

# “Should I Stay or Should I Go?” The Effect of Demographic Change on Labor Force Participation and Wages

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PRELIMINARY; ABSTRACT ONLY

**Abstract:** We propose a model in which rising supply of experience reduces experienced workers’ relative wages, and also negatively and systematically impacts their labor market participation. We then quasi-experimentally investigate the existence of these effects, using variation across US local labor markets (LLMs) over the last 50 years and instrumenting experience supply by the LLMs’ age structures a decade earlier. We find that aging drastically reduces the labor market participation of experienced relative to inexperienced workers; increasing their welfare-, disability-, and especially social security claims. Aging also reduces the (relative) migration of older workers into the aging LLMs. All of these reactions are mainly driven by low-skilled and low-earning workers. Our results imply that the effect of demographic change on the labor market is substantially more severe than previously recognized, and that existing estimates of the elasticity of substitution in production between experienced and inexperienced workers might be biased upward because of selection.

**Keywords:** Employment of Older Workers, Selection Bias, Return to Experience, Aging, Demographic Change

**JEL codes:** E24, J11, J21, J22, J24, J26, J31

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