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More People Opt Not to Work Anymore

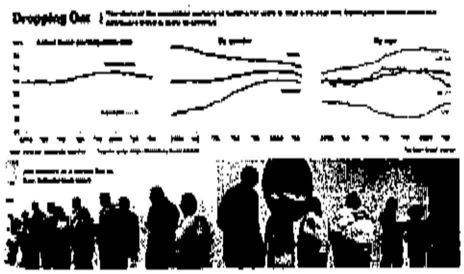
By BEN CASSELMAN

On Friday, the government will release its monthly estimate of how many Americans are working and how many are looking for work. But another number in the report may have greater long-term significance: the declining share of the population that is doing either one.

As of September, the share of the adult population that either had a job or was trying to find one—a measure known as the labor-force participation rate—stood at 63.6%, close to a 30-year low. Other measures of job-market health, such as hiring and the unemployment rate, have shown slow but relatively steady improvement over the past two years. But labor force participation keeps falling.

Public attention on the shrinking labor force has tended to focus on unemployed workers who abandon their job searches. But such people make up a relatively small share of the millions of individuals who have left the labor force in recent years.

Most of the dropouts are retirees, students or stay-at-home parents—people who wouldn't want a job even if one were available.



Indeed, sweeping demographic and societal changes were driving down the participation rate long before the recession took hold. Young people are starting work later as more of them go to college. The flood of women into the workforce, which drove the participation rate up sharply in the second half of the 20th century, has slowed. Most significantly, the over-55 population is growing at more than three times the rate of the adult population as a whole. Even as people retire later, Americans over 55 are still half as likely to be in the workforce as those between ages 25 and 54.

Economists at the Federal Reserve Bank of Chicago earlier this year estimated that such long-run trends account for close to half of the decline in the participation rate since 1999, and some experts put the figure even higher. Barclays Capital argues that fully two-thirds of the drop is due to the aging workforce and other so-called structural factors.

"We think the evidence is quite clear that the single biggest reason the labor force participation rate has been falling has been the retirement of the baby boomers," says Barclays chief U.S. economist Dean Maki. "This would have happened whether the economy was strong or weak."

The economy has played a role, of course. The ranks of "discouraged" workers—those who say they aren't looking for a job because they don't think they can find one—have fallen over the past two years, but remain high by historical standards. Millions more people have retired earlier than planned, or have chosen to go back to school or stay home with the kids rather than wade into the depressed job market.

Some of those people may be gone for good, but most of them likely will return to the labor force at some point. What is less certain is when. Of the 6.4 million dropouts who say they want a job, fewer than half have searched for work in the past year.Even many of those who have looked for a job have since taken on other responsibilities such as school or child care. With unemployment still high and job growth weak, there is little incentive for them to unload those responsibilities and rush back into the job market.

"I don't think people are going to come flooding back anytime soon," says Heidi Shierholz, an economist for the Economic Policy Institute, a left-leaning think tank. "We're just not going to quickly generate the job growth that would draw people in."

That means the trickle of people re-entering the workforce is likely to be overwhelmed by the wave of retirees leaving it. If job growth picks up, the participation rate could tick up slightly, but only for a year or two, until demographic factors catch up. The Labor Department estimates the participation rate will fall by about a percentage point between now and 2020—slower than the recent rate of decline, but still a clear downward trajectory.

For the unemployed, the falling participation rate could be good news: A smaller workforce means less competition for jobs. A rule of thumb holds that the economy needs to add about 150,000 jobs a month to keep up with population growth. With the falling participation rate, Barclays's Mr. Maki figures that number is down to 75,000 to 100,000. That may explain why the unemployment rate has been falling despite relatively anemic job growth.

For the economy, however, declining labor force participation is more worrisome. Paul Ashworth of the forecasting firm Capital Economics notes that over the long term, two things drive economic growth: more workers, and more productivity from those workers. From 1950 to 2000, the labor force grew at an average rate of more than 2.5% per year. Since then, it has grown at a rate of less than 1%. Meanwhile productivity, as measured by output per hour per worker, has recently been growing at an annual rate of around 1% as well.

Add those up and you get a long-run growth rate of 2%—exactly the pace of growth in the third quarter, according to data released on Friday. Much has been made of the sluggish pace of growth in the recovery. But without a boost in productivity, demographic trends suggest this may be as good as it gets.

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