

Task Variety and Skill Flexibility: A Simple Unified Theory of Between- and Within-group Inequality*

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Abstract

Dew-Becker and Gordon (2005) document new findings in regard to U.S. income inequality over 1966-2001 from Internal Revenue Service (IRS) micro data. The mean real income has grown faster than the median real income. This is because half of the income gains went to the top 10 percent of the income distribution. Half of this inequality effect is attributable to gains of the 90th percentile over the 10th percentile; the other half is due to increased skewness within the top 10 percent. This paper now formulates a simple model which can provide a unified explanation of these facts on both between- and within-group inequality. Our model shows that under differences in the flexibility of skills, an increase in input/task variety due to technological change can be a source for these income changes. Moreover, our model shows that entry policy, labor institutions, and international trade can be also catalysts for these income changes. This implies that technological change which is similar everywhere can be consistent with cross-country differences in the top skewness due to (even slight) cross-country differences in policy, etc.

Keywords: Task variety, Skill flexibility, Within-group inequality, Between-group inequality, Technological change, Entry policy, Labor institutions, International trade

JEL Classifications: D31, D33, D63, J31, F12, F16, L51

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