

Missing: America's middle-educated workers

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Policymakers are interested in learning what's behind the 3-percentage-point decrease in the labor force participation rate since the Great Recession and how to address it. In the March 2017 *Economic Letter* from the Federal Reserve Bank of Dallas titled "[America's missing workers are primarily middle educated](#)," Alan Armen and Tyler Atkinson present their thoughts on the demographic composition of the decline and the policy implications.

The authors begin by pointing to one common explanation of the decline: an aging population, which is more likely to be retired than a younger one. However, they argue that increases in educational attainment during the period put upward pressure on the participation rate and partially offset the impact of age. Despite no clear driving force behind the decline besides what demographics can explain, the decrease appears to be concentrated among those with only a high school diploma or some college. Other groups (those with less than a high school diploma and those with a bachelor's degree or higher) are participating at normal rates.

Armen and Atkinson look at how the rate has changed for numerous demographic groups, specifically for combinations of age and educational attainment categories. By measuring changes in participation rates and proportions of the population of various demographic groups, the authors present "counterfactual" scenarios in which rates are held constant in order to measure the impact of demographic changes, such as share of the population.

As a result of the rise in the population share of older individuals, there has been a decline in the counterfactual participation rate. The authors use the magnitude of this decline to measure how age and educational attainment contribute to the fall in the actual participation rate. The participation rate for people ages 25 and over, which was 67.3 percent in 2008, fell 2.8 percentage points to 64.5 in 2016. The counterfactual participation rate, however, only fell 1.8 percentage points to 65.5 percent. This implies that demographic factors contributed 1.8 percentage points to the overall 2.8-percentage-point decline, and that the remaining 1 percentage point is the result of other labor market factors.

Although the aging of the population lowers the participation rate, the decline is partially offset by the population's greater educational attainment. The offset occurs because people with more education typically participate in the labor force at a higher rate. People ages 25 and over with at least some college education increased from 55.3 percent to 60.2 percent of the population from 2008 to 2016. If educational attainment rates are held constant at 2008 levels, the expected labor force participation rate would be 0.7 percentage point lower.

Armen and Atkinson discuss various policy possibilities for increasing the training and education levels of the middle educated. Increases would theoretically raise participation rates because an improved wage would

decrease the incentive for nonparticipants to stay home. However, if the decline in labor force participation by middle-educated groups is a matter of choice, policies to increase participation would likely be ineffective.

The Current Population Survey, which asks if respondents want a job, provides data showing that, relative to 2008, the largest increases in “interested nonparticipants” were concentrated in the middle-income education groups. Other education groups have only a slightly higher interested-nonparticipation rate than in 2008, with the counterfactual remaining essentially constant. This may imply that some of the labor force participation rate decline, particularly for the middle educated, was involuntary. The data also show that the above-normal rate of interested nonparticipants accounts for 20 percent of the unusually lower labor force participation rates for the middle educated. This means that 80 percent of the “missing workers” could be either unable or unwilling to join the labor force, or that current job prospects may have affected their survey responses.

The authors close by noting that there are many possible explanations for why the labor force participation rate has declined since the Great Recession, including educational attainment. Effective policies, they argue, may help boost the rate as the population continues to age.