Revisiting Wage, Earnings, and Hours Profiles*

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Abstract. The contribution of this paper is threefold. First, we use PSID data to document for the first time empirical life cycle profiles (wage, labor earnings, hours of market work) of a cohort of workers followed from when they enter the labor market to when they retire (the PSID is now long enough to allow the observation of the entire working life of individuals who entered the labor market in 1967). Second, we show that the resulting empirical pattern is inconsistent with the human capital model. In this model the three profiles are all hump-shaped, and the decline in hours and earnings at the end of the working life is a consequence of declining productivity. In particular, if wealth effects on hours of market work are not too strong (which seems to be the case empirically), then in this model the wage and hours profiles necessarily have the same shape. We find instead that in our data the wage profile does not decline while hours per worker drop sharply beginning at age 55, when many workers seem to start a smooth transition into retirement by working progressively fewer hours. Therefore, there is a decline in labor earnings that is completely driven by labor supply. This pattern is also found in the CPS, a dataset we use to make sure our results are not affected by attrition. Third, we study a quasi-experiment whose results support the hypothesis that intergenerational transfers of time in the form of grandparenting play a major role in reducing labor supply towards the end of the working life. We conclude suggesting a richer model that incorporates this channel and reconciles theory and data.

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