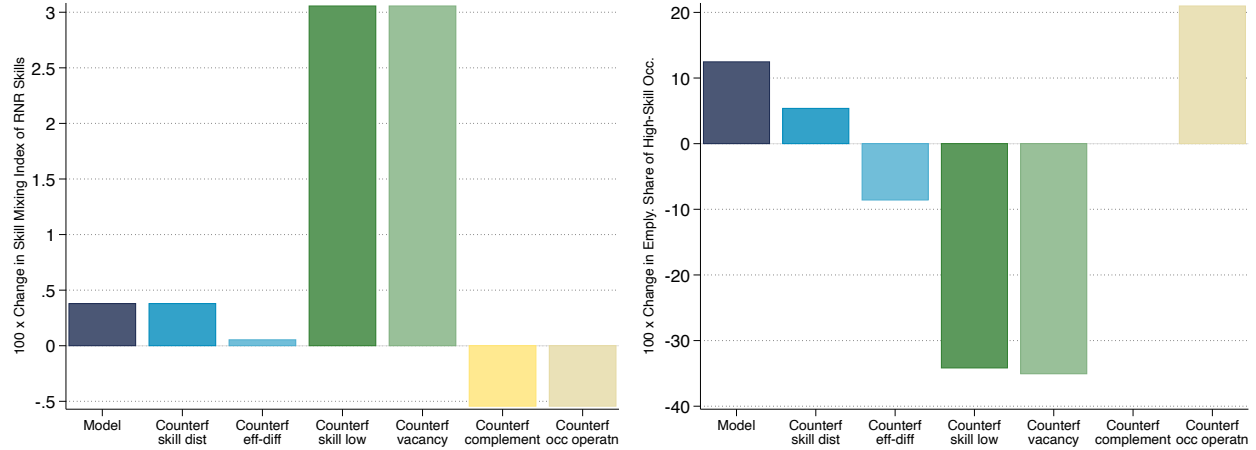


6. Check if the difference in worker value  $U_{t+1} - U_t$ ,  $W_{t+1} - W_t$  and the firm value  $J_{t+1} - J_t$  is less than a predetermined tolerance level. If yes stop, if not increase  $T$  and go back to first step

Next, I simulate 10,000 workers for  $T(T > 200)$  periods, burning the first 40 periods to obtain distribution of labor market outcomes across different occupations and worker types. Finally, the SMM procedure minimizes the Euclidean distance between the model-implied moments and the same moments obtained from data.

## B.6 Additional Counterfactual Results

Figure 7: Model Counterfactual



Notes: This figure shows the model generated changes in skill mixing in high-skill occupations (panel 1) and changes in employment share of high-skill occupation (panel 2). Different model channels are shut down sequentially by eliminating the relative calibrated values to highlight the contribution of each channel. The full model has all the model features. Worker skill supply distribution variation across the periods are calibrated according to Table 10. The values of efficiency differential, skill level of low-type worker, vacancy posting cost, skill complementarity in production and occupational across two periods are shown in Table 5.