The Daily Dish

New Insights Into the Labor Force

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A new survey released by the National Federation of Independent Businesses (NFIB) shows that small-business uncertainty is at the highest point in more than four decades. The survey found that small business owners are hesitant to hire new employees out of fear of being hit with more burdensome and costly regulations handed down by the administration. NFIB stated that small business owners are having a hard time planning for the future and what the next administration may bring, which has caused many small business owners to refrain from investing in their own businesses.

On Monday the American Action Forum (@AAF) released an assessment of the Treasury Department's rulemaking on corporate classification of debt and equity, or Section 385. The review finds that while the Treasury's new rules address some of the initial concerns, the new rules could still prove burdensome. The Treasury Department claims the new rules would impact 6,300 firms and impose $224 million in initial compliance costs, but these costs could end up being significantly higher.

Eakinomics: New Insights Into the Labor Force

One of the most important labor market developments has been the decline in labor force participation. The labor force participation rate (LFPR) hit a high of 67.3 percent in 2000 and has fallen since. It hit a near 40-year low of 62.4 percent in September 2015. Understanding LFPR is central to the growth outlook. Overall Gross Domestic Product (GDP) growth depends on the growth in the number of workers and the growth in output per worker, or productivity. A rising LFPR can boost GDP growth, and vice versa.

There has been lots of speculation on what is underneath the declining LFPR. Some point to the severity of the Great Recession and attribute the decline to worker demoralization. Others look to expansions in the social safety net — e.g., the fact that Obamacare subsidies are available to the non-working — and fear that this reduces work incentives. Others focus on the aging population and the increased propensity for retirement.

Into this debate enters new research by Princeton labor economist (and former Chairman of the Council of Economic Advisers) Alan Krueger. He acknowledges that aging will reduce labor force participation, an effect that will not be offset by the LFPR for younger workers as a rise in school enrollment has matched declining participation for young workers over the past 25 years. It is also true that LFPR for women has stopped rising (for those women born after 1960) and will decline with the aging female population.

But the real focus of his paper is the fact that LFPR for prime age men has been falling for decades. He then notes that roughly 50 percent of prime age men who are not in the labor force potentially have a serious health condition because "Nearly half of prime age NLF [not in labor force] men take pain medication on a daily basis, and in nearly two-thirds of cases they take prescription pain medication." The links between poor health, addiction, disability, and work barriers are complex and interrelated. They are also not easily addressed through relatively simple economic tools like, e.g., an expansion of the Earned Income Tax Credit (EITC).

Improving growth and reducing inequality requires focus on the work lives of lower-income Americans. Understanding the roots of non-work is central to this task.