

Contact: Mark Primoff
845-758-7412
primoff@bard.edu

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**U.S. LABOR FORCE PARTICIPATION RATE CONTINUES TO FALL DESPITE
UNEMPLOYMENT IMPROVEMENT, NEW LEVY REPORT SAYS**

Understanding Patterns in Labor Force Participation Essential for Creating Effective Policy

ANNANDALE-ON-HUDSON, N.Y.— The U.S. labor force participation rate for people aged 25–64 has continued to fall since the Great Recession, and much of the improvement in the U.S. unemployment rate is due to an increasing number of people not being counted as working or looking for work, says a new study from the **Levy Economics Institute of Bard College**. In his Policy Note *Losing Ground: Demographic Trends in US Labor Force Participation*, Research Scholar Fernando Rios-Avila examines the trends in labor force participation since 1989 for the U.S. population aged 24–64, and finds that in contrast to official statistics the labor force participation rate (LFPR) showed a more drastic decline between 1989 and 2013, with only a brief recovery before the 2001 recession that was driven by an increase in the LFPR of women. He argues that declining wages and slow job creation have discouraged workers, and that, unless policymakers take steps to improve labor market conditions, declining labor force participation trends can be expected to continue.

“While the decline in men’s labor force participation over the 1989–2013 period was a continuation of a long-term trend, the post-2001 decline of women’s labor force participation—the main engine driving the rising LFPR of the population as a whole before the 2001 recession—has played a large role in the overall declining LFPR observed in the economy since 2001,” writes Rios-Avila. “We infer that the combination of economic conditions and institutional forces that supported expanding labor force participation for decades is either no longer effective or has been outpaced by other negative developments in the labor market. In other words, declining wages and the slow pace of job creation have discouraged workers, and large numbers have dropped out of the labor force. For both men and women, worsening labor market conditions might have created incentives to return to school and/or attempt to alleviate income shocks by engaging in more household production.”

Rios-Avila shows that, while the youngest and most educated cohorts exhibit the smallest changes in their labor force attachment, older male and female workers have been the “winners” in this story, with strong and stable participation in the labor market, which has helped somewhat to stabilize the labor supply in the same manner that women’s rising participation has done in the

past. In the meantime, workers aged 45–54 and the least educated (less than a high school education) have suffered the largest declines in their participation in the labor force compared to their peers. He concludes that, without changes in the conditions of the economy and the labor market, the current trends of declining labor force participation could continue and have negative effects on the economy.

“While the changes to Social Security, combined with financial pressures, might continue to create incentives for more and more older workers to remain in the labor market, they will eventually have to retire, leaving a vacuum in the labor force that younger generations might not be able to fill (i.e., there are fewer younger workers), especially in terms of the Social Security system’s long-term sustainability,” he writes. “The United States must create policies to improve labor market conditions; create new jobs with a living wage for all workers, but especially for younger and less educated workers; halt the long-term decline of men’s labor force participation; and reignite the entry of women into the labor force.”

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Policy Note 2015/7: *Losing Ground: Demographic Trends in US Labor Force Participation*

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit <http://www.levyinstitute.org/publications/losing-ground-demographic-trends-in-us-labor-force-participation>.

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