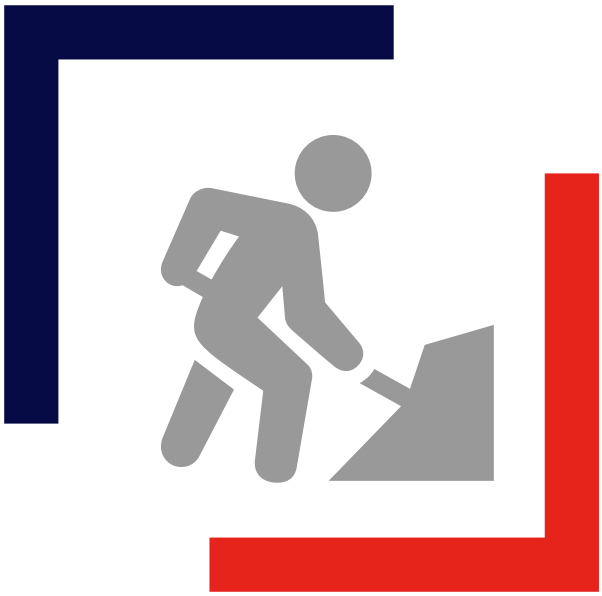
15

Section



Work and Labor Force

STATE OF THE NATION

Work and Labor Force

Introduction. Paid work is one of the important activities in our lives. Most directly, work yields the income we need to provide for ourselves and our families. Our employment also partially defines who we are and can be a source of dignity, respect, and fulfillment. It is one of the main ways in which we interact with people outside our families and make contributions to society as a whole. People spend more of their lives working than in any activity other than sleep.

Summary of Results. Our metrics on the US workforce show mixed success. We have low long-term unemployment, and we rank above 50% of other high-income countries, and are improving globally, on hourly earnings growth. However, we are in the bottom half of high-income countries—and declining globally—on employment and labor force participation rates. These last two trends are driven by declining workforce participation among men combined with slower growth than peer countries in workforce participation among women. Explanations include declining interest and opportunities in work among men, some of which are related to weak wage growth for working people, and safety net programs that may discourage work.

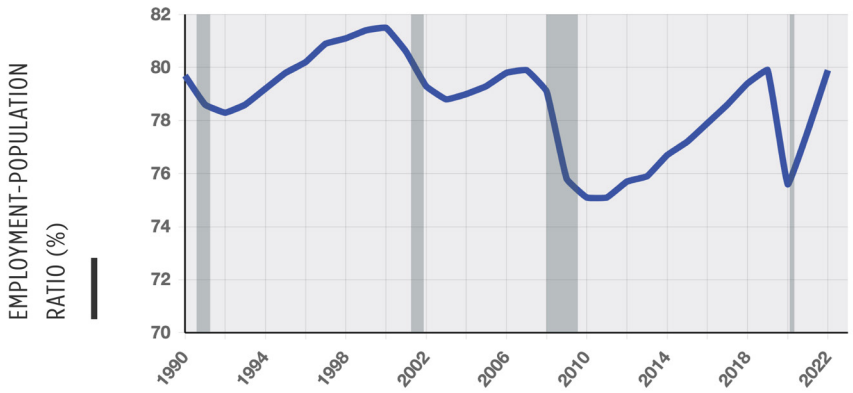
Employment-to-Population Ratio (EPOP)

Specific measure: Percentage of the population age 25–54 ("prime age" adults) who are employed. (Source: Authors' analysis of Bureau of Labor Statistics data).

National Trend	% of countries the U.S. outperforms	Intl. Rank Trend
↕	26%	↓

Why did we include this measure? The employment-to-population ratio measures the extent to which this age group is working for pay. Those not employed include those who are not in the labor force (for example, because they are raising children at home, are full-time students, or have a disability) and those who are seeking work but cannot find an acceptable job. While there are often good reasons not to be working, this measure is useful because it reflects all the possible reasons that people might not work. With this and the other work measures below, we focus specifically on those age 25–54 to avoid including young adults who are not working because they are in college and older adults who are not working because they are retired. (The term "prime age" refers to the idea that these are ages when we are most likely to be in the labor force.)

Figure 34: Employment-Population Ratio (National Trend)



How does the US rank globally?

- *Specific Measure: (Same as above.) (Source: Authors' analysis of International Labor Organization data).*
- *Percentage of countries the US outperforms: 26% (out of 34 countries)*
- *International Rank Trend: ↓*

What do the data show? The figure shows that the employment-to-population ratio has fluctuated between 75% and 82% since 1990. In other words, a bit more than three out of four of the United States' prime age adults are typically employed outside the home. Recessions are indicated in this and the other figures in this section with a gray vertical bar covering the recession periods.

What might explain these patterns? The most recent level is slightly above the first point on the graph, which suggests little change. However, the trends vary across several key periods. The ratio was increasing from 1990 until its peak around 2000, then declined some, and saw a sharp decline with the 2008 Great Recession. It then took more than a decade for the figure to revert back to the pre-2008 level, but then came the COVID-19 pandemic. More generally, employment is strongly related to the business cycle. Because the trend depends so strongly on the specific year we start with, this is a rare case where we have decided to indicate a mixed trend direction in the report summary.

The United States also fares poorly on this employment measure compared with other high-income countries, and we are falling further behind. The countries ranked just above us are Belgium, Israel, and France, though we are separated from all three by less than two percentage points. On the other hand, Russia is ranked first and has about half as many nonemployed people.

One reason we have been declining globally on the employment-to-population ratio is that other countries have been catching up to the US on a closely related measure: short-term unemployment rates. Also, while birth rates have been declining in both the US and higher-income countries generally, other countries provide more generous government-funded parental leave and childcare so that parents can more easily remain in and rejoin the workforce if they choose.

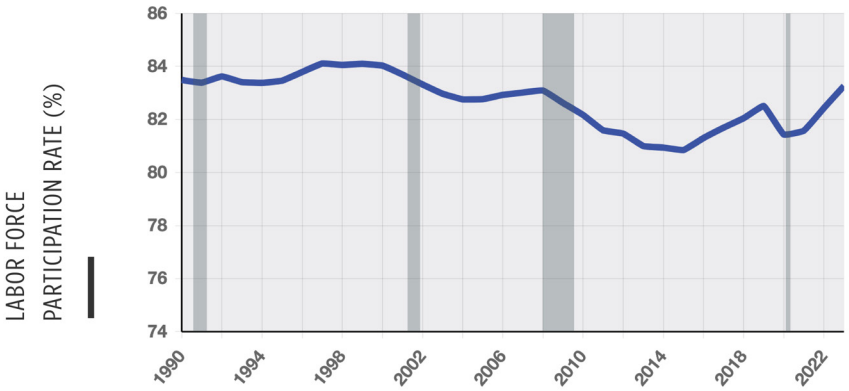
Labor Force Participation Rate (LFPR)

Specific measure: Percentage of the population age 25–54 ("prime age adults"), employed or unemployed and actively looking for work. (Source: Authors' analysis of Bureau of Labor Statistics data).

National Trend	% of countries the U.S. outperforms	Intl. Rank Trend
↓	23%	↓

Why did we include this measure? The labor force participation rate allows us to better understand whether changes in the employment-to-population ratio are due to changes in the likelihood that people are actively working or seeking work.

Figure 35: Labor Force Participation Rate (National Trend)



How does the US rank globally?

- *Specific Measure: (Same as above.) (Source: Authors' analysis of International Labor Organization data).*
- *Percentage of countries the US outperforms: 23% (out of 40 countries)*
- *International Rank Trend: ↓*

What do the data show? The figure shows that labor force participation is more stable than the employment-to-population ratio because the latter is affected more by the business cycle and fluctuating short-term unemployment rates. However, there is also a clearer downward trend in labor force participation, which is now almost a percentage point below the late-1990s peak. The drop occurred in two phases, which align with the periods discussed above. The first, smaller drop occurred from 2001–2004 (one-percentage point drop) and a second larger drop began with the Great Recession (two full percentage points). We are in the bottom quarter of countries on labor force participation and still declining. The countries just above us in the international comparison are Paraguay, Israel, and Greece.

What might explain these patterns? Declining labor force participation may reflect some combination of declining interest, ability, and opportunities in work, as well as rising incomes, which increase demand for leisure. This trend may also be driven by men—women have seen increased or stable labor force participation. One likely reason is the decline in manufacturing jobs, which, since the mid-20th-century expansion of unionization, have been higher-paying jobs than the alternatives available to these workers. Once a person loses one of these jobs, it is generally difficult to find another of similar quality. Another reason may be that adults are getting married and having children less often and later in life and men have traditionally been the primary breadwinners. This means men now spend fewer of their prime working years being financially responsible for their families.

More adults—again, especially men—are not working and are also receiving income from disability insurance. This is happening even while work itself has been much safer and more accommodating to some disabilities. Declining mental and physical health and rising drug use may be part of the explanation. Also, while disability insurance programs are less generous overall in the US than in peer countries, some expanded coverage for mental health and some other ailments might partially explain why labor force participation in the US is declining relative to other countries.

For women, employment has generally been increasing or remaining steady. This reflects the decline in birth rates combined with changing social norms about women's role in the labor force and declining occupational segregation by gender, which has increased women's job opportunities. The rise in single-parent households (and unmarried adults generally), combined with the fact that women are typically the main caretakers of children, means that women now have a greater need to work outside the home than in the past.

The trend in labor force participation also tells us that the decline in the employment-to-population ratio we saw earlier is not due, for example, to an increase in the number of people who are seeking work but cannot find it. (This is further reinforced below in our discussion of the long-term unemployment rate.)

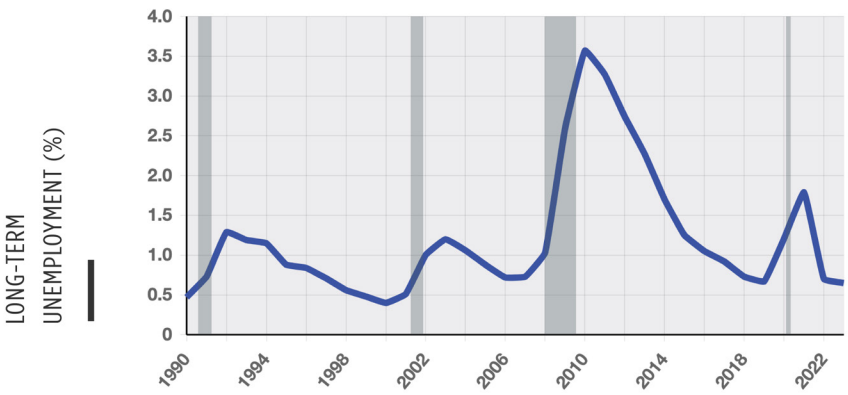
Long-Term Unemployment Rate

Specific measure: Percentage of the labor force age 25–54 ("prime age adults") unemployed for six months or more. (Source: Authors' analysis of International Labor Organization data).

National Trend	% of countries the U.S. outperforms	Intl. Rank Trend
↕	84%	→

Why did we include this measure? Short-term unemployment mostly reflects the business cycle, layoffs, and people deciding they are not satisfied with their current jobs. Some degree of unemployment is natural and healthy as it allows both employers and employees to search for better matches between skills and job requirements. However, unemployment becomes a larger problem when people are out of the labor force for long periods of time. The longer workers are out of work, the harder it is to find a job and reengage in gainful employment.

Figure 36: Long-Term Unemployment Rate (National Trend)



How does the US rank globally?

- *Specific Measure: (Same as above.) (Source: Same as above).*
- *Percentage of countries the US outperforms: 84% (out of 25 countries)*
- *International Rank Trend: ↔*

What do the data show? Setting aside recessionary cycles, the trend has been flat and long-term unemployment for prime age workers is quite low—less than 1%. We also do well on this metric compared with other countries. Only three other countries in our data have lower long-term unemployment than the US: Canada, the Netherlands, and South Korea have slightly lower rates.

The 2008 Great Recession had a particularly harmful effect on long-term unemployment. Once people lost their jobs, they had to wait a long time for the recession to end and to find good opportunities.

What might explain these patterns? Long-term unemployment is one of the bright spots in this section. One reason it is so low is that we have less generous unemployment insurance than other countries, which creates more pressure on workers to accept another job quickly when they are out of work. (US short-term unemployment rates, while not shown, are also low by global standards.)

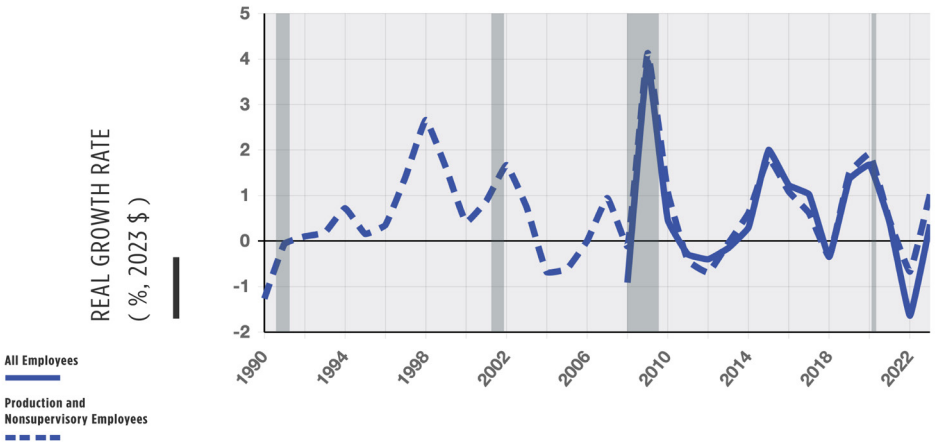
Hourly Earnings Growth

Specific measure: Year-over-year growth rate of real average hourly earnings among those working, based on 2023 US dollars, private sector only. (Source: Authors' analysis of Bureau of Labor Statistics data).

National Trend	% of countries the U.S. outperforms	Intl. Rank Trend
↕	70%	↑

Why did we include this measure? Inflation-adjusted wages capture the ability of Americans to provide for their own needs and are a measure of work productivity. This is the largest single source of income overall and, for working age adults, usually the sole source of income.

Figure 37: Hourly Earnings Growth (National Trend)



How does the US rank globally?

- *Specific Measure: Year-over-year growth rate of real average hourly earnings, based on 2021 international dollars (PPP). (Source: Authors' analysis of International Labor Organization data).*
- *Percentage of countries the US outperforms: 70% (out of 20 countries)*
- *International Rank Trend: ↑*

What do the data show? Real wage growth has been positive in all but six of the prior 16 years. That means workers are becoming better off economically. We are also doing well compared with other countries, and we have been moving up the international ranks. The countries just above us in the international comparison are Chile, Costa Rica, and South Korea. Like the other work and labor forces measures, real wage growth is also sensitive to economic conditions. Higher unemployment changes the number of jobs in different wage categories, which is a key factor affecting real wage growth. (Workers who keep their jobs in recessions usually do not see declines in wages.)

What might explain these patterns? Real wage growth is related to productivity growth. When productivity rises, employers can pay workers more. However, they do not move completely in tandem. Productivity has been increasing somewhat faster than real wages (see the Economy section). This reflects the rapid growth of executive pay, which falls outside the wage definition, relative to the wages of the average worker.

We also note that the US international rankings on both average wage growth and productivity are higher than our education metric rankings (see the Education section). This may be explained by our relatively freer markets and investment in physical capital that work in tandem with worker skill.

Related topics: The above discussion connects our measures of work and labor to many other topics covered in this report. We discuss the connection between wages and productivity and how GDP is heavily dependent on the size of the labor force in the Economy section. We also note how delay and decline in marriage is related to workforce participation (see the discussion of the percentage of children growing up with a single parent in the Children and Family section). Finally, we discuss why our wage growth and productivity measures might be higher than our education levels (see the Education section).

For more information about data sources and treatments, see the Data Notes section.

Board and Public Support for this Topic and Measures

	Support from Board	Support from Public
Work (as topic)	100%	83%
Employment-Population Ratio (prime age)	83%	55%
Labor Force Participation Rate (prime age)	92%	60%
Long-Term Unemployment Rate (prime age)	77%	66%
Average Hourly Earnings Growth Rate	85%	64%

Other Measures Considered: All four of the measures voted on for this topic were supported by the board.