

## Economics Group

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### Employment: The Long View

*Patterns of employment set the tone for the overall pace of economic growth. In recent years, these underlying long-term trends have indicated a slower pace of potential U.S. growth.*

#### Lower Labor Force Participation: Not Just a Matter of Aging

Contrary to popular, and incessantly repeated, commentary, there has actually been a rise in the labor force participation rate of workers 55-64 and even 65 and older (top graph). Yes, the population of the U.S. is aging but the labor force participation of the aging baby boomers is not declining—it is rising. Perhaps this is a signal of improving health conditions of the baby boomers compared to the past, but it is not a sign of workers dropping out. Second, there has been a clear decline in the labor force participation of prime-age workers 25-54, including a decline among women.

There is a sharper drop off in the 20-24 age group and an even sharper decline for teenagers. For these latter two groups, these declines may signal lower attractiveness of work relative to education today on the bet that education will pay off in the future. However, given the rising delinquency rates for student loans, there is the suspicion that, for many of these students, the bet on education (rather than work) is not generating the income necessary to pay loans, and was not well placed.

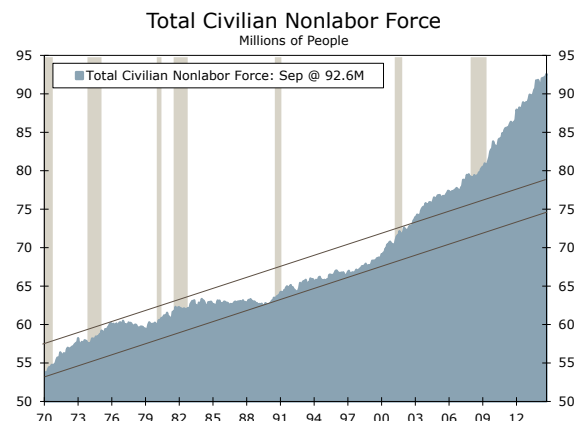
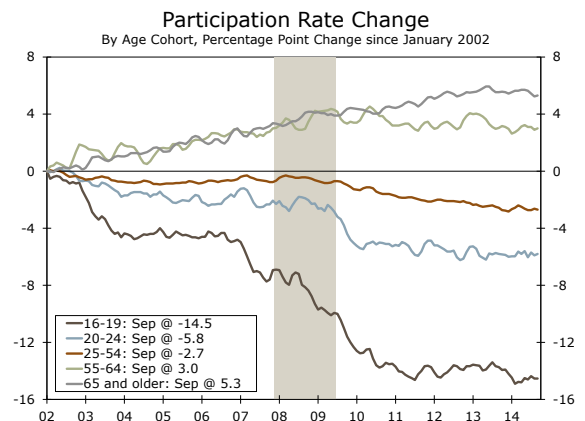
#### Labor Force Growth: Long Ride Downhill

As evidenced in the middle graph, labor force growth in the United States has actually declined since the start of the 1980s. This will surprise many who considered the weak growth in the labor force a recent phenomenon. In part, this is a result of the aging of the baby boomers in recent years, and the slow birth rate during the post-baby boom period. More fundamentally, there has been a shift in the relative attractiveness of work versus leisure in recent years. Increased subsidies in the form of disability payments and other transfers have reduced the cost of being outside the labor force and, thereby, have likely weakened the growth of the labor force.

#### The Nonlabor Force: The Rise of the Detached?

From the early 1970s to the recession of 2001, there was a steady upward trend on the civilian nonlabor force as evidenced in the bottom graph. However, after the 2001 recession, there has been a sharp upturn in the nonlabor force in the United States. Why?

We can only speculate, but the basic idea is that the return to labor has declined relative to the return for leisure. First, there may simply be a change in preferred lifestyle. As our society has become more affluent, many members prefer not to work and pursue other goals. Second, there has been a clear shift in the rewards for leisure versus work, and this is represented by the sharp upward movement in the nonlabor force population.



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