

Down and down we go: the falling U.S. labor force participation rate

Edith S. Baker

The authors track a rising participation rate from about 60 percent in the 1950s and 1960s to a peak of 67 percent at the turn of the 21st century, after which it has been falling consistently, to a low of about 63 percent today. They cite secular (as opposed to cyclical) forces as the main reason for the decline—primarily, the start of retirement for the baby-boom generation. This cohort has exerted a profound influence on the U.S. economy as it has passed through the age distribution. Born during the years 1946 to 1964, baby boomers have “consistently represented the largest fraction of the population,” and their influence is still being felt as they retire, depressing the labor force participation rate.

But other forces are at work as well, chief among them a decline in the participation of prime-age workers, especially men. Specifically, the labor force participation of men 25 to 54 years old has fallen steadily, from 98 percent in 1954 to 88 percent today. Although part of this decline is due to men’s participation less and less as they age, the key factor is generational: “More recent generations of men are participating less than their predecessors did,” say the authors. Especially affected, they note, are men with a high school education or less and black men. But why are these later generations of men participating less? The answer is complicated, but one clear factor is the increasing wage gap between high- and low-skilled workers. For example, in 1973, men with a high school education earned 72 percent of the wages of men with a college degree; by 2016, the percentage was down to 51 percent. Clearly, the demand for high-school-educated men had fallen considerably, likely diminishing their participation in the labor force.

Given that the main cause of the falling labor force participation rate is the retirement of the baby boomers, the answer to the question of whether labor force participation will continue to fall depends largely on how long the baby boomers’ rate of retirement will continue to increase. The authors project that, by 2019, the boomers’ retirement rate will have increased by 1.1 percentage points over the 2016 rate, resulting in a corresponding 1.1-percentage-point decrease in the labor force participation rate. Then, the authors expect retirements to keep rising through the 2020s, so that, by the later years of that decade, the participation rate will have declined by approximately 4 percentage points over the 2016 rate. In short, the labor force participation rate of the late 2020s is projected to be about 59 percent, a rate not seen since the 1950s and 1960s, before women began to enter the labor force in increasing numbers.