Occupational Switching and Wage Risk

Christopher Busch
Universitat Autònoma de Barcelona

Abstract

"The literature on labor income risk treats the wage process as exogenous to workers, with few exceptions. However, observed wage dynamics are the result of both exogenous factors, such as productivity shocks, and workers' choices. Using data from administrative German social security records, I document that the extent of occupational switching upon changing establishments is high, and that the decision to change occupations is of major relevance for realized wage changes. I develop a structural model in which workers optimally choose occupations in response to productivity shocks. This choice then also affects their accumulation of human capital, which is imperfectly transferable across occupations. The observed productivity changes of workers differ from the underlying productivity shocks. This distinction allows me to use the model to (i) identify the role of occupational switching choices for productivity changes and (ii) to quantify the utility gain from the option of occupational switching. The model is calibrated to be consistent with the documented facts. In the calibrated model, the endogenous choice of occupations accounts for 26\% of the dispersion of idiosyncratic productivity changes after controlling for human capital changes. The utility gain from the availability of switching occupations corresponds to about 0.78\% of per-period consumption for the average worker (with linear utility)."