

The Labor Force: To Work or Not to Work



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When we talk about the U.S. labor force, it's important to know exactly what the term means. From a statistician's standpoint, any civilian over the age of 16 who does not live in an institution can be counted as part of the labor force population. Of course, not everybody who can participate does. Some parents might decide to stay at home to raise children. Some 20-somethings might decide to enroll in graduate school. Here is a simple calculation:

$$\frac{\text{Labor force population} - \text{Nonparticipants}}{\text{Labor force population}} = \text{Labor force participation rate}$$

Since the last recession began in December 2007, the participation rate has fallen about 2 percentage points. Interestingly, more than three-quarters of that drop has occurred since the recession officially ended in June 2009. In fact, an alternative measure of unemployment is as high as 16 percent right now when accounting for discouraged and marginally attached workers, plus those working part-time for economic reasons.

Will participation eventually recover, or did the recession permanently lower the fraction of Americans who will try to find work? We don't know yet, but the importance of the answer underlines the reason economists pay attention to the labor force participation rate.

If capital and technology are held constant, an economy with fewer workers will generally produce less. However, capital and technology are not constant; they change over time. Furthermore, large numbers of people who do not participate in the labor force engage in other productive activities such as raising children, pursuing education, or taking time for leisure such as retirement.



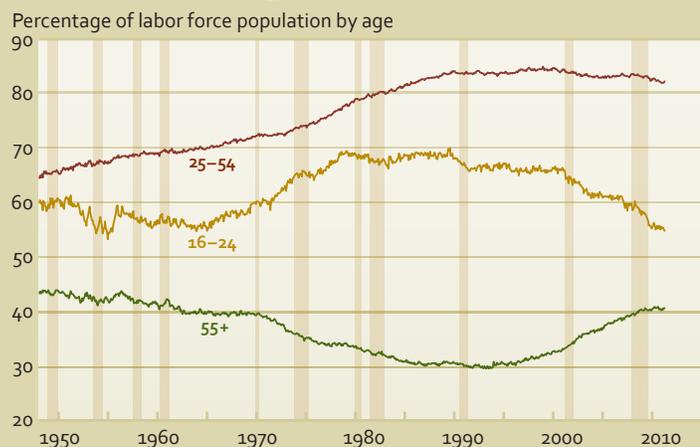
Labor Force Participation Rates, 1948–2011



Note: Shaded bars indicate periods of recession.

Sources: U.S. Department of Labor, Bureau of Labor Statistics.

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So how should we think about nonparticipants in the labor force? Economists seeking a useful barometer of economic well-being tend to focus on the people who would like to work but have given up looking. These “discouraged workers” are defined by the Bureau of Labor Statistics as those “not currently looking for work specifically because they believed no jobs were available for them or there were none for which they would qualify.” The fraction of the labor force composed of self-defined discouraged workers has risen from about 0.2 percent at the beginning of 2008 to about 0.45 percent now.

They account for about an eighth of the overall drop of 2 percentage points in the labor force participation rate—significant, to be sure, but not enough to fully explain the drop.

Structural Changes

In the longer view, the history of labor force participation may tell us something about the path ahead. One of the most striking long-run changes in the workforce has been the dramatic increase in the number of women who work for pay outside the home. Women’s share of the labor force moved from just above 40 percent in 1970 to a bit below 60 percent in 1990. In fact, it was largely because of women that the overall labor force participation rate climbed to historically high rates until about 2000. Since then, however, both men and women have been leaving the labor force with greater frequency.

As the bottom figure on the left shows, labor force participation paths for different age groups have diverged in recent years. Since 2000, the participation rate for people ages 16 to 24 has fallen from 66 percent to about 55 percent. One explanation for this large drop is that more young people are enrolled in school: Between 2000 and 2005, the fraction of 16- to 24-year-olds pursuing an education grew from 53 percent to 57 percent.¹ Observers are not sure whether this increase is a cause or an effect of the lower labor force participation rate. But over the long term, increased enrollment of young people could produce a more highly skilled workforce, which would boost future economic growth.

We have also seen a drop in labor force participation among the prime-age population (ages 25 to 54), from about 84 percent in mid-2000 to about 82 percent in mid-2011. About half of that decline has occurred since mid-2007. One contributing factor may be the relaxation of eligibility criteria for disability benefits: The net number of people added to the disability rolls from 2007 through 2010 averaged about 350,000 per year.² This could account for a drop of about 0.5 percentage point in the labor force participation rate from 2007 through 2010—again, a significant amount, but not enough to explain the entire decline.

1. U.S. Department of Labor, Bureau of Labor Statistics; *Trends in Labor Force Participation in the United States*, 2006.

2. Social Security Administration, www.ssa.gov/OACT/STATS/dibStat.html.

Americans Skeptical about Finding Good Jobs

The recent rise in the number of “discouraged workers” in the country is reflected in public surveys about the employment situation.

A July 2011 Gallup survey included a question about the current job market: **Thinking about the job situation in America today, would you say that it is now a good time or bad time to find a quality job?**

Nine out of 10 respondents said that now is a bad time to look for work.

It is important to monitor the number of discouraged workers among us. As a society that prides itself on providing economic opportunity, we may have to ask ourselves how we would deal with a large, stable population of people who want to work but have given up hope of finding a job.

Bottom line: If you want to know whether the economy is getting better, a good place to start is the number of discouraged workers. When it starts going down, the economy should really be moving up.

— Doug Campbell, Editor



Source: Gallup.

While the young and middle-aged have been hopping out of the labor pool, older Americans have been hopping in. The participation rate of people 55 and up has been increasing since the mid-1990s (although it has pretty much flattened out since 2007). Some attribute this change to seniors’ improving health, which allows them to continue working later into life. Others maintain that the financial crisis may have adversely affected retirement accounts, causing older workers to delay retirement in order to rebuild their savings.

Older workers’ increased participation has not been enough to offset the falling participation rate of younger workers. Although the U.S. population is aging on average, the young and prime-age populations still make up almost 70 percent of civilians over 16.

A Scarring Effect?

No matter how we try to explain the longer-run structural trends, a key question remains: Will the labor force participation rate return to its pre-recession path? Or will the recession and slow economic recovery leave a lasting scar on participation?

It’s conceivable that workers who are discouraged now will find jobs when times are better. Or finding jobs could remain hard for them for a long time because their skills have deteriorated.

Whether economic policy can make a difference depends on the diagnosis of the problem. The Congressional Budget Office estimates that in the long run, the expiration of the Bush-era tax cuts would cause a drop of almost a full percentage point in the labor force participation rate, but it is unclear how much this would affect discouraged workers. If the currently high level of discouraged workers results simply from low aggregate demand, then there is a role for monetary policy; however, if workers are leaving the labor force because their skills don’t meet employers’ long-run needs, then the appropriate policy response could be to provide education or re-training opportunities. ■

Recommended reading



Daniel Hartley and Mary Zenker. 2011. “Who Is Driving the Decline in the Labor Force Participation Rate?” Federal Reserve Bank of Cleveland, *Economic Trends* (February).
www.clevelandfed.org/research/trends/2011/0211/01labmar.cfm