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AMERICA'S HIDDEN WEAKNESS

# A SHRINKING LABOR FORCE IN A GROWING ECONOMY



“We cannot continue to make the mistake of overlooking the dropping labor force participation rate and this almost unprecedented trend we’re facing. If we do, we are ignoring millions of struggling Americans—and that is unacceptable.”

– Bob Funk, Founder, CEO and Chairman of the Board  
Express Employment Professionals

# A TROUBLING TREND

The modern American economy has never seen a trend quite like this, and among most other major economies of the world, we are practically the only one facing it. Experts and economists expect this startling development to continue, and the implications are troubling.

What is this trend?

A shrinking labor force in a growing economy.

**“Goldman Sachs economists have turned more pessimistic on the outlook for the U.S. labor force participation rate.”**

– Bloomberg News<sup>1</sup>

Since the Great Recession, average Americans and economists alike have closely monitored the unemployment rate, which peaked at 10 percent in October 2009 and slowly declined to 5 percent in October and November 2015—the lowest level since April 2008.<sup>2</sup>

But another economic measure has received less attention: the labor force participation rate (LFPR), or the percentage of Americans who are working or looking for work. During the recession, it declined, as it has in recessions past. We saw many lose their jobs and give up on looking for new ones.

Then, as Americans started going back to work and businesses started hiring, a strange thing happened: the LFPR kept going down.

More and more Americans were still leaving the labor force, even with the economy growing again. In November 2015, the LFPR hit 62.5 percent. Prior to the fall of 2015, the labor force as a percentage of the population had not been that low since 1977.<sup>3</sup>

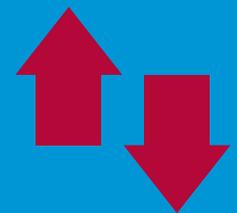
**This trend is alarming in and of itself. Despite a recovery, the number of Americans not working is actually increasing.**

But this trend also defies precedent. In recent history, declining unemployment has corresponded with growing or stabilizing labor force participation—certainly not a dramatic drop off like the one we have witnessed in recent years.

This trend was not fully expected. Indeed, a 2002 paper published by the U.S. Bureau of Labor Statistics predicted a 2015 labor force participation rate of 64.6 percent, more than two points higher than the actual November 2015 rate.<sup>4</sup>

To see how dramatic this trend is, just look at the rise and fall of unemployment during the last two decades alongside the percentage of Americans outside of the labor force. Notice that the trend lines move generally in opposite directions until after the Great Recession, when, as unemployment declines, so does LFPR.

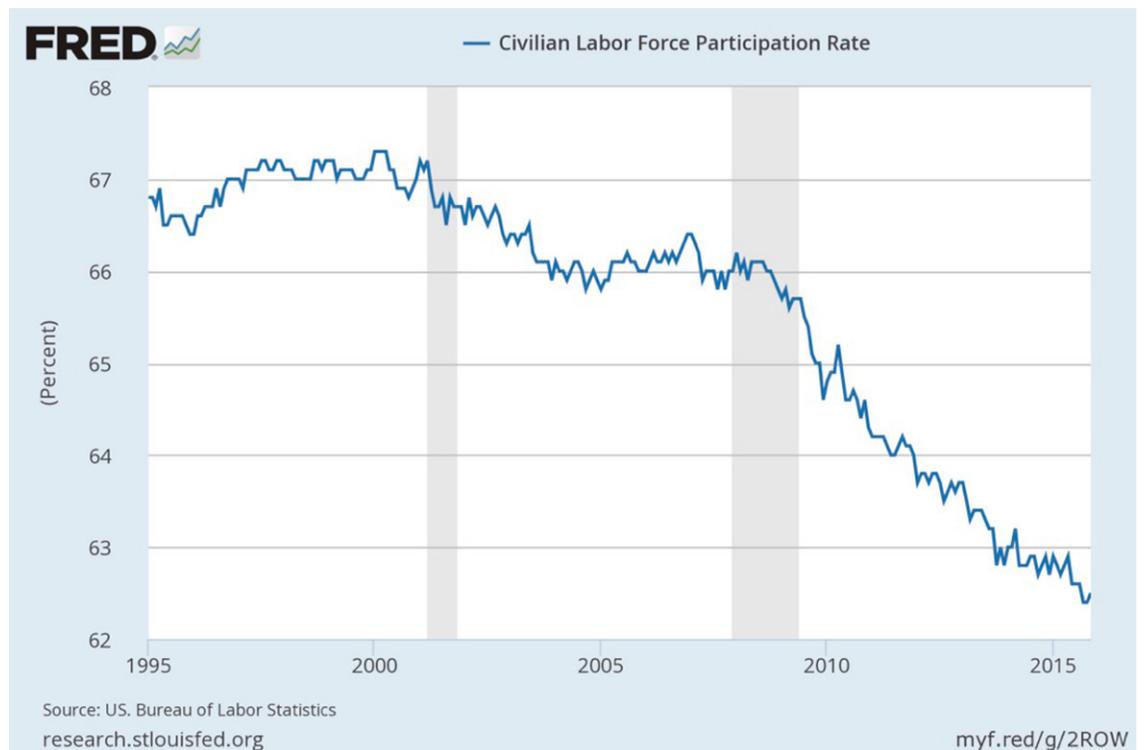
**...as Americans started going back to work and businesses started hiring, a strange thing happened: the LFPR kept going down.**



**FIGURE 1:  
UNEMPLOYMENT  
RATE 1995-2015<sup>5</sup>**



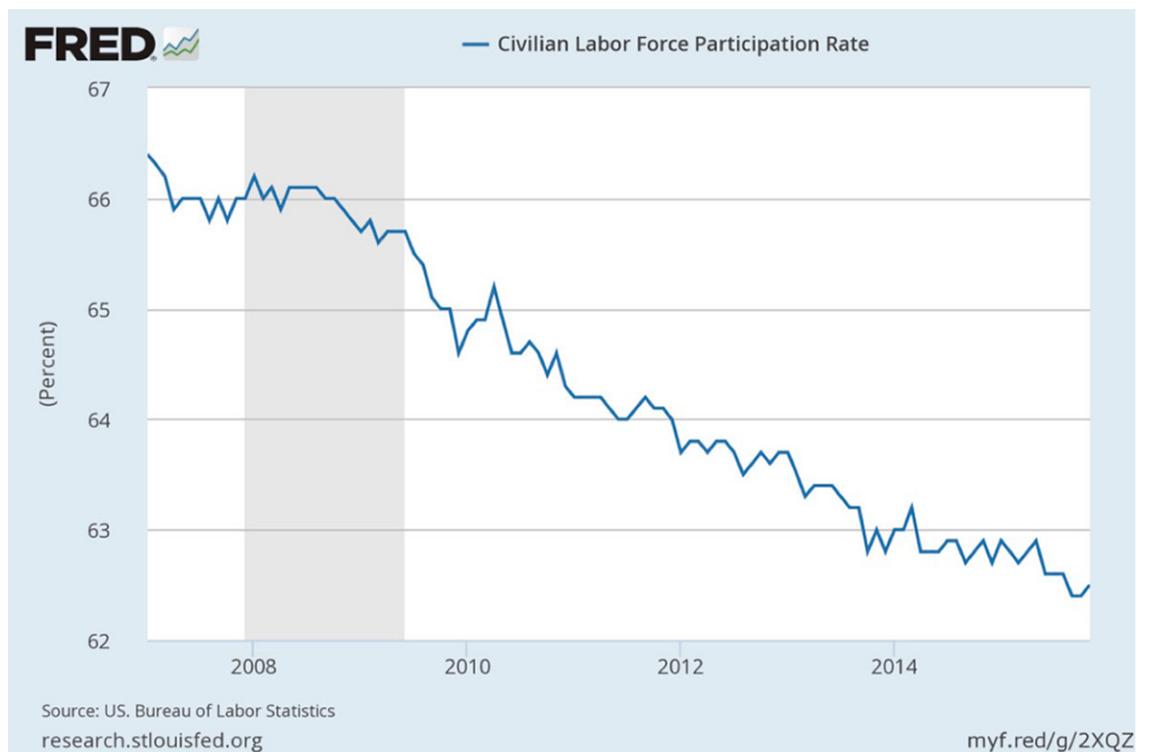
**FIGURE 2:  
LABOR FORCE  
PARTICIPATION RATE  
1995-2015<sup>6</sup>**



**FIGURE 3:  
UNEMPLOYMENT  
RATE 2007-2015<sup>7</sup>**



**FIGURE 4:  
LABOR FORCE  
PARTICIPATION  
RATE 2007-2015<sup>8</sup>**



# THE BASICS:

## Understanding the Relationship between LFPR and the Unemployment Rate

Each month, the U.S. Bureau of Labor Statistics reports the unemployment rate and the labor force participation rate, among many other economic measures. But the rates aren't always as straightforward as they seem. The percentage of "unemployed" Americans isn't actually the percentage of Americans without a job. It's more complicated—and in some cases misleading.

Here's an easy way to think about it:

### Imagine a country of 10 people

Bob, Bill, Betty, Bonnie and Ben have full-time jobs. Chuck and Celia are looking for work after losing their jobs. David, Dee and Darla are retired.



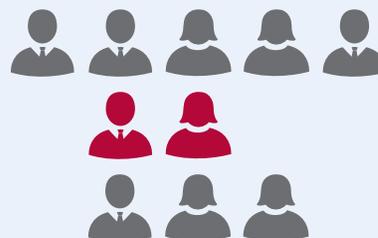
### The labor force participation rate is 70 percent

Seven in 10 have a job or are looking for work. Three in 10 are retired and out of the labor force.



### The unemployment rate would be 28.6 percent

Two of the seven in the workforce don't have a job.



Now imagine that Chuck, despite wanting a job, has lost hope. He gives up looking. That means he leaves the labor force, so the labor force participation rate decreases to 60 percent. But even though Chuck is not working, the unemployment rate actually goes down. No one new found work, but the unemployment rate would now be 16.7 percent. Of the six people left in the labor force, only one isn't employed.<sup>9</sup>

Sometimes the good news of a falling unemployment rate hides the bad news of dispirited workers leaving the labor force.

# UNCHARTED TERRITORY

In the early 2000s, we saw the unemployment rate rise from 4.3 percent in March 2001, when the U.S. entered a recession, to 6.3 percent in June 2003, when recession-induced job loss was compounded by post-9/11 economic uncertainty. During that time, the LFPR unsurprisingly declined, from 67.2 percent to 66.5 percent. Then the LFPR stabilized and rose somewhat before the economy fell into the Great Recession. Then the LFPR stabilized and rose somewhat before the economy fell into the Great Recession.

**FIGURE 5:  
UNEMPLOYMENT  
RATE 2000-2008<sup>10</sup>**



**FIGURE 6:  
LABOR FORCE  
PARTICIPATION RATE:  
2000-2008<sup>11</sup>**



In most cases, a post-recession drop in the unemployment rate corresponds with an increase in the percentage of people in the labor force. That's what happened following the recessions in the early to mid-2000s and in the early 1990s.

**FIGURE 7:  
LABOR FORCE  
PARTICIPATION RATE:  
1990-1995<sup>12</sup>**



But that's not what's happening following the Great Recession. Unemployment has declined, but the percentage of people out of the labor force has steadily increased.

As Bloomberg News reported in the summer of 2015, "There are more job openings available in America today than at any point since the Bureau of Labor Statistics first started tracking vacancy data in December 2000. Yet the percentage of adult Americans working or actively looking for a job stands at the lowest level in nearly four decades."<sup>13</sup> In other words, America's workforce shrank during the recession and then shrank further during the "recovery."

The impact on the economy can't be overstated. As the Los Angeles Times wrote in September 2015, "If the U.S. had the same labor participation rate today as in late 2007, the nation's workforce would be roughly 8 million larger than the July figure of about 157 million."<sup>14</sup>

Economists say that some decline in labor force participation was expected. After all, the Baby Boomer generation is reaching retirement age, and a greater number of younger Americans are pursuing higher education. But economists also say that they did not expect this much of a decline. Only so much of the decline can be explained by "structural" factors like demographics.

**"The monthly participation numbers fell further and faster during and in the aftermath of the Great Recession than they did at any other point in U.S. history."**

– US News<sup>15</sup>

So clearly, we are witnessing a new phenomenon. This time is different. But why?

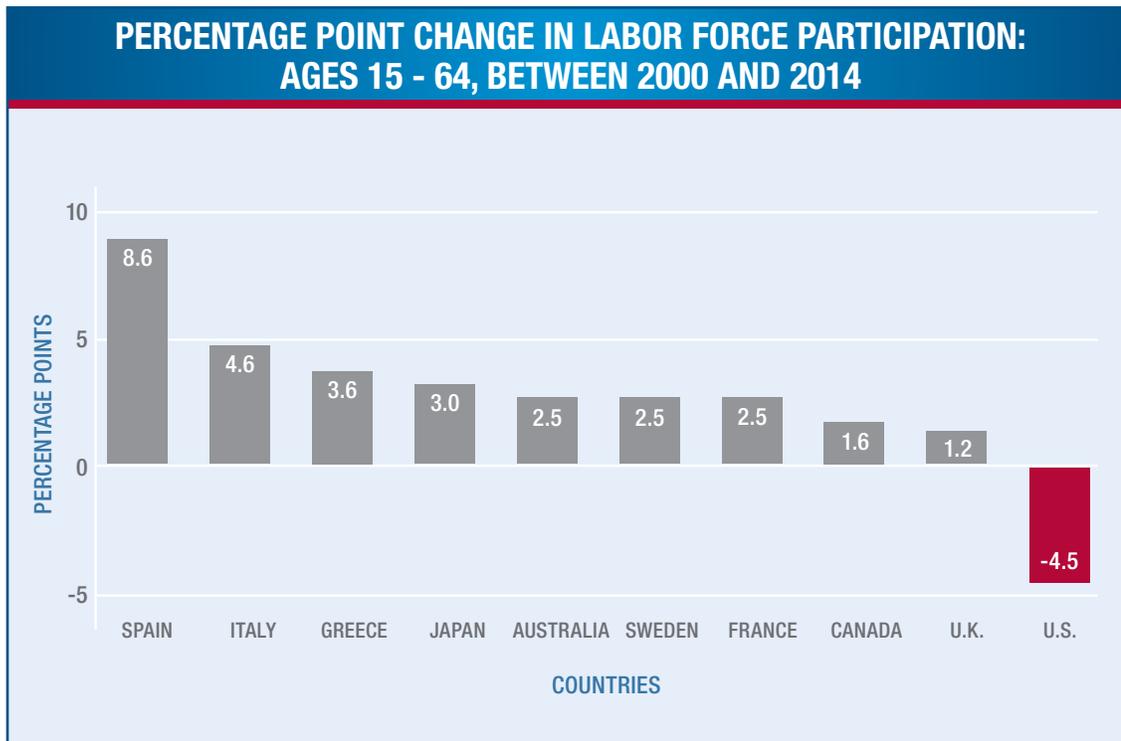
## AN AMERICAN PROBLEM

The entire world has experienced economic turmoil in the last decade, and that begs the question, is a shrinking labor force simply a challenge for all world economies?

Unfortunately for the U.S., the answer is no. According to a report from the Organisation for Economic Co-operation and Development (OECD), other advanced nations have not seen their labor forces shrink quite like America.<sup>16</sup>

The OECD report looked at labor force participation in 38 developed countries between 2000 and 2014. Only three nations showed shrinking labor forces for workers ages 15–64, and the U.S. was one of them.<sup>17</sup>

Among the reasons cited in the U.S. for the declining labor force patterns is working age individuals giving up on finding a job.



SOURCE: OECD <sup>18</sup>

### FLASHBACK: WHERE WE STOOD TWO YEARS AGO

For Labor Day 2013, Express issued its first white paper on the labor force participation rate. As Bob Funk, Founder, CEO and Chairman of the Board for Express Employment Professionals, said then, “Following the Great Recession, we’ve entered the [Great Shift](#),” a period of declining labor force participation. At the time, LFPR stood at 63.4 percent—almost a full point higher than where it stands today. Clearly, the situation has gotten worse.

As the overarching trend continues, there’s little evidence to lead us to believe participation will improve. In fact, we’re even less hopeful, but at least now we have a clearer picture of what’s going on, and why.



## THE CAUSES

What factors are driving down the LFPR?

According to a study by the Federal Reserve Bank of Atlanta's Center for Human Capital Studies, there are at least six major factors affecting LFPR. The Center compared the LFPR in 2007 to 2014 and quantified how each factor contributed to the more than 3-percentage point net drop observed during that time:

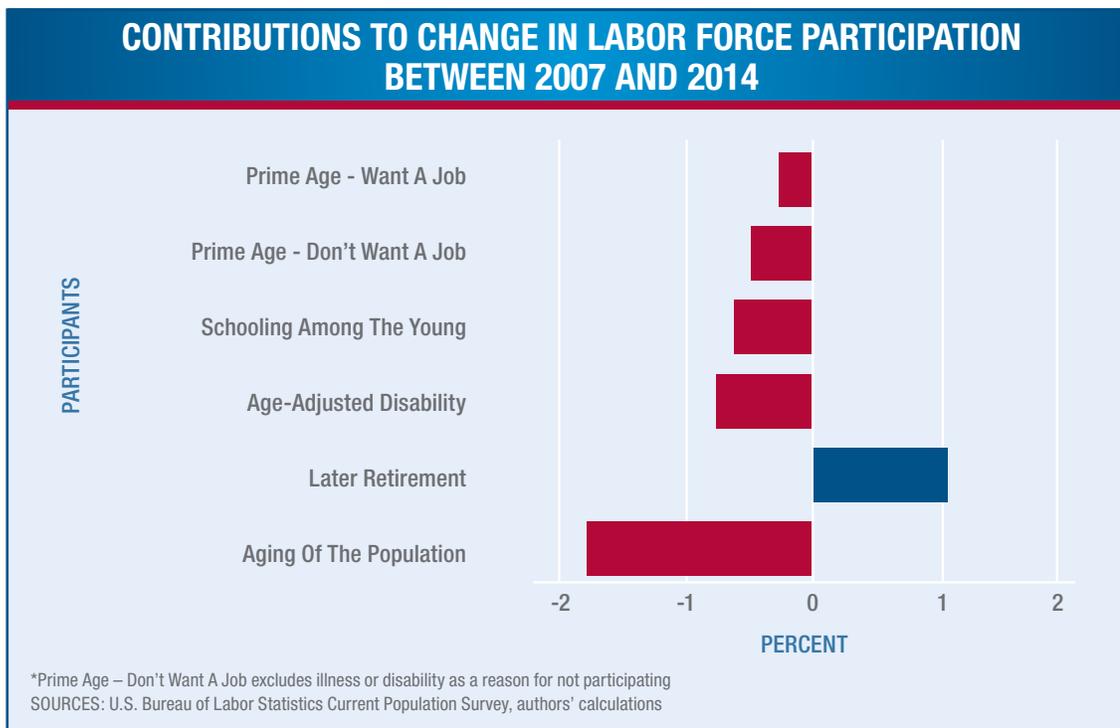


CHART SOURCE: FEDERAL RESERVE BANK OF ATLANTA, CENTER FOR HUMAN CAPITAL STUDIES <sup>19</sup>

Between 2007 and 2014, the LFPR for prime age workers—those ages 25-54—fell sharply (See Figure 8.) These are people who are older than most college students and younger than most retirees, and yet they left the labor force.<sup>20</sup>

This includes **prime age workers who don't want a job**. Reasons they don't want a job might include "school attendance, retirement, [and] taking care of the house or family."<sup>21</sup>

**Disability** is another reason prime age workers may leave the labor force; in the graph, this is included with "age-adjusted disability." A growing number of Americans, prime age and otherwise, are leaving the workforce and receiving disability benefits. In a white paper titled, "[A Safety Net or Trap](#)," Express documented how receiving disability benefits has served as another form of unemployment benefits for some.<sup>22</sup> Per the Center for Human Capital Studies, the disability increase "has contributed 0.80 percentage point to the overall decline in labor force participation" from 2007 to 2014.<sup>23</sup>

**Prime age workers who do want a job** are also leaving the labor force. Sometimes people get so frustrated with their job prospects that they give up looking for work altogether. If they're not looking for work, then they're not officially counted among the "unemployed" according to the government. As a result, they are out of the labor force. This contributed "about a quarter of a percentage point" to overall decline.<sup>24</sup>

Another factor affecting labor force participation is **schooling among the young**. “The percent of 16- to 24-year-olds who say they are not participating because they are in school has risen more than 3 percentage points since 2007. This explains 0.66 percentage point of the overall decline,” reports the center.<sup>25</sup> However, more students may have been pursuing schooling because of poor job prospects during that period.

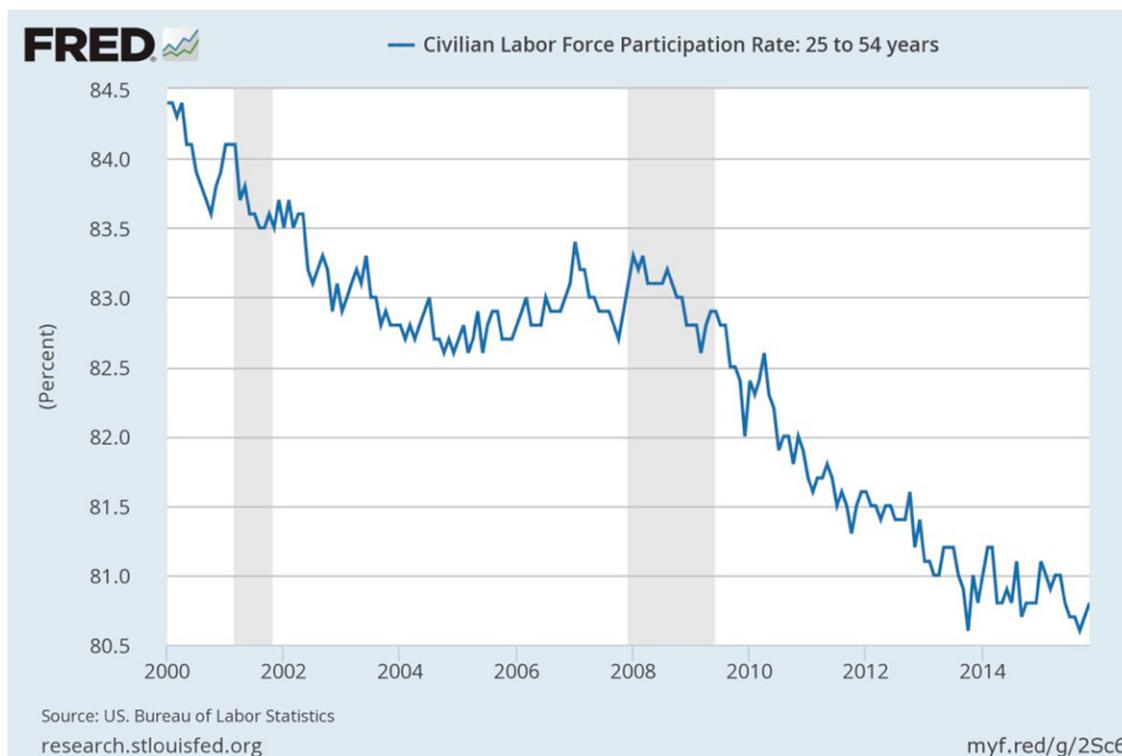
Of course, an **aging population** can also bring down the LFPR. Baby Boomers are hitting retirement age, contributing to the declining participation rate. But even without this wave of retirement, the LFPR would still have declined since the Great Recession due to the other non-demographic factors of education and disability.

Moreover, because older workers are staying in the workforce longer and pursuing **retirement even later in life**, the downward pressure on the LFPR from Baby Boomer retirement is less. “All else being equal, if those older than 60 were just as likely to retire as they were in 2007, the labor force participation rate would be about 1.0 percentage point lower than it was in 2014.”<sup>26</sup> In a way, without older Americans working or looking for work, the LFPR could be much higher.

“The fact we still have millions outside of the workforce is attributable to both a lack of opportunities and that the nature of the available opportunities out there may not be strong enough in terms of wages and benefits.”

– Claire McKenna, National Employment Law Project (NELP)<sup>27</sup>

**FIGURE 8: LABOR FORCE PARTICIPATION RATE AMONG PRIME AGE WORKERS, 2000-2015<sup>29</sup>**



“Millions of workers who dropped out of the job market during the last economic slump were supposed to jump back in once things turned around. But more than six years after the Great Recession ended, the missing millions are increasingly looking like they’re gone for good.”

– LA Times<sup>28</sup>

“I think a significant number of individuals still are not seeking work because they perceive a lack of good opportunities. . . .”

– Janet Yellen, Chair of the Federal Reserve<sup>30</sup>

## WHAT'S EDUCATION GOT TO DO WITH IT?

The jobs that are available are not always a good match for the people who are looking for work. Often, the skills employers are looking for are not the skills that the jobless possess. This makes it all the more discouraging for people looking for a job. They want a job and there are openings, but they are not qualified to fill them. This is referred to as the “skills gap,” and is a problem for employers and employees alike.

If we are going to strengthen our labor force, the skills gap must be addressed. We must empower workers—both young people entering the workforce and those who are in need of mid-career retraining—to pursue credentials in in-demand fields. Workers who have been out of the labor force for an extended period of time are particularly likely to need retraining in order to be competitive job applicants.<sup>31</sup>

Where is the skills gap most prevalent?<sup>32</sup>

A 2015 survey asked Express franchisees about the hardest jobs to fill in their markets.

WHAT ARE THE TOP 10 HARDEST TO FILL JOBS IN YOUR MARKET?	
1. CNC Machinist	6. Machinist
2. General Laborer	7. Forklift Driver
3. Welder	8. Maintenance Technician
4. CDL Driver	9. Driver
5. Accountant	10. Mechanic

SOURCE: 134 Express franchisees ExpressPros.com/AmericaEmployed

A corresponding survey of businesses revealed why those jobs are not filled. A lack of skills and experience plays a large role.

WHAT IS THE PRIMARY REASON THAT OPEN JOBS ARE NOT FILLED?	Q1	Q2
Lack of Available Applicants	34%	36%
Lack of Expertise	27%	25%
Lack of Hard Skills	22%	20%
Lack of Soft Skills	13%	13%
Not Enough Pay Offered	11%	11%
Other (Please Specify)	9%	9%
Client Location	5%	5%
Unwilling to Work Part-Time or Temporary Roles	4%	7%
Undesirable (Business) Image or Reputation	2%	1%

SOURCE: Express Employment Professionals Hiring Trends Survey of 373 businesses Third Quarter 2015 ExpressPros.com/AmericaEmployed

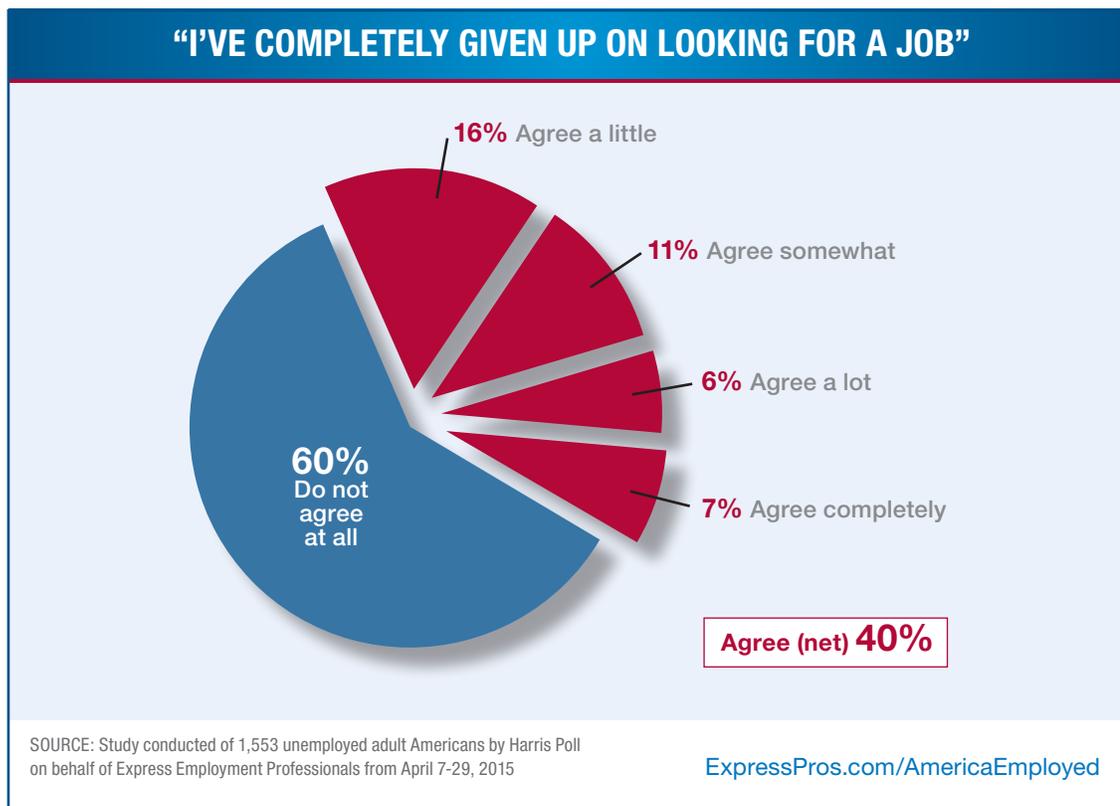
## ARE PEOPLE REALLY GIVING UP?

We know people are leaving the labor force. We know only some are leaving for unavoidable reasons like retirement, sickness or disability. So what about the others? Can it really be true that some people have given up on finding a job in America?

Express fielded a nationwide scientific poll in the spring of 2015 that helps get to the heart of that question. The poll, by the respected firm Harris Poll, asked for the opinions of Americans who were not working. They were asked to what degree they agreed with the statement, “I’ve completely given up on looking for a job.”

A full 40 percent say they “agree” with the statement. To break that down:

- 7% of the unemployed say they “agree completely”
- 6% say they “agree a lot”
- 11% “agree somewhat”
- 16% “agree a little”



Time takes a toll. The longer someone is out of work, the more likely that person will report having given up:

- 21% of those out of work three months or less agree they have given up
- 37% of those out of work four to six months agree they have given up
- 34% of those out of work seven to 12 months agree they have given up
- 32% of those out of work 13 to 24 months agree they have given up
- 55% a clear majority of those out of work for more than two years agree they have given up

## THE CONSEQUENCES AND THE WORK AHEAD

What does all this mean for the health of our economy and our society? Consider a few implications.

1. First, the low LFRR could test the strength of the social safety net, namely Social Security and Medicare. These programs are funded by payroll taxes—by those in the workforce—and paid to retirees and in some cases the disabled—those out of the workforce. As people leave the workforce and join the Social Security and Medicare rolls, the programs' solvency will be tested. The country will be challenged to continue funding these programs.

Labor participation for men age 25 to 54 has been declining for decades, but sped up during the recession with large-scale layoffs in construction and manufacturing, reported the LA Times. Their growing withdrawal from the job market is especially worrisome because it carries significant social and economic costs.<sup>34</sup>

2. Second, it means more working-age people are on the sidelines—neither collecting a paycheck, nor drawing on retirement savings. That too, has the potential to put a strain on social services, while also jeopardizing our overall economic health and standard of living.

In the long-term, the labor force participation rate affects what fraction of Americans are doing productive work, and that affects growth prospects in the long term, according to Andrew Chamberlain, chief economist at Glassdoor. Economic growth ultimately determines our standard of living, which influences health, education, arts, and all the other things that we like.<sup>35</sup>

3. Third, America is strongest when our people are innovating and producing. More and more people leaving the labor force represents lost potential, fewer people that could be creating new products and imagining new technologies.
4. Fourth, it will challenge our international competitiveness. Studies show the labor force decline is, at least for the time being, a “uniquely American problem,” as Forbes referred to it.<sup>36</sup> In a global economy, America must compete to advance economically. With more of our people out of the labor force, we're competing with fewer players in the game.

**“If we don't have enough people working compared to the population, we're sort of condemned to 2 to 2.5 percent growth. So then the next question is, ‘How do you fix that?’”**

– Dan North, chief economist at Euler Hermes<sup>37</sup>

**“What's been more surprising is that even... prime-age workers... have also been leaving the labor force. And we don't see any signs that in great numbers they're coming back. And that's a big problem. That's a problem for them in terms of their own earning capacity, but also for the country as well.”**

– Prof. Harry Holzer, Georgetown University economist<sup>33</sup>

## WHAT ARE WE GOING TO DO ABOUT THIS?

First, we cannot avoid the fact that the Baby Boomer generation is retiring. But, as a nation, we can invest more in job training and re-training for those who are still of working age. We can put an emphasis on educating students in the fields where workers are in demand.<sup>38</sup> Private sector job training also needs to be stepped up.

Secondly, our focus should be on bringing those who can work back into the labor force. In some cases, that means connecting people with jobs they don't know are available. In other cases, as Express has discussed before, it means ensuring people who are relying on benefits like disability are truly in need of those benefits.<sup>39</sup>

More broadly, we must expect our policymakers to make decisions that encourage economic growth. The nation's GDP growth has been unsteady in recent years, despite the economic recovery.<sup>40</sup> Sustained growth requires consistent, predictable policies—and provides more opportunities for businesses to expand and for people to find jobs including those who previously thought the job market was hopeless.

**“We cannot continue to make the mistake of overlooking the dropping labor force participation rate and this almost unprecedented trend we’re facing. If we do, we are ignoring millions of struggling Americans—and that is unacceptable.”**

– Bob Funk, Founder, CEO and Chairman of the Board, Express Employment Professionals

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# About Express Employment Professionals

Express Employment Professionals puts people to work. It generated \$3.02 billion in sales and employed more than 500,000 people in 2015. Its long-term goal is to put a million people to work annually. For more information, visit [ExpressPros.com](http://ExpressPros.com).



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