Journal of Political Economy > Volume 87, Number 5, Part 2

Effects of Cohort Size on Earnings: The Baby Boom Babies' Financial Bust

Finis Welch

Abstract

More

Abstract

The arrival of the post--World War II baby boom cohorts in the job market raises many questions of effects associated with a rapidly declining average age of the labor force. This paper first summarizes 1967-75 wage behavior, showing that relative wages between schooling groups have not changed for prime-aged workers, but there is some evidence, for new job-market entrants, that wages of more educated workers have fallen relative to wages of less educated workers. However, changes among schooling groups are small in comparison to those between new entrants and peak earners within schooling group. The evidence is very direct: as work-experience distributions shifted toward increased proportions of young workers, their relative wages fell. After examining a career-phase model in which workers at different phases are imperfect substitutes, estimates of empirical relationships between cohort size and wages are presented. The main result is that income-depressant effects of (own) cohort size decline over the career but do not vanish altogether. Initial effects include reductions in wage rates and in hours and weeks worked, while persistent effects extend only to wages.