

The Effect of Economic Conditions on the Employment of Workers Nearing Retirement Age

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Preliminary results – please do not cite.

*Prepared for the Retirement Research Consortium Conference,
Washington DC, Aug 9.-10. 2007*

Declining of Employment of **Low-Skilled Older Men**

Employment Trend: -- continuing decline for all ages above 50
-- particularly strong for age 60-64
-- particularly strong from mid '70s to mid '80s

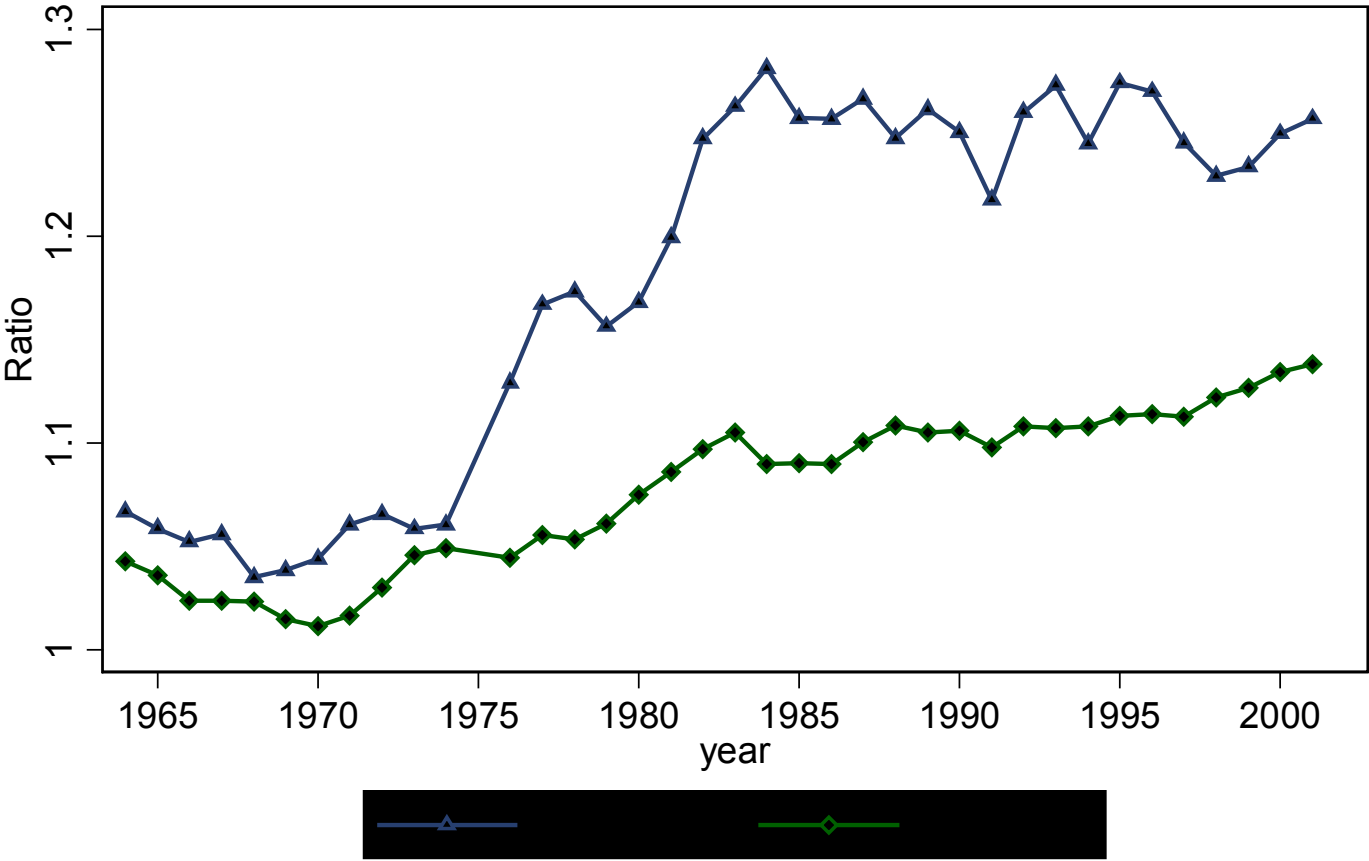
Relative Employment: -- decline in participation stronger for low-skilled
-- relative decline especially strong for age 60-64
-- relative decline mostly mid '70s to mid '80s

➔ Rate of Exit from Employment Highest for Low-Skilled Men

➔ Decline Concentrated in Turbulent Time for US Labor Market

Relative Labor Force Participation of College vs. High School Graduates, Older Men

Figure 1, Panel B: Relative Labor Force Participation of College vs. High School Older Men, Two Age-Groups



Changes in U.S. Labor Market for Low-Skilled Workers

Long Literature Examines Various Trends in 1970s-1980s:

- Technological change
- Increases in Returns to Skill and Wage Inequality
- Decline in Supply of Younger College Graduates
- Decline in Manufacturing Sector, Change in Industry Structure
- Large Recession in 1982

- ➔ Many of these imply shift in labor demand away from low-skilled
- ➔ Can changes in U.S. labor market help to explain changes in relative participation of less-skilled older workers?
- ➔ Complementary to change in institutions, health, wealth, preference

Older Workers More Vulnerable to Changes in Labor Market

Older workers may have difficulty adjusting because of wage rigidity

- Long-term employment contracts
- Lower bound from Social Security benefits
- High reservation wages

Likely to be too little wage adjustment among older workers:

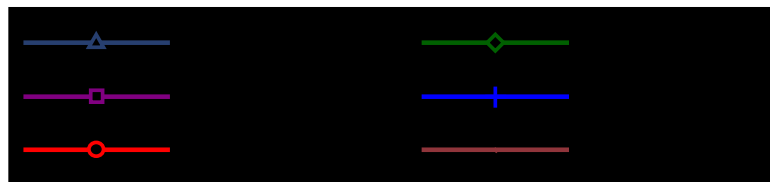
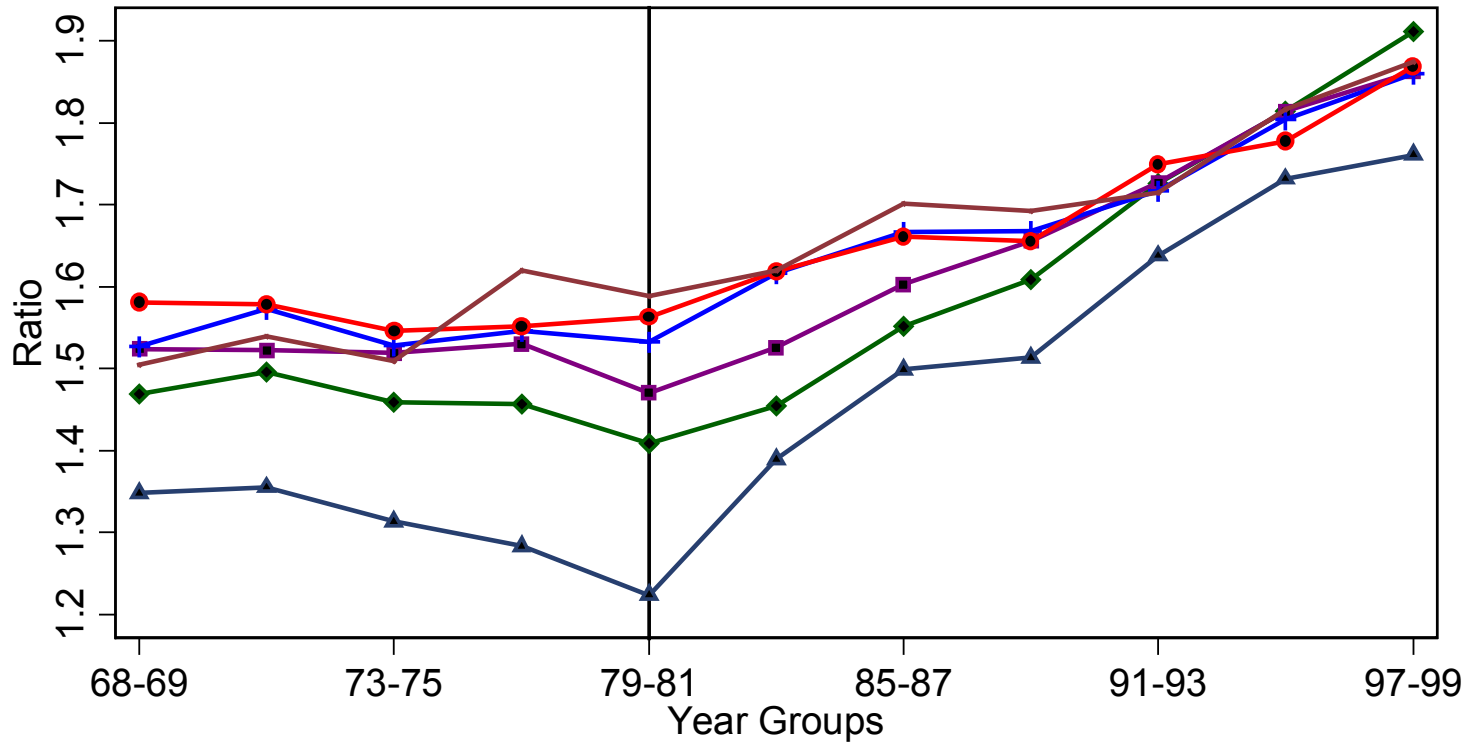
- Labor market shocks have effects on employment

Adds to other sources of ‘rigidity’:

- Costly retraining, lack of mobility
- Discrimination in labor market

Lack of Adjustment in Relative High/Low Skill Wages for Older Workers?

Figure: Relative Annual Earnings College vs. High School Various Age-Groups



Older Workers Affected by Labor Market Conditions

(1) Strong Effects of Job Loss on Employment and Wages

→ Rate of reemployment drops by 50% for age 60-64

(2) Significant Effects of Industry Decline/Growth

→ Find 60-64 employment with industry developments

(3) Significant Effect of Local Labor Market Conditions

→ Find 60-64 employment affected by local conditions

→ Transitions at 60-64 likely to change nature of employment, often permanent & leading to retirement

Evaluate Sources of Relative Employment Trend

(1) Secular Decline of Low-Skilled Workers' Earnings

→ **NO**: cannot explain episodic change, effect of shocks not stronger

(2) Change in Relative Supply of Educated Workers

→ **NO**: relative supplies affect wages but not employment

(3) Industry Trends in Employment Demand

→ **SOME**: all sectors became more skill intensive

(4) Changes in Industry Decomposition

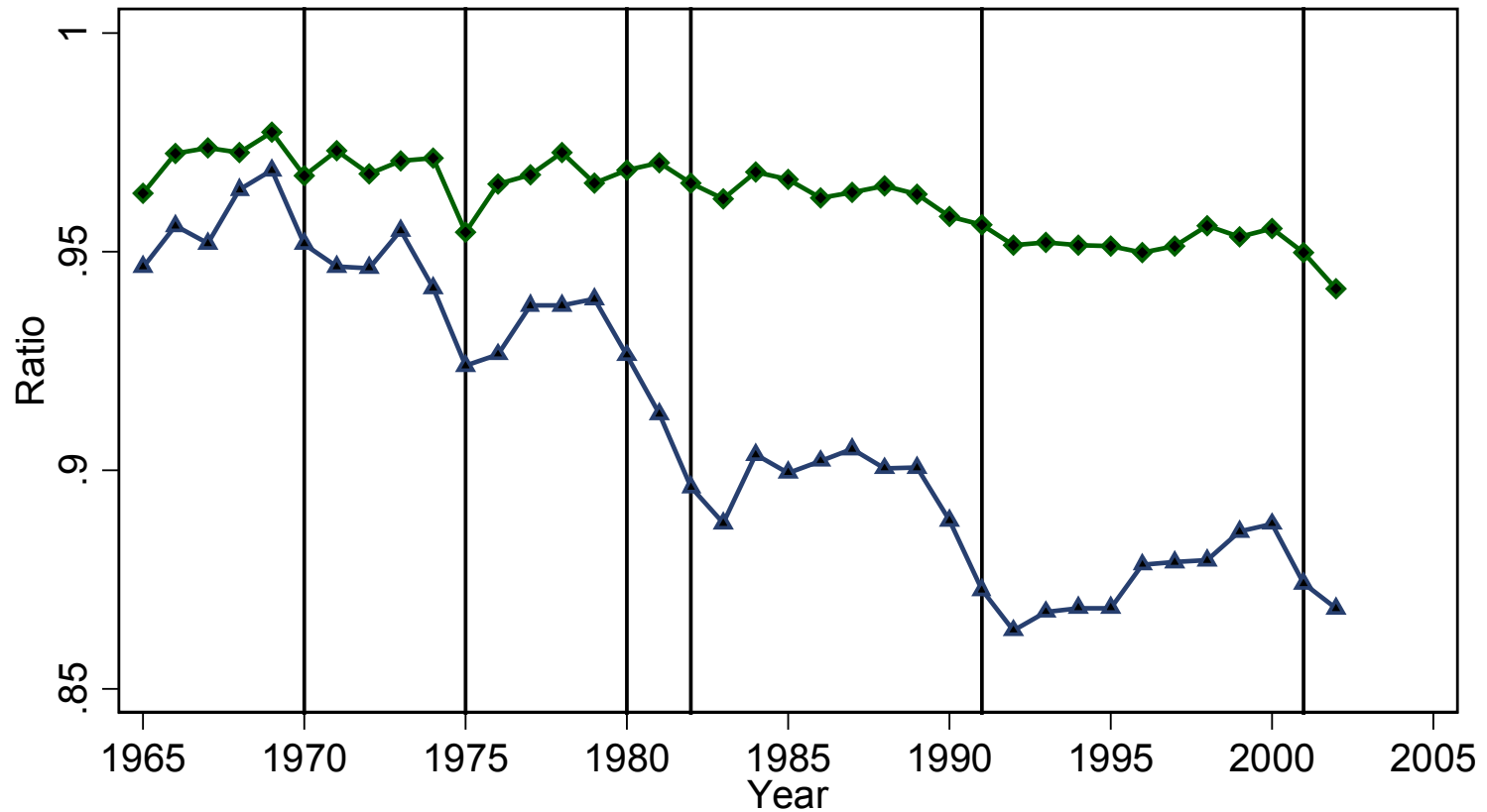
→ **SOME**: low skill-intensive sectors decline in importance

(5) Effect of 1982 Recession & Other Cycles

→ **Most Promising**: Stepwise destruction of low-skilled jobs?

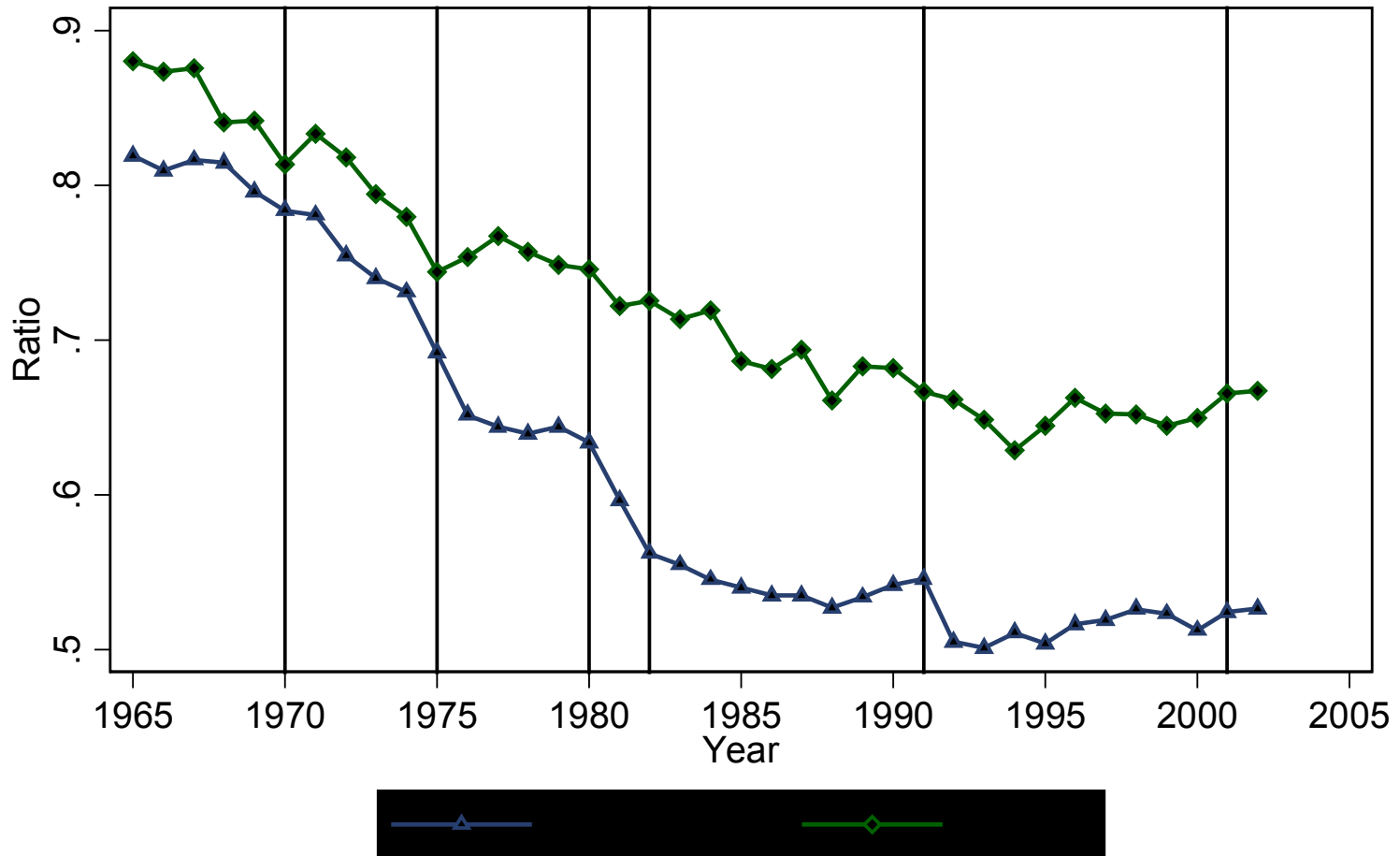
Recessions and Employment of Less-Skilled Mature Men since 1965

Figure: Employment-Population Ratio College and High School Men Age 40-44 (Vertical Line at Cycle Through Years)



Recessions and Employment of Less-Skilled Older Men since 1965

Figure: Employment-Population Ratio College and High School Men Age 60-64 (Vertical Line at Cycle Through Years)



Preliminary Conclusions

Strong shift in relative employment of high vs. low skilled older men

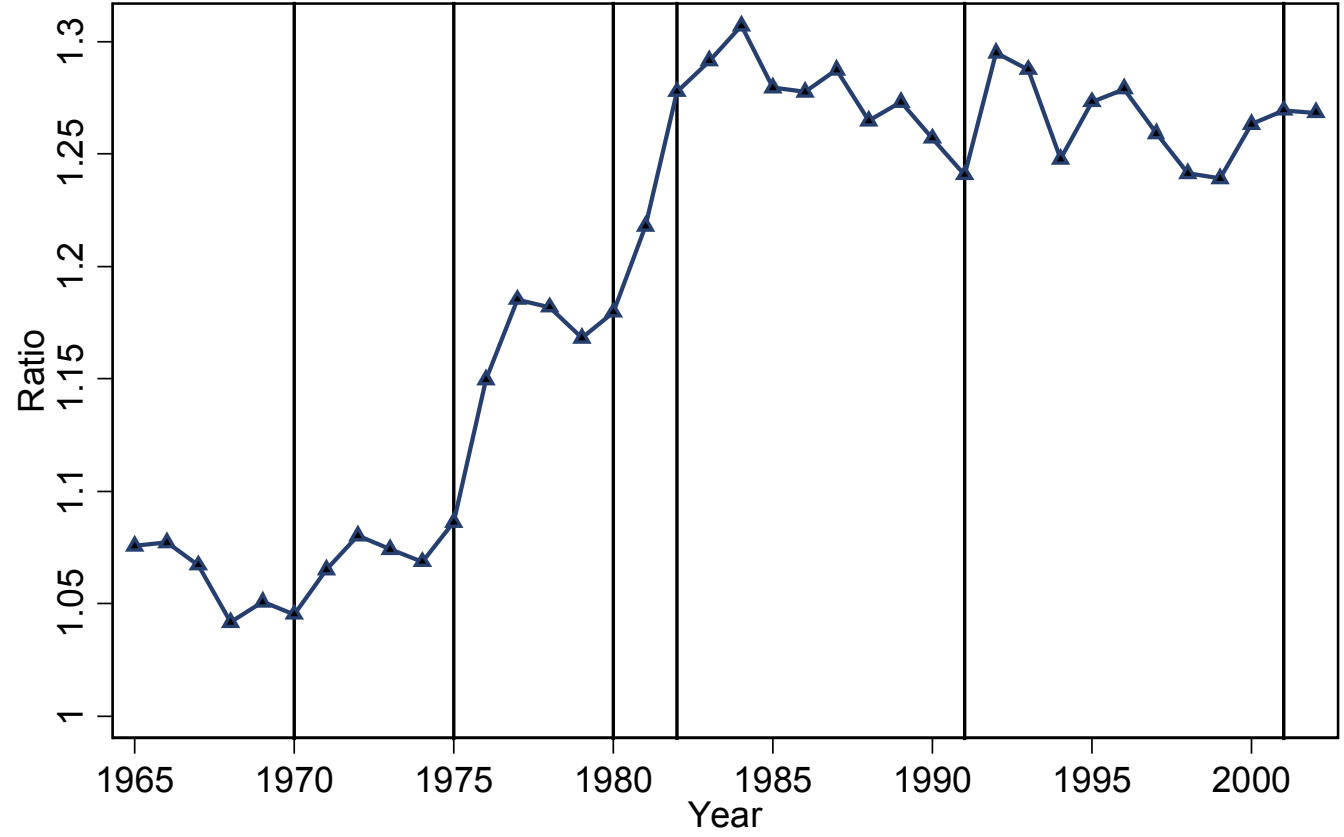
- ➔ Older workers particularly vulnerable to labor demand changes because of rigid wages
- ➔ Can strong changes in U.S. labor market explain trend?

Preliminary assessment of several potential channels

- ➔ Shocks in labor market affects employment of older workers
- ➔ Source of trends -- can exclude several prominent channels
- ➔ Strong episodic event, as 1982 recession, more promising

Recessions and Relative Employment of the Older Men

Figure: Employment-Population Ratio College vs. High School Men Age 60-64 (Vertical Line at Cycle Through Years)



Employment Trends for Men Age 60-64

Figure 0, Panel A: Labor Force Participation Rate by Age-Group, Men

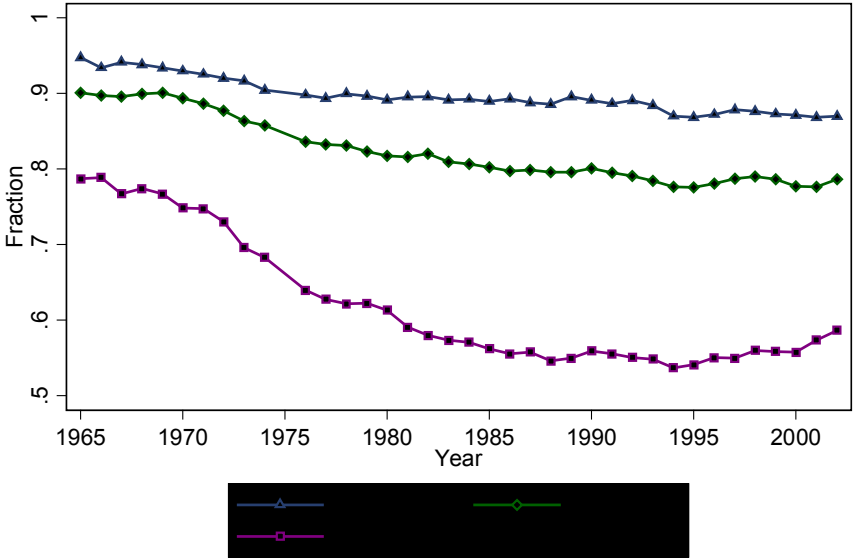
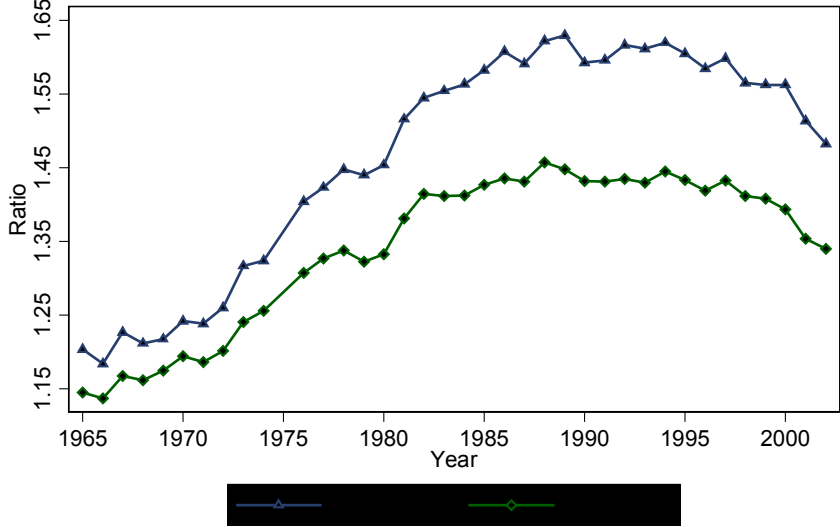
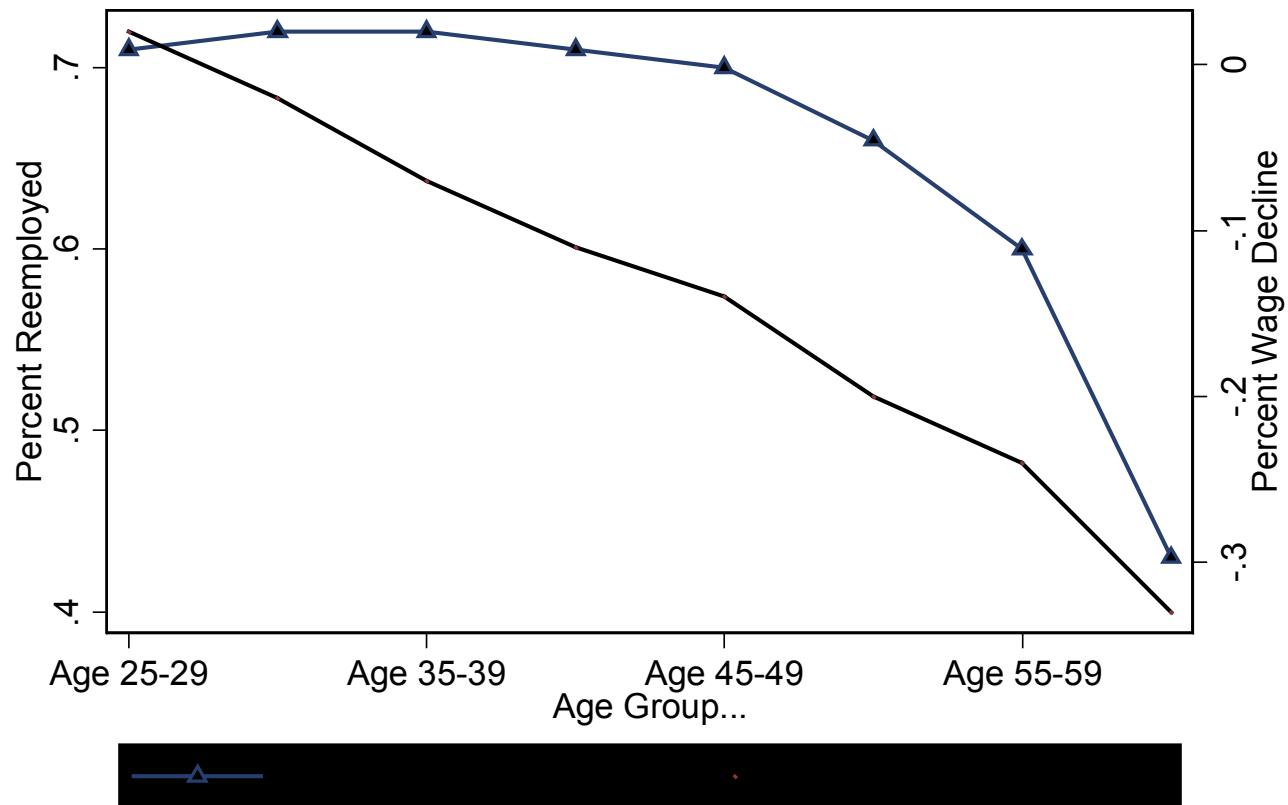


Figure 0, Panel B: Labor Force Participation Rate of Men Age 55-59 (50-59) Relative to Men Age 60-64



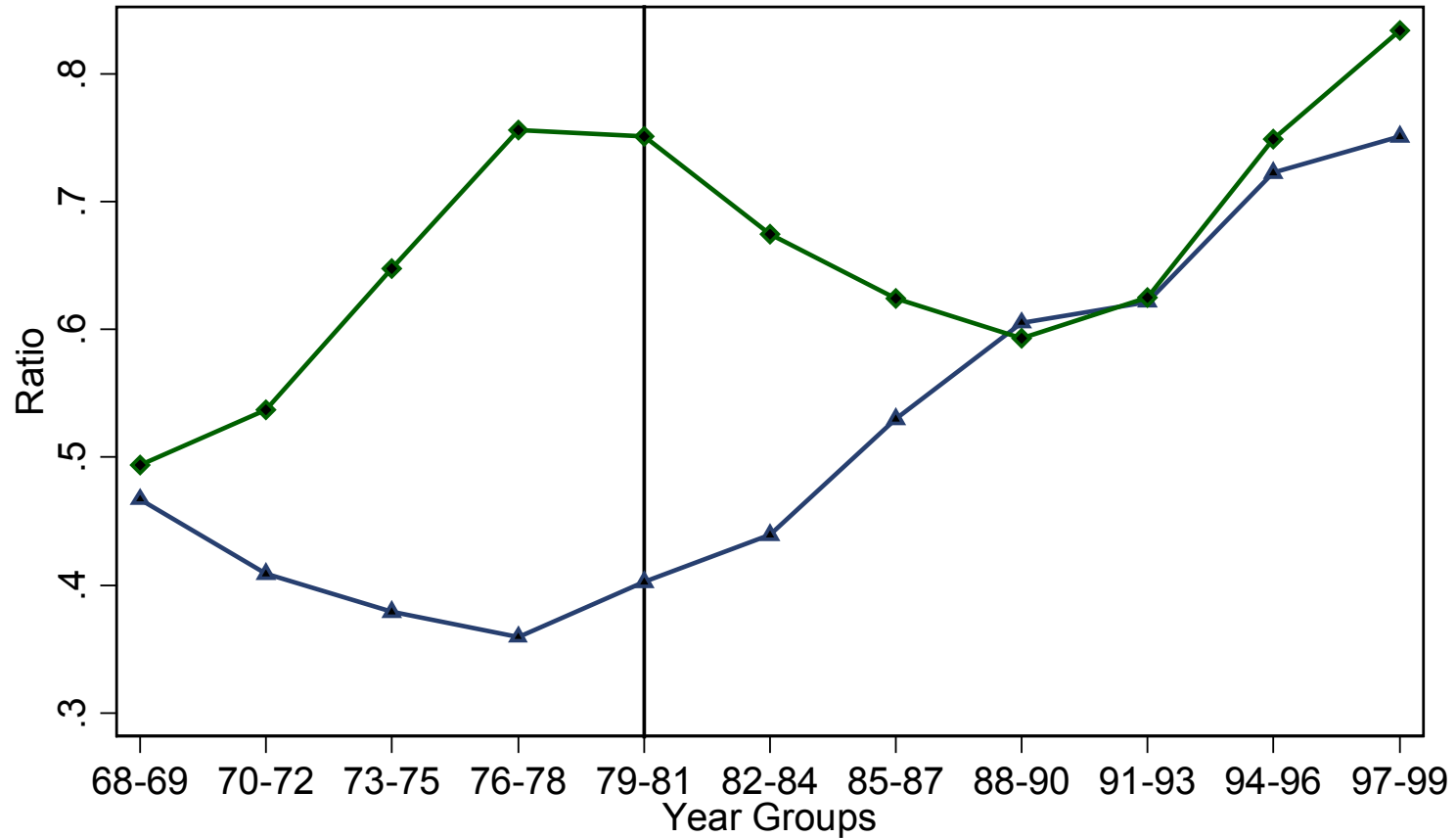
Effect of Job Loss on Employment Highest for Workers Near Retirement

Figure: Fraction Reemployed and Percent Wage Loss After a Job Loss Men By Age-Groups



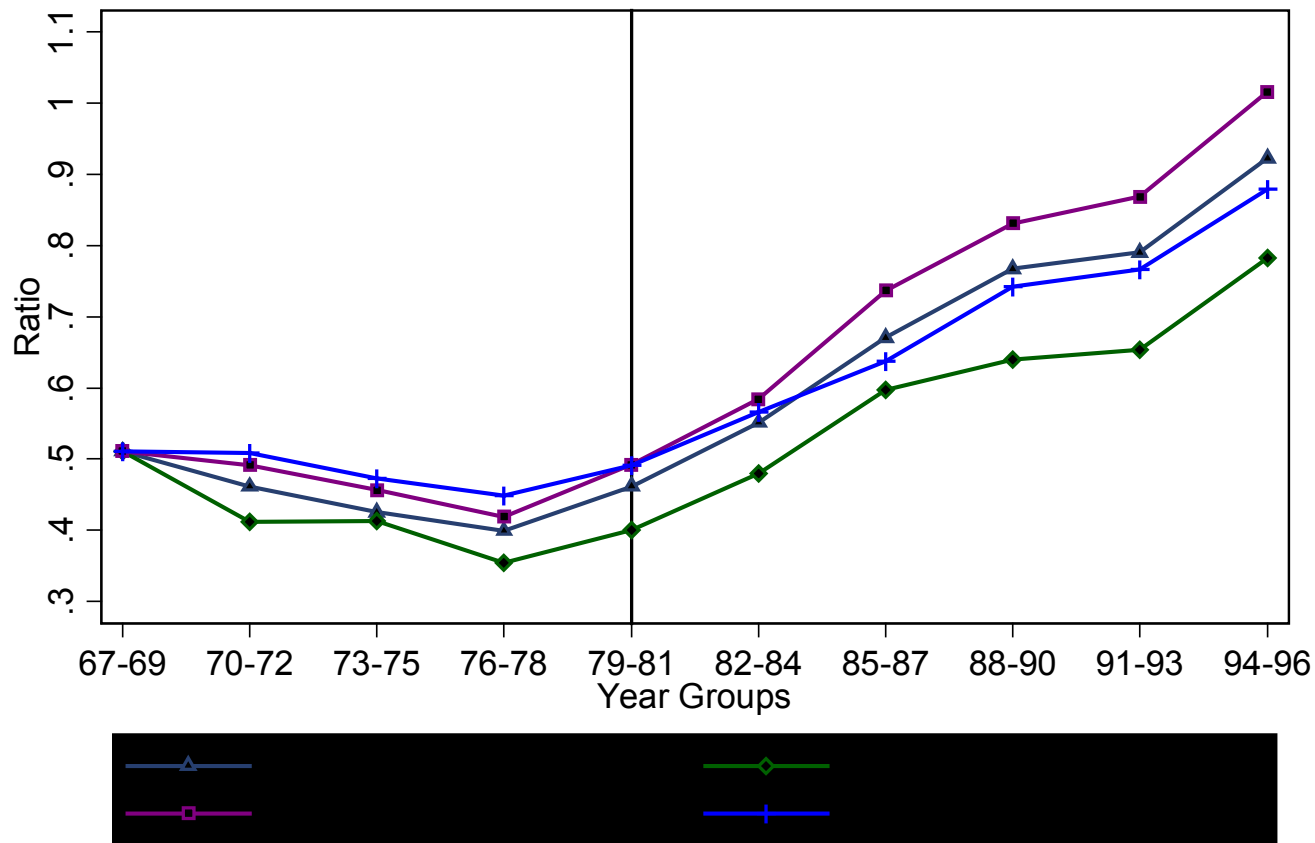
Changes in Relative Supply of College Educated Labor

Figure: Population Fraction College vs. High School, Various Age-Groups



Changes Industry Decomposition and Relative Employment of Older Men

Figure: Counterfactual Relative Employment Varying Industry Shares, Age 60-64



Relative Employment College vs. High School Graduates Younger Men

Figure: Relative Employment-Population Ratio College vs. High School Young Men, Various Age-Groups

