When Baby Boomers Delay Retirement, Do Younger Workers Suffer?

As life expectancy increases and retirement income systems evolve, households face an enormous challenge in ensuring a secure retirement. Working more years is often hailed as the best way to increase retirement incomes, especially in the wake of the Great Recession. But some fear that delayed retirement by Baby Boomers reduces the job opportunities for younger workers, contributing to increased unemployment and stunted career trajectories.

The notion that younger and older workers are engaged in a zero-sum game for a fixed number of jobs is called the "lump-of-labor" theory. This issue brief explores whether the theory holds true, both during times of economic growth and during the last recession. Understanding these labor market dynamics is critical for policy makers who wish to support upward economic mobility of youth, prevent downward economic mobility of older workers, or both.

According to the "lump-of-labor" theory, delayed retirement by Baby Boomers would "crowd out" younger workers from the labor market, increasing their unemployment rates, decreasing their employment rates, and reducing their hours worked.

Individuals in this analysis are divided into three age groups:

- Youth workers: 20-24
- Prime-working aged: 25-54
- Older workers: 55-64

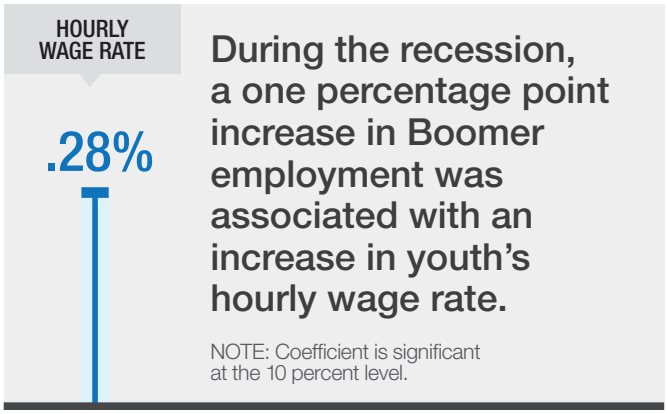
Key Findings

The lump-of-labor theory did not hold true during the Great Recession.

The Great Recession is generally acknowledged to be the worst economic crisis in the United States since the Great Depression, resulting in a dramatic and sustained increase in unemployment. This atypical strain on labor markets, coupled with economic uncertainty that could influence older workers to delay retirement, might have decreased younger workers' employment prospects.

If this dynamic was occurring, the data would reflect some "crowding out"; in other words, an increase in older workers' employment would increase other workers' unemployment, decrease their employment, and reduce their hours worked.[1]

Indeed, young workers have been greatly affected by the downturn. However, there is no evidence that Boomer employment negatively affected the labor force activity of the young during the recession. In fact, a one-percentage-point increase in Boomer employment has an insignificant impact on youth employment rates, unemployment rates, or hours worked. An increase in the Boomer employment rate is actually associated with an additional 0.28 percent *increase* in youth's hourly wage rate compared to the typical business cycle. Similar patterns emerged for the prime-aged.



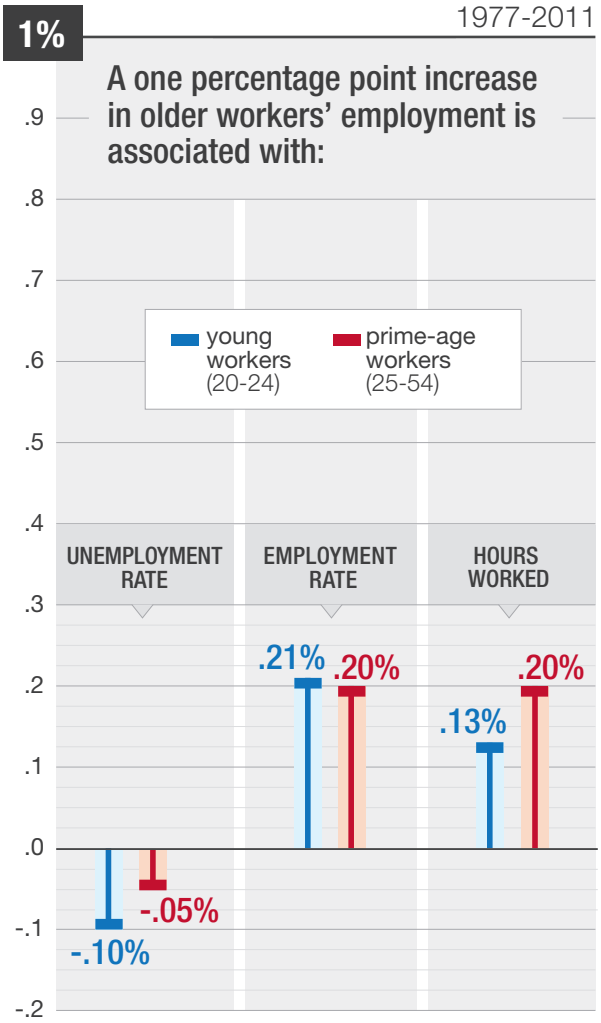
Just as during the Great Recession, the relationship between older workers' employment and other workers' labor market activity over the last several decades provides no evidence for the lump-of-labor theory.

Investigating a longer historical time period (1977-2011) shows that a one percentage point increase in the employment rate among older workers is associated with a decline in youth unemployment of 0.10 percentage points, an increase in youth employment of 0.21 percentage points, and an increase in hours worked per week of 0.13 percentage points. The relationship between increases in employment among older workers and labor market outcomes for prime-aged workers shows the same pattern.

This result also holds true within states.

Considering state-specific characteristics—such as differences in demographics, the nature of employment (such as the concentration of manufacturing or the share of self-employment) industry structures, and labor market conditions—still reveals no evidence for the lump-of-labor theory. Older workers' employment is positively related to employment of the young and prime-aged and has no statistical impact on unemployment or hours worked for either group.[2]

IMPACT OF OLDER WORKERS' EMPLOYMENT RATE ON OTHER WORKERS' LABOR MARKET ACTIVITY



NOTE: All coefficients are statistically significant at the 5 percent level.

SOURCE: Authors' calculations using U.S. Census Bureau, *Current Population Survey*.

The relationship between older and younger workers' labor force behavior does not vary by educational attainment or by gender.[3]

Economic theory suggests that the more similar workers are with respect to skills, the easier it is to replace current workers with other similar workers. This means the crowd-out effect could be more prevalent among groups of workers with similar education levels. However, analyzing the impact of older workers' employment on younger workers by education level still provides no support for the lump-of-labor theory.

Similarly, it is possible that the results for men and women could vary due to differences in labor force participation, such as the substantial increase over time in the share of women working, and in occupational segregation. However, estimating the results separately for men and women still reveals no evidence of crowding out.

Just as employment of older workers does not affect the "quantity" of young workers in the labor force, it similarly has no negative impact on the "price" of young labor.

Increased employment of older workers has no negative impact on the hourly wages or annual incomes of youth.

Conclusion

Varied methodological approaches found no evidence to support the lump-of-labor theory in the United States.[4] In fact, the evidence suggests that greater employment of older persons leads to better outcomes for the young—reduced unemployment, increased employment, and a higher wage. The patterns are consistent for both men and women and for groups with different levels of education. And perhaps most notably, the effects of Boomer employment on other segments of the labor market during the Great Recession do not differ from those during typical business cycles.

The fact that the lump-of-labor theory does not hold is powerful information for both policy makers and employers, given the state of the U.S. retirement system and the need for people to work longer in order to have a secure retirement. Retaining older workers does not hurt the job prospects of younger ones, meaning that protecting Boomers from downward mobility goes hand in hand with promoting the upward mobility of youth.

Data

This fact sheet uses data from the nation's largest annual labor market survey, the Current Population Survey (CPS), which includes detailed questions on labor force participation, employment and unemployment, hours worked, and wage rates. The survey includes rich demographic information, as well as state identifiers that allow an analysis of variation across states in labor force activity over time.[5] The sample contains state averages for individuals aged 20 to 64 for the period 1977-2011.

References

Munnell, Alicia H. and April Yanyuan Wu. 2012 (forthcoming). "Will Delayed Retirement by the Baby Boomers Lead to Higher Unemployment among Younger Workers?" Working Paper. Chestnut Hill, MA: Center for Retirement Research at Boston College.

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Endnotes

1 The unemployment rate represents the number unemployed as a percent of the labor force. The employment rate represents the share of the population over age 16 in work. The labor force participation rate is defined as a percent of the civilian noninstitutional population.

2 The model controlled for state-level differences by including state-specific data in fixed effects models. For more information, see Munnell and Wu (2012).

3 This analysis includes controls for state variation.

4 Using an instrumental variables approach to correct for the possibility that an endogenous factor could be affecting the employment of both the old and the young also did not change the results at all: none of the coefficients are statistically significant. For more information, see Munnell and Wu (2012).

5 The March CPS does not include state identifiers before 1977. Data for employment status are missing from 1994.