

“The Recent Decline in the Labor Force Participation Rate and Its Implications for Potential Labor Supply”

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The U.S. labor force participation rate rose rapidly during the 1960s, 1970s, and 1980s. It then flattened out in the 1990s, and since 2000 it has fallen, without much sign of an imminent rebound. We attempt to distinguish between cyclical and structural influences on the participation rate by estimating the roles of demographic factors, the business cycle, and other factors. We conclude that the drop in labor force participation between 2000 and 2003 was due largely to cyclical factors, but that this decline and subsequent movements occurred against the backdrop of a longer-run downtrend. We estimate that the actual participation rate at the end of 2005 was close to the estimated trend level. However, barring major changes in policy or behavioral trends, the participation rate will likely continue to trend downward in coming years.

JEL classification codes: J11, J21, J22