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POPULATION AGING AND THE STRUCTURE OF WAGES

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The United States, along with virtually all other developed countries, is on the cusp of a radical transformation of its labor markets. One consequence of demographic change is that there have been substantial shifts in the age distribution of the working age population. The usual historical pattern of a high ratio of younger workers relative to older workers is being replaced by a pattern of roughly equal percentages of workers of different ages. One might expect that the increasing relative supply of older workers would decrease the wage premium paid for older, and more experienced, workers.

This paper provides strong empirical support for this hypothesis. Econometric estimates imply that the size of one's birth cohort affects wages throughout one's working life, with members of relatively large cohorts earning a significantly lower wage than members of smaller cohorts at all stages of their careers. Our results suggest that cohort size effects are quantitatively important, and should be incorporated into public policy analyses.

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