The overlooked statistic

The labor force participation rate measures the percentage of eligible workers who either have a job or want one. While it is not as widely reported as the unemployment rate, it may be the statistic that reveals the most interesting stories about changes in the U.S. economy over the last 20 years.

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The accompanying graph (from the Bureau of Labor Statistics) shows the labor force participation rate since 2001.

Labor force participation rate

This picture tells several interesting stories. First, notice the downward trend. In January 2001, 67.2 percent of the people who could legally work were either working or trying to find a job. By September 2021, that percentage dropped to 61.6 percent. A drop of 5.6 percentage points. This drop meant that, over time, a lot more people are deciding not to work.

So what is going on? Several things really. Notice that between 2009 and 2016 the line on the graph sloped steeply downward. This happened mostly because baby boomers started to retire. Once retired, they dragged down the labor force participation rate.

But if you do a little bit of math in your head, my story may seem a little off. The baby boom began in 1946, just after World War II. Suppose many people want to retire at 65. Then people born in 1946 will turn 65 in 2011, so they should want to retire in 2011, not in 2009. The graph seems to suggest some of them retired a bit early.

In this case, there were other things going on that caused the participation rate to begin declining early. The first thing had nothing to do with the baby boomers. In 2009 and 2010, the U.S. economy was still recovering from the Great Recession. The unemployment rate in both years was over 9 percent, which is much higher than the typical rate, which is between 5 percent and 6 percent. So many people could not find jobs for such a long period of time that they gave up looking. These discouraged workers were no longer participating in the job market so the labor force participation rate decreased.

The second thing going on in 2009-2010 did involve baby boomers. At the time, many firms were losing money. In order to cut costs, they decided to offer employees who were close to retirement age an incentive to retire early. These early retirement packages convinced many people to retire before they were 65. This happened frequently enough that you may know some people who retired early. I certainly do.

The other decline in labor force participation happened more recently. The participation rate dropped from 63.3 percent in February 2020 down to 60.2 percent in April 2020. This drop was caused by the coronavirus. The participation rate still hasn't recovered. Last month (September), the participation rate was only 61.6 percent of the workforce. Some people still do not want to work because they don't want to be around people and risk getting infected.

The decrease in the labor force participation rate over the last 20 years has enormous consequences for the U.S. economy. Each of these consequences justifies a full newspaper column. There is enough to discuss about each one. But for now, let me leave you with one lasting impact. Since a smaller fraction of the working-age population wants to work, it will be easier for people who want jobs to find them. The U.S. economy will still need workers to provide goods and services for those who aren't working. In May, graduating seniors – from either high school or college – should have a relatively easy time finding a job. Of course, other events can happen that could produce a different result. We will see.