

# Trends in Labor Force Participation

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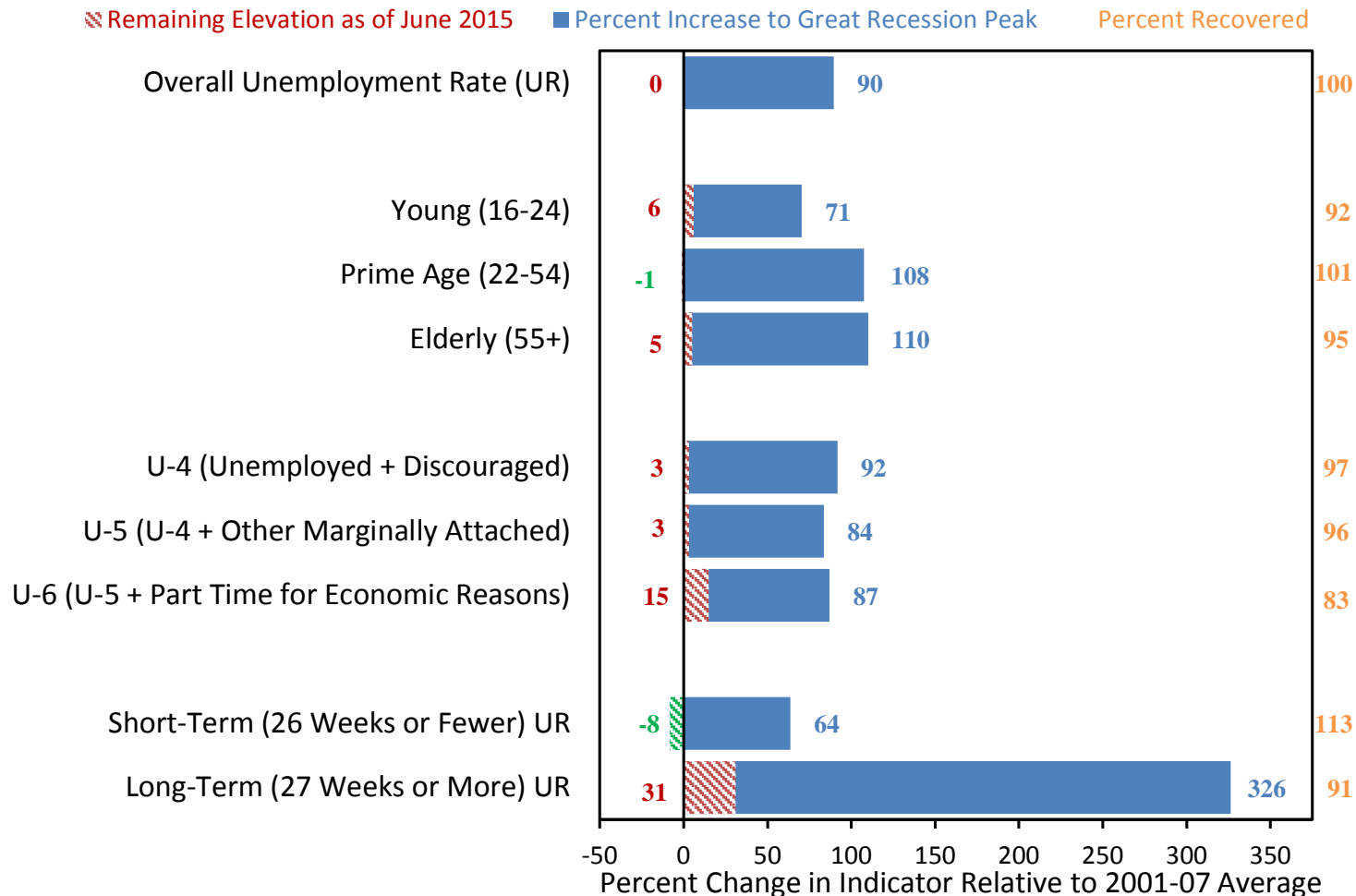


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# Assessing the Labor Market Recovery

## Elevation and Recovery of Broader Measures of Unemployment



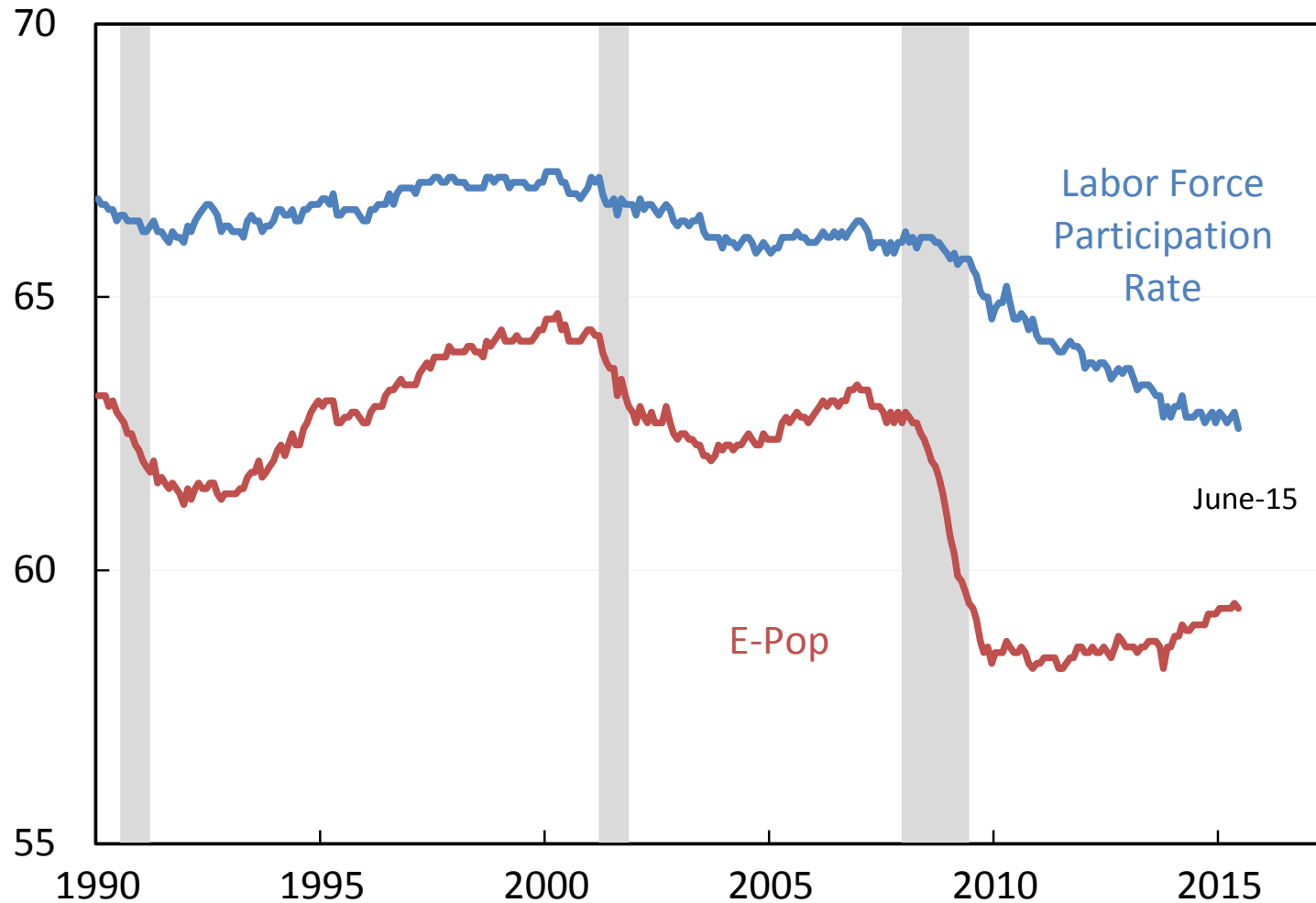
Note: All rates are expressed as a percent of the labor force and are seasonally adjusted unless noted (\*).

Source: Bureau of Labor Statistics, Current Population Survey; CEA calculations.

# Trends In Labor Force Participation and the Employment-Population Rate

## Labor Force Participation and Employment/Population Rates

Percent of Population



Note: Shading denotes recession. All figures restricted to persons 16 years and older.

Source: Bureau of Labor Statistics.

# Four Potential Explanations of LFPR Decline

The LFPR rate fell 3.1 percentage points from 2007-Q4 to 2015-Q2.

This can be attributed to:

## Structural

1. Aging of the population. This is the mechanical impact of, for example, having fewer 55-59 year olds (male e-pop = 73%) and more 70-74 year olds (male e-pop = 20%).
2. Non-aging trends. E.g., prime-age male participation rates have been declining since the early 1950s and prime-age female participation rates have been declining since the late 1990s.

## Cyclical

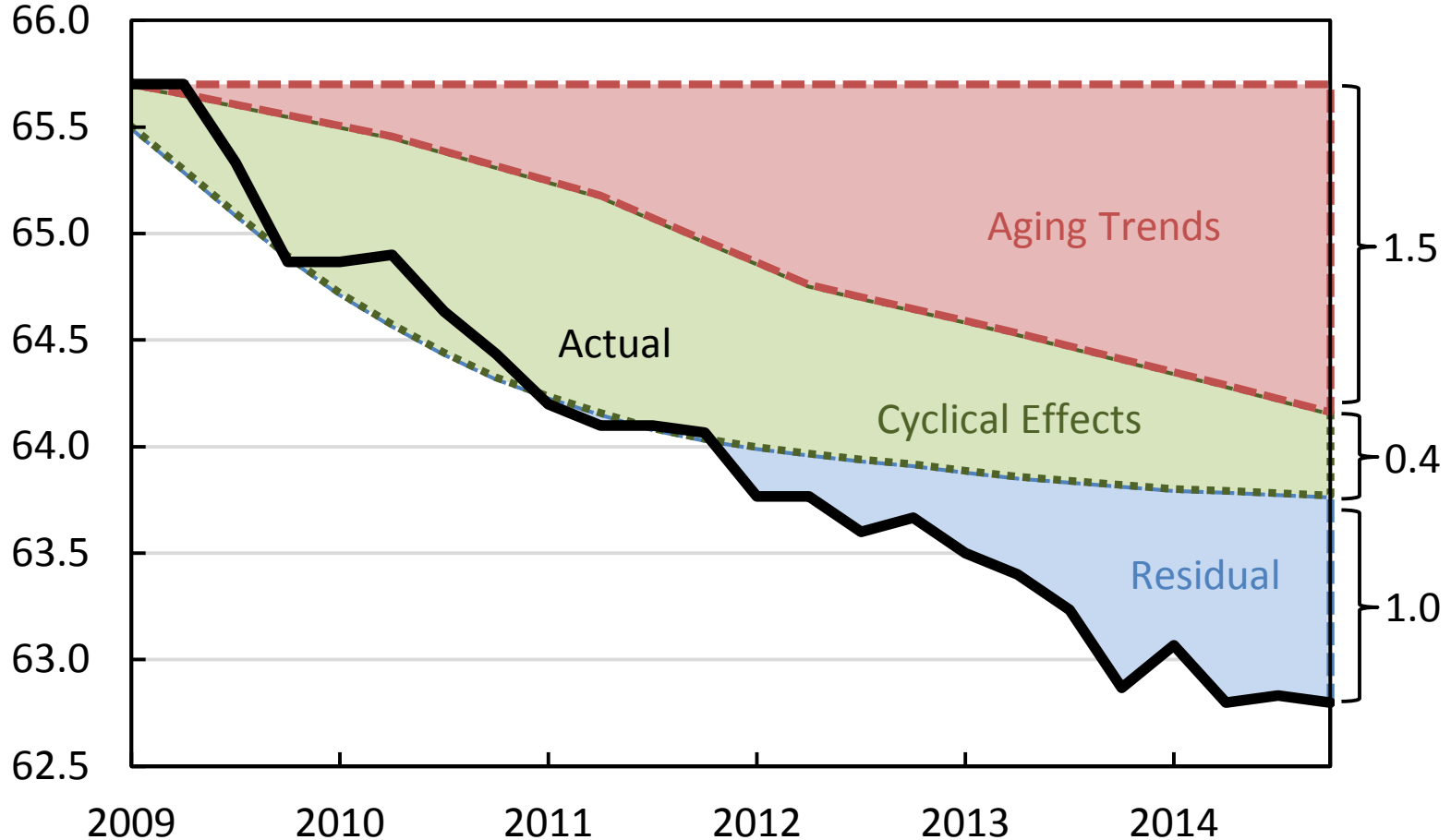
3. Normal business cycle. Historically, for every 1 percentage point elevation in the unemployment rate, the participation rate is 0.1 to 0.2 percentage points lower.
4. Unusual business cycle. The Great Recession was unusually severe and hit a labor market that has undergone structural changes, making the cyclical impact different.

**Note – CEA's statistical analysis combines 2 and 4 as a residual.**

# CEA's Decomposition of the LFPR Decline

## Labor Force Participation Decomposition

Percent of Civilian Non-institutional Population Aged 16+



Note: Year axis denotes first quarter of year noted. See 2015 *Economic Report of the President* for methodological details.

Source: Bureau of Labor Statistics, Current Population Survey; CEA calculations.

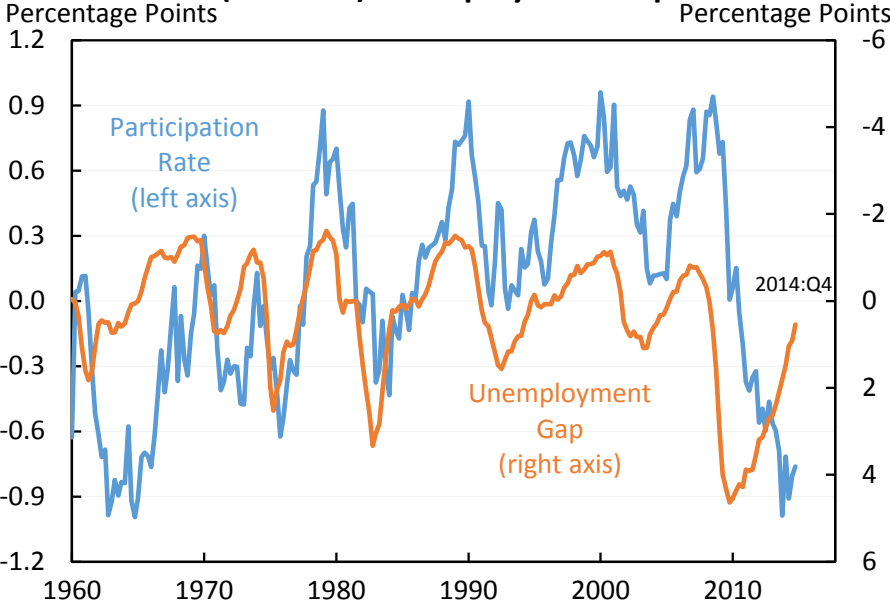
# Everyone Else's Decomposition of the LFPR Decline

Comparison of Participation Rate Estimates

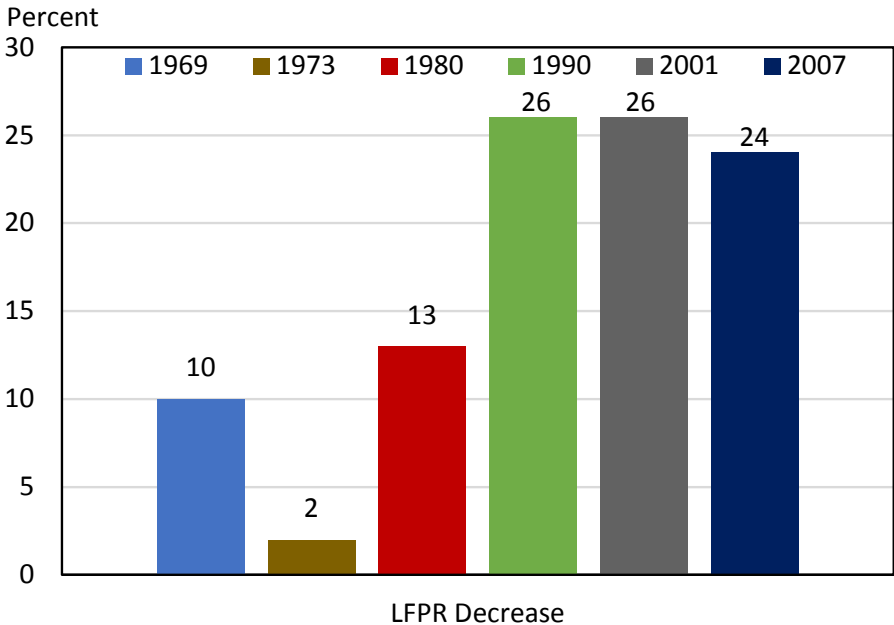
	Time Period	Shares of the Total Decline		CEA Estimated Shares Over Same Time Period	
		Trend	Cycle	Trend	Cycle
CEA	2007:Q4 – 2014:Q4	55%	17%		
<b><i>Beginning in 2007</i></b>					
CBO (2014)	2007:Q4 – 2013:Q4	50%	33%	48%	25%
S. Aaronson et al. (2014)	2007:Q4 – 2014:Q2	82%	11%	51%	21%
D. Aaronson et al. (2014)	2007: Q4 – 2014:Q3	74%	13%	54%	19%
Erceg and Levin (2013)	2007-2012	17%	55%	55%	42%
Fallick and Pingle (2013)	2007:Q4 – 2013:Q2	75%	16%	53%	35%
Kudlyak (2013)	2007-2012	80%	20%	55%	42%
Shierholz (2012)	2007-2011	31%	--	49%	59%
Van Zandweghe (2012)	2007-2011	42%	58%	49%	59%
Aaronson et al. (2006)	2007-2013	82%	--	48%	25%
<b><i>Other time periods</i></b>					
CEA (2014)	2011:Q1 – 2014:Q4	77%	-39%		
Fujita (2014)	2000:Q1 – 2013:Q4	65%	30%	39%	19%
Aaronson, Davis, and Hu (2012)	2000-2011	40%	--	43%	43%

# Cyclical Component of the Decline

**Detrended Participation Rate and (Inverted) Unemployment Gap**



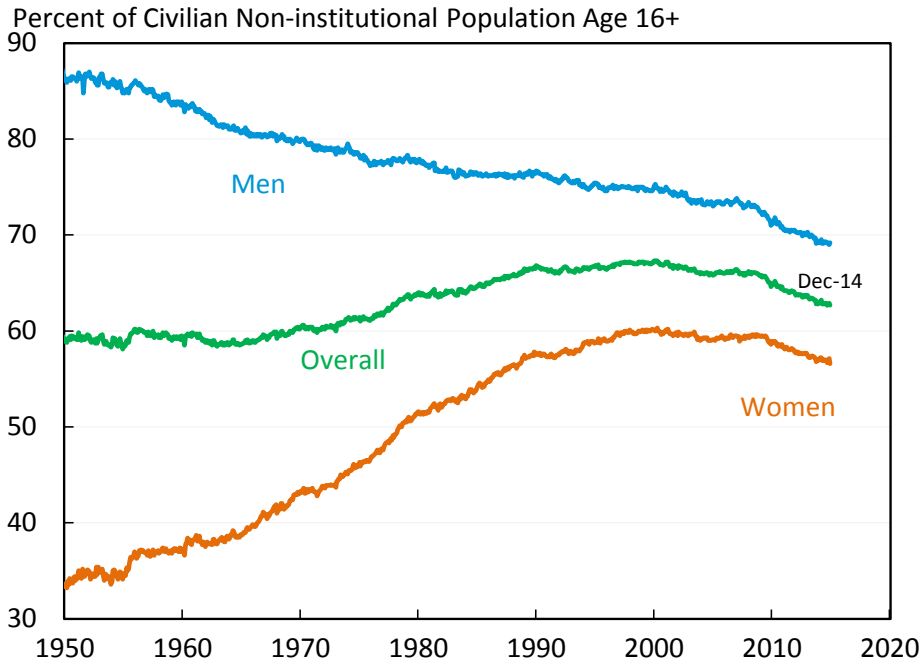
**Labor Force Participation Rate Response as a Percent of Increase in Overall Unemployment Rate**



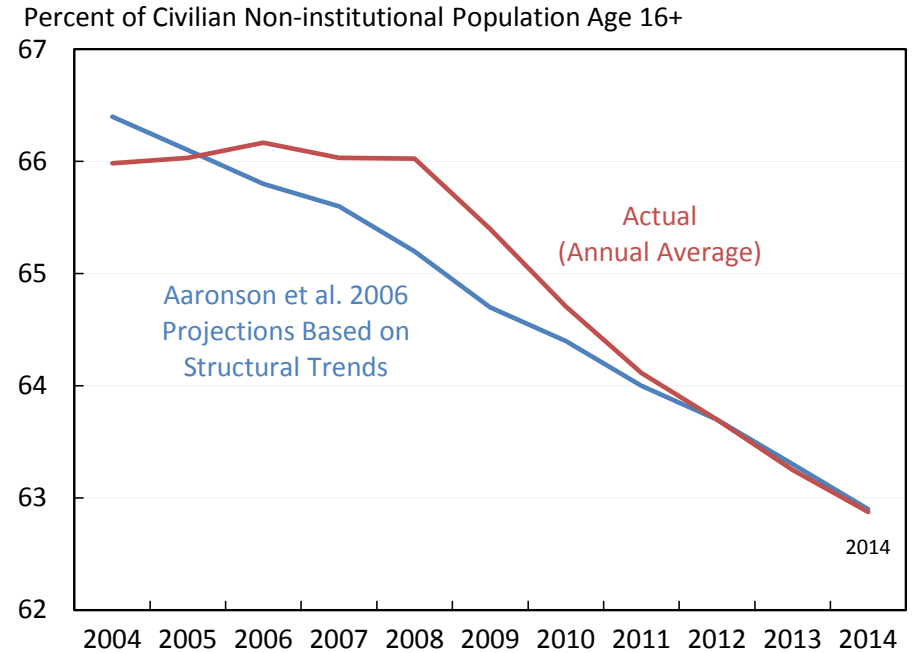
Source: Bureau of Labor Statistics; CEA calculations.

# The Case for the Residual Being Non-aging Trends (i.e. Structural)

## Labor Force Participation by Gender



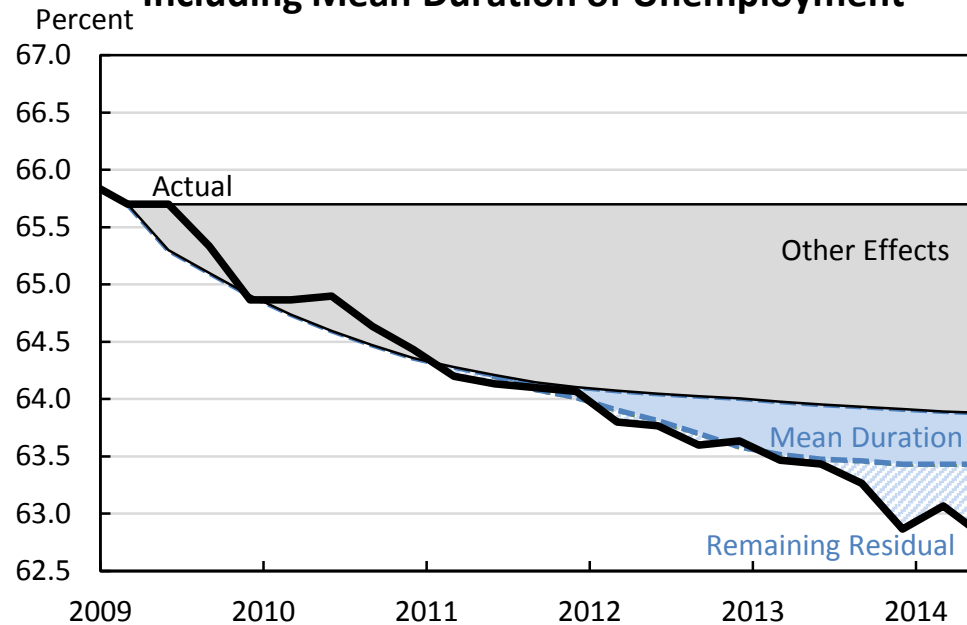
## Labor Force Participation vs. Pre-Crisis Structural Projections





# The Case for the Residual Being Unusual Business Cycle (i.e. Hopefully Cyclical)

**Labor Force Participation Decomposition  
Including Mean Duration of Unemployment**



**Regression of Quarterly Differences in Detrended Participation Rate**

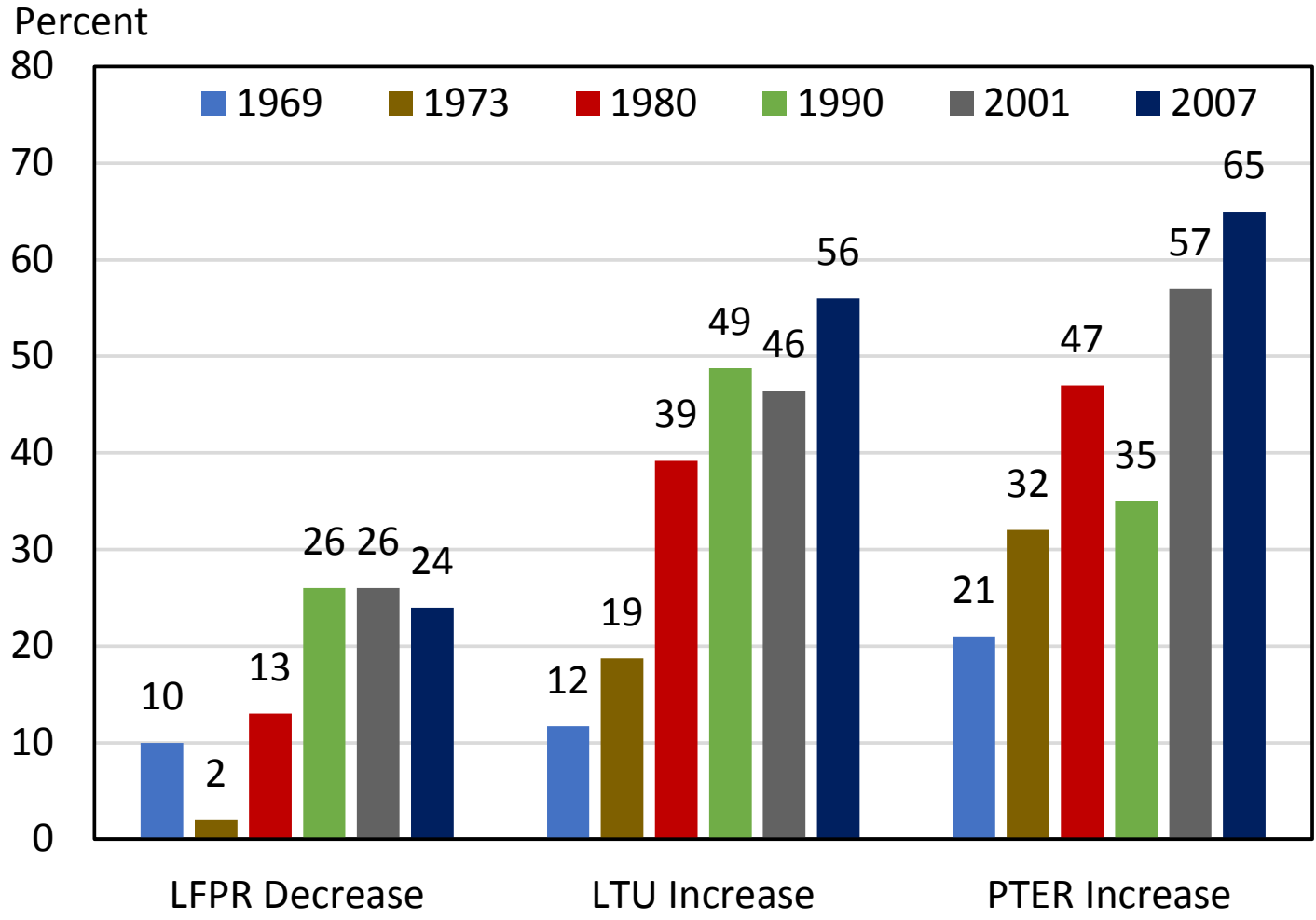
Independent Variables (Year-over-Year Differences)					
Unemp. Gap	Unemp. Gap (t-4)	Unemp. Gap (t-8)	Mean Duration	Mean Duration (t-4)	Mean Duration (t-8)
<b>-0.0330*</b>	0.00429	0.0151	-0.00406	<b>-0.0142*</b>	0.00222
(0.00914)	(0.0146)	(0.0114)	(0.00534)	(0.00524)	(0.00527)

Note: Regression is estimated using data from 1960:Q1 to 2014:Q2. Newey-West standard errors using a maximum lag of 12 are reported in parentheses. Participation rate and unemployment gap are detrended using the procedure described in Appendix A. F-tests are joint significance tests of the disability insurance, mean duration, and schooling variables. \*  $p < 0.01$ .

Source: Bureau of Labor Statistics; CEA calculations.

# Are a Range of Labor Market Variables Increasingly Cyclically Sensitive?

## Labor Market Indicator Response as a Percent of Increase in Overall Unemployment Rate

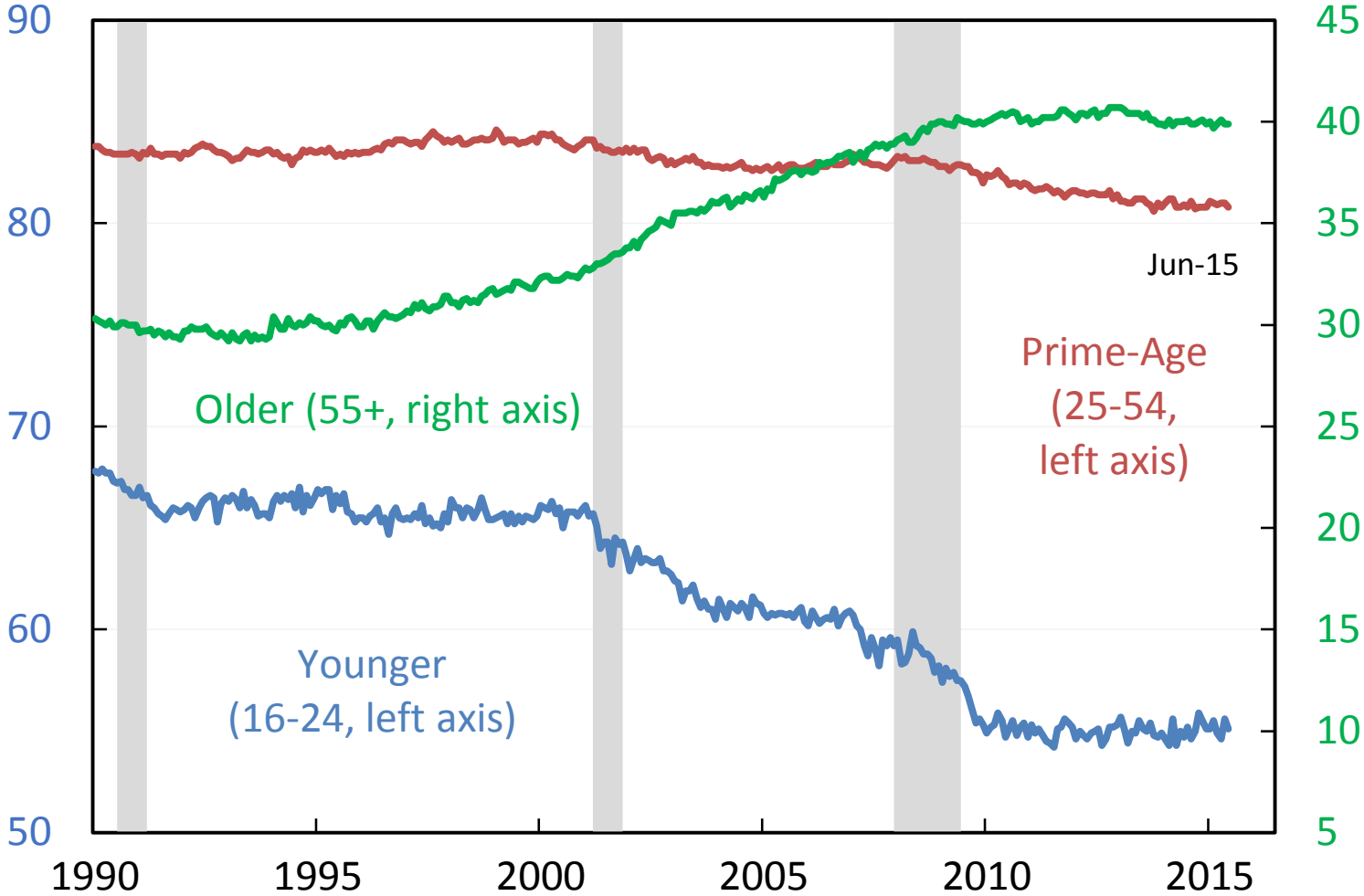


Source: Bureau of Labor Statistics; CEA calculations.

# Rising Trend for Older Workers and Falling Trend for Younger

## Labor Force Participation by Age

Percent of Population

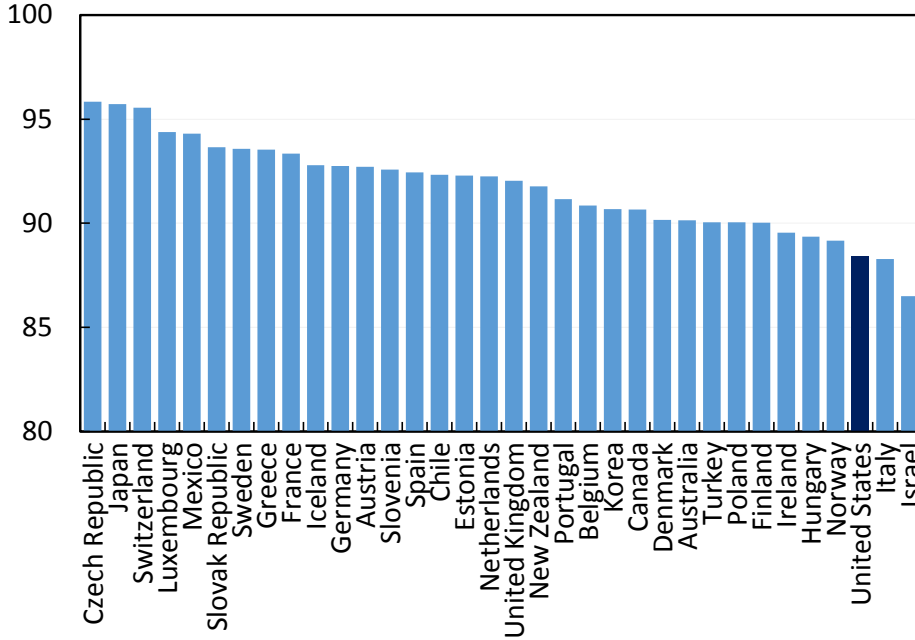


Source: Bureau of Labor Statistics.

# Prime-Age LFPR Across OECD Economies

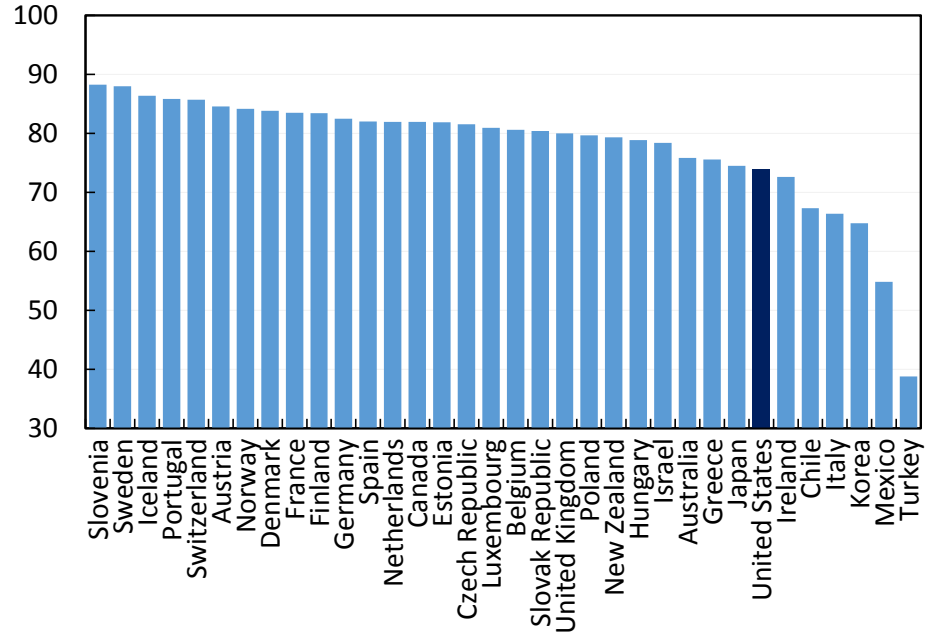
## Prime-Age Male Labor Force Participation

Percent of Population



## Prime-Age Female Labor Force Participation

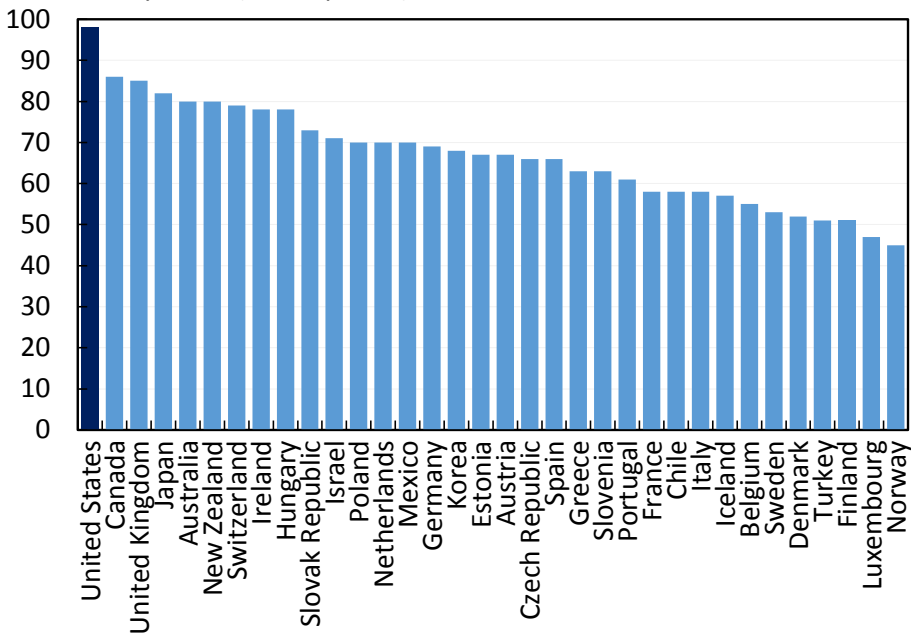
Percent of Population



# Labor Markets Across OECD Economies

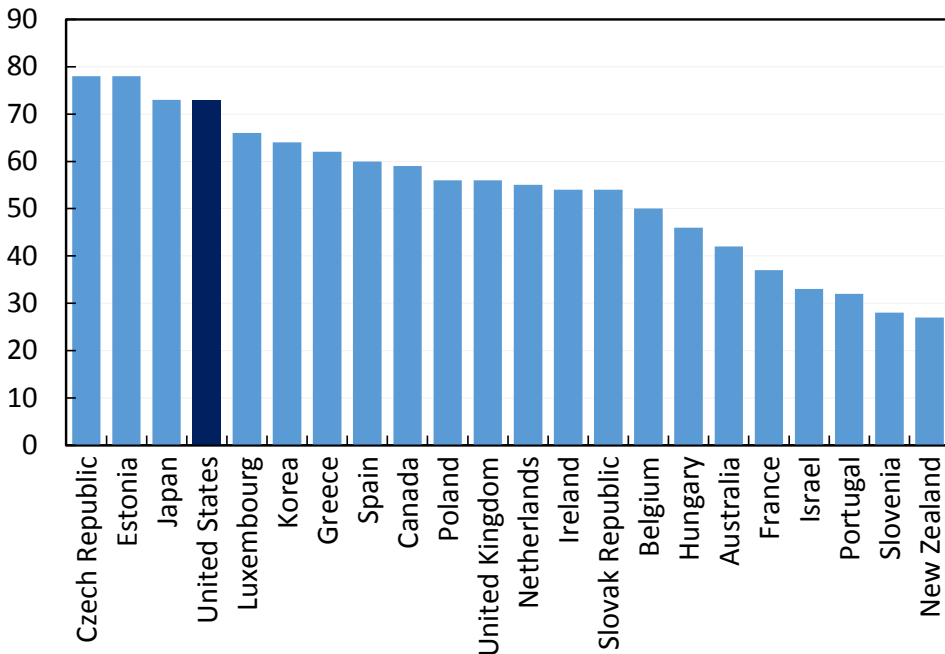
## Labor Market Flexibility - Policy Scores

OECD Policy Score (100=Optimal)



## Labor Costs - Scores

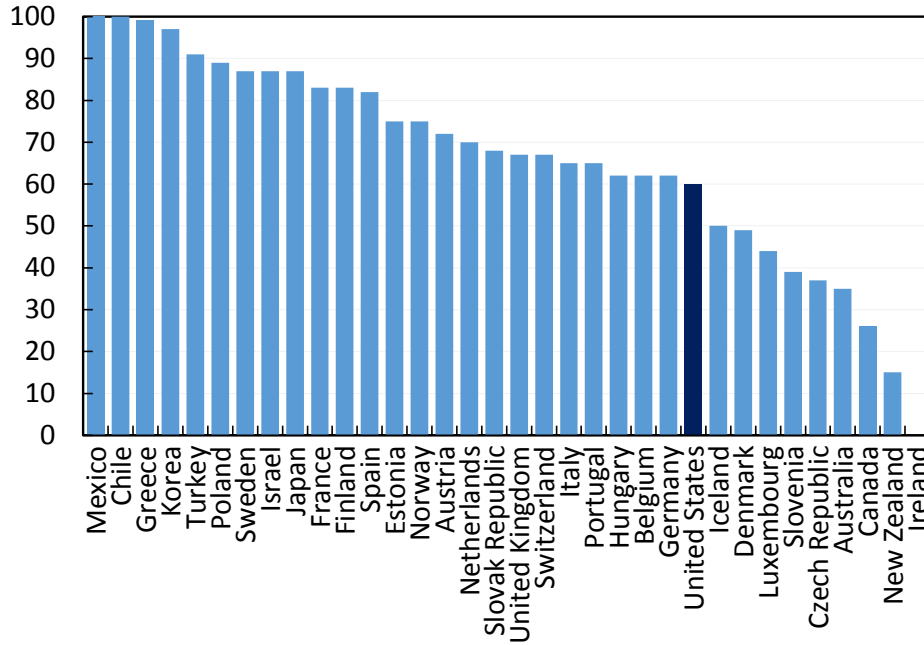
OECD Score (100=Optimal)



# Working Families Policies Across OECD Economies

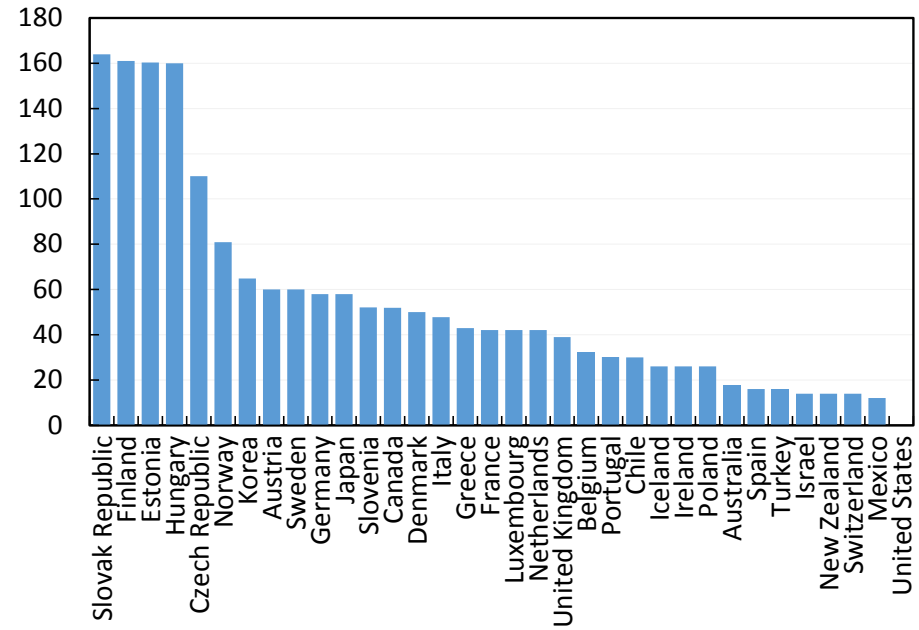
## Secondary Earner Incentives - Policy Scores

OECD Policy Score (100=Optimal)



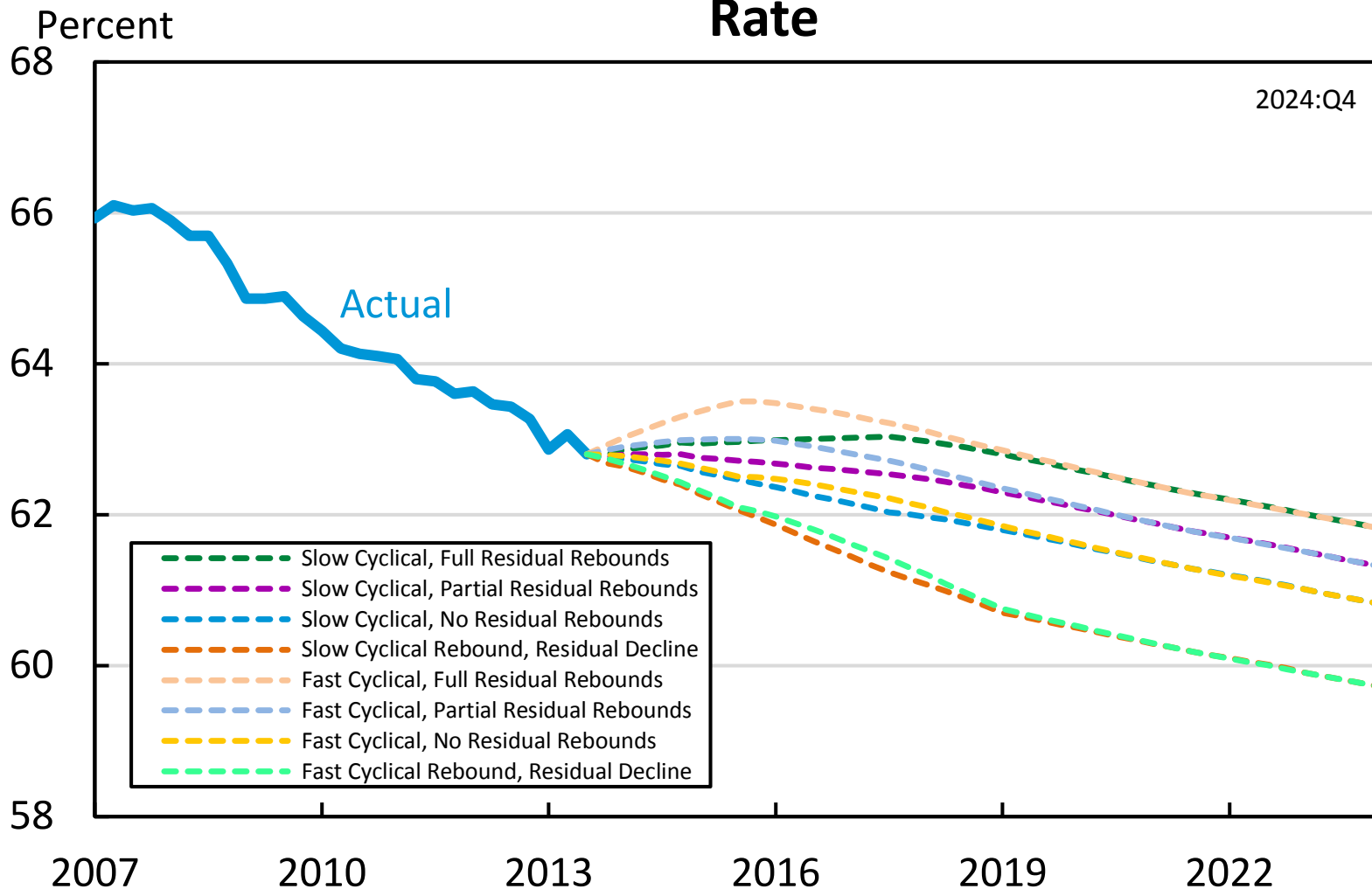
## Paid Maternity Leave Entitlements

Weeks



# The Outlook for Participation

## Alternative Scenarios for the Participation Rate



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