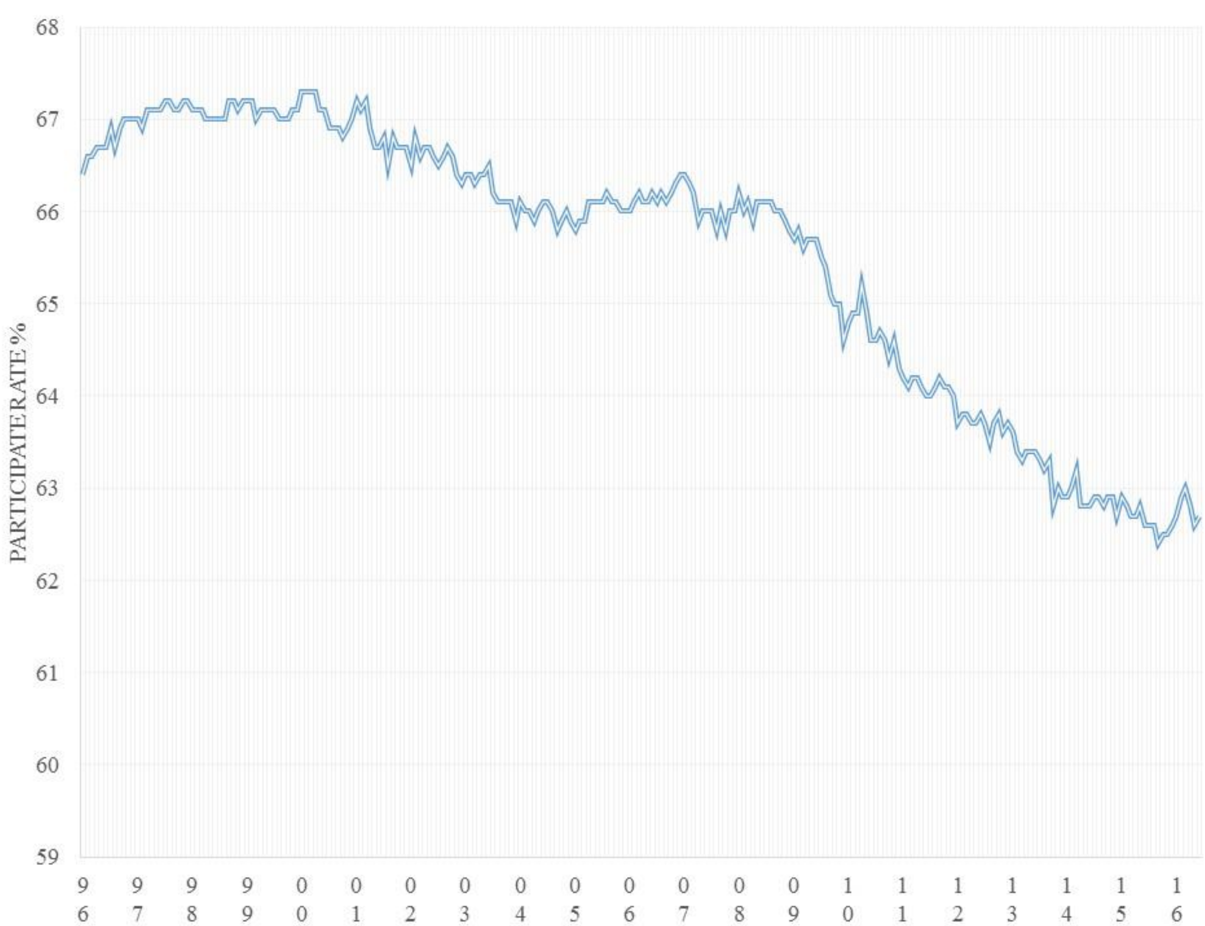
# Why Is the Labor Force Participation Rate Declining?

BY CARMEL FORD *ON* JULY 18, 2016 • (2)

http://eyeonhousing.org/2016/07/why-is-the-labor-force-participation-rate-declining/

There has been no shortage of discussion around the declining US labor force participation rate. After its peak of 67.3 percent in the early months of 2000, the rate declined steadily until the mid-2000s, then plummeted when the US Financial Crisis hit. As of June 2016, the rate stood at 62.7 percent of the civilian, non-institutionalized population (Figure 1).

**Figure 1: US Labor Force Participation Rate, 1996-2016**

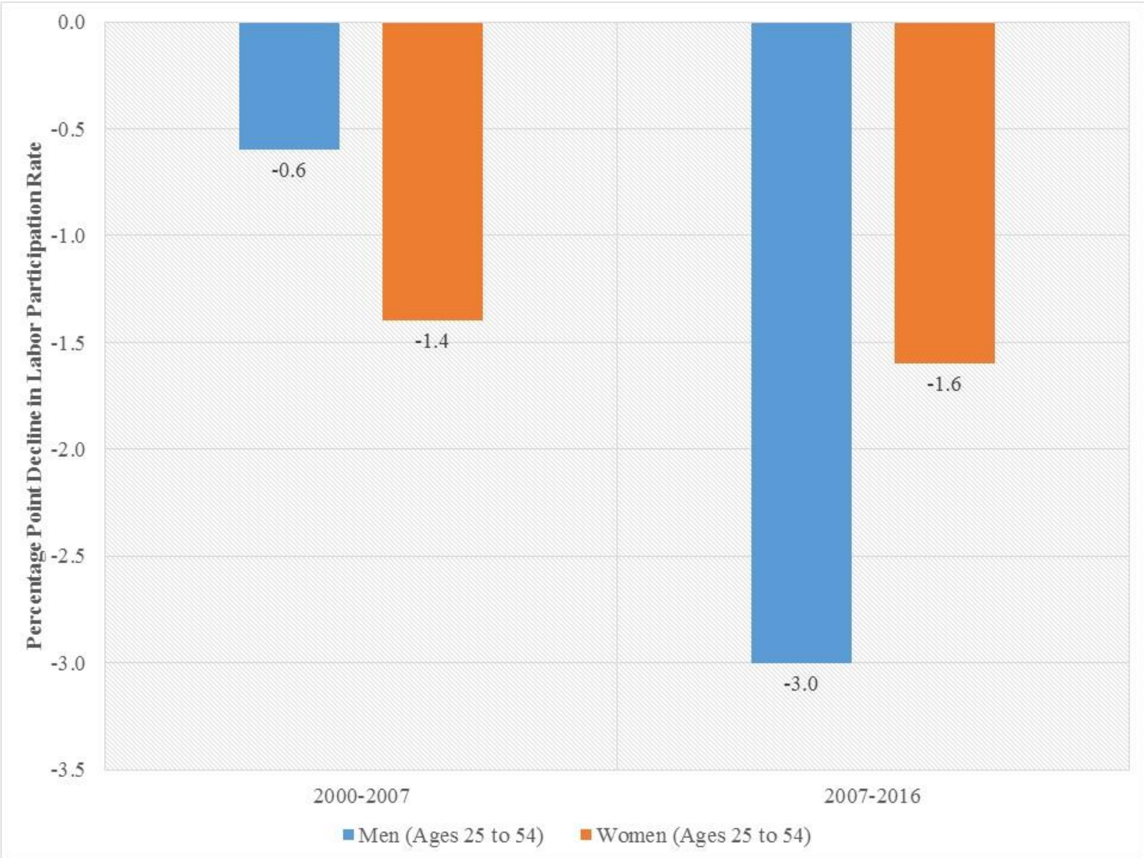


The sharp acceleration of the rate's decline was attributed to the lack of labor demand during the crisis and immediately thereafter. However, as solid job growth emerged after the recession, the rate continued its sharp path downward. Why is this?

There is no surprise that the aging of the population has had a significant effect. About two-thirds of the percentage point decline since 2007 can be attributed to retiring boomers. When attempting to understand the other one-third, it is important to examine those in their prime working years (ages 25 to 54).

Figure 2 shows changes in the labor force participation rate of prime age men and women between 2000 and 2007, and between 2007 and 2016. Although the rate declined for both prime age men and women, men left the labor force at almost double the rate of women between 2007 and 2016.

**Figure 2: Percentage Point Declines in Labor Force Participation Rate by Gender (Ages 25 to 54), 2000-2007 and 2007-2016**

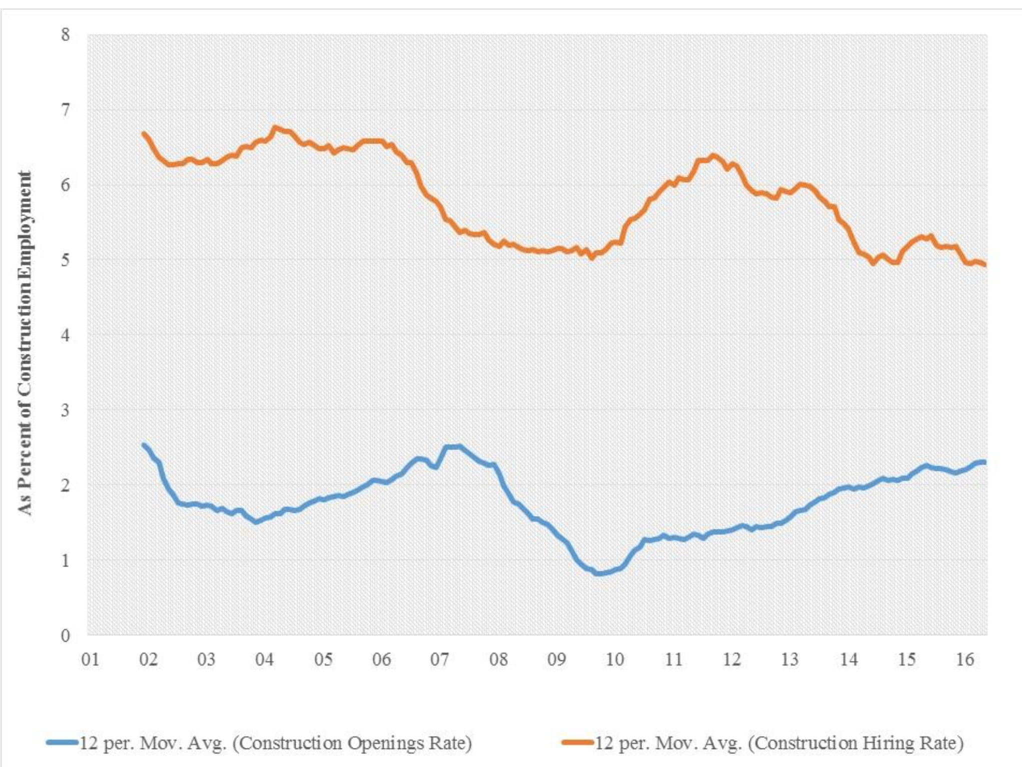


A recent study by the White House's Council of Economic Advisors (CEA) dives deeper into the rate decline among prime age men and finds that men with lower levels of educational attainment have been leaving the labor force. The report suggests that this group may be leaving because of lower wages and higher wage inequality.

With this information in hand, it is important to explore ways in which these individuals can reenter the labor force. The Bureau of Labor Statistic's Job Openings and Labor Turnover Survey (JOLTS) provides data on opening, hiring, and separation rates by industry. Analyzing JOLTS data can provide insight into where labor demand is by industry, and can therefore also be a starting point to a discussion on where those, who are not in the labor force, can reenter.

Historically, the construction industry has been characterized as one with relatively high turnover and low job openings, which suggests relative ease in employers connecting to workers. However, since late 2011, the construction industry has experienced an upward trend of openings and a downward trend in the hiring rate (Figure 3).

**Figure 3: Hiring and Openings Rate in the Construction Industry, 2002-16**



The JOLTS data is also consistent with NAHB survey data, which shows that cost/availability of labor is the most significant builder concern for 2016.

Given that a significant share of prime age men have left the labor force and certain industries, such as the construction industry, are struggling to find workers, it is worth exploring ways to connect the two.

The harder question is what can be done to boost labor force participation for the overall economy. The CEA report suggests a number of policies that could help. Consider tax policies for example. Academic studies show that increasing the child tax credit or the earned income tax credit would boost labor supply. Additionally, reducing the marginal tax rate on secondary earners would also help increase the supply of workers.

And with respect to construction specifically, additional training and recruitment programs, such as efforts by the Home Builders Institute, will pay dividends in the future. Nonetheless, developing the next generation of construction workers is a key industry concern.