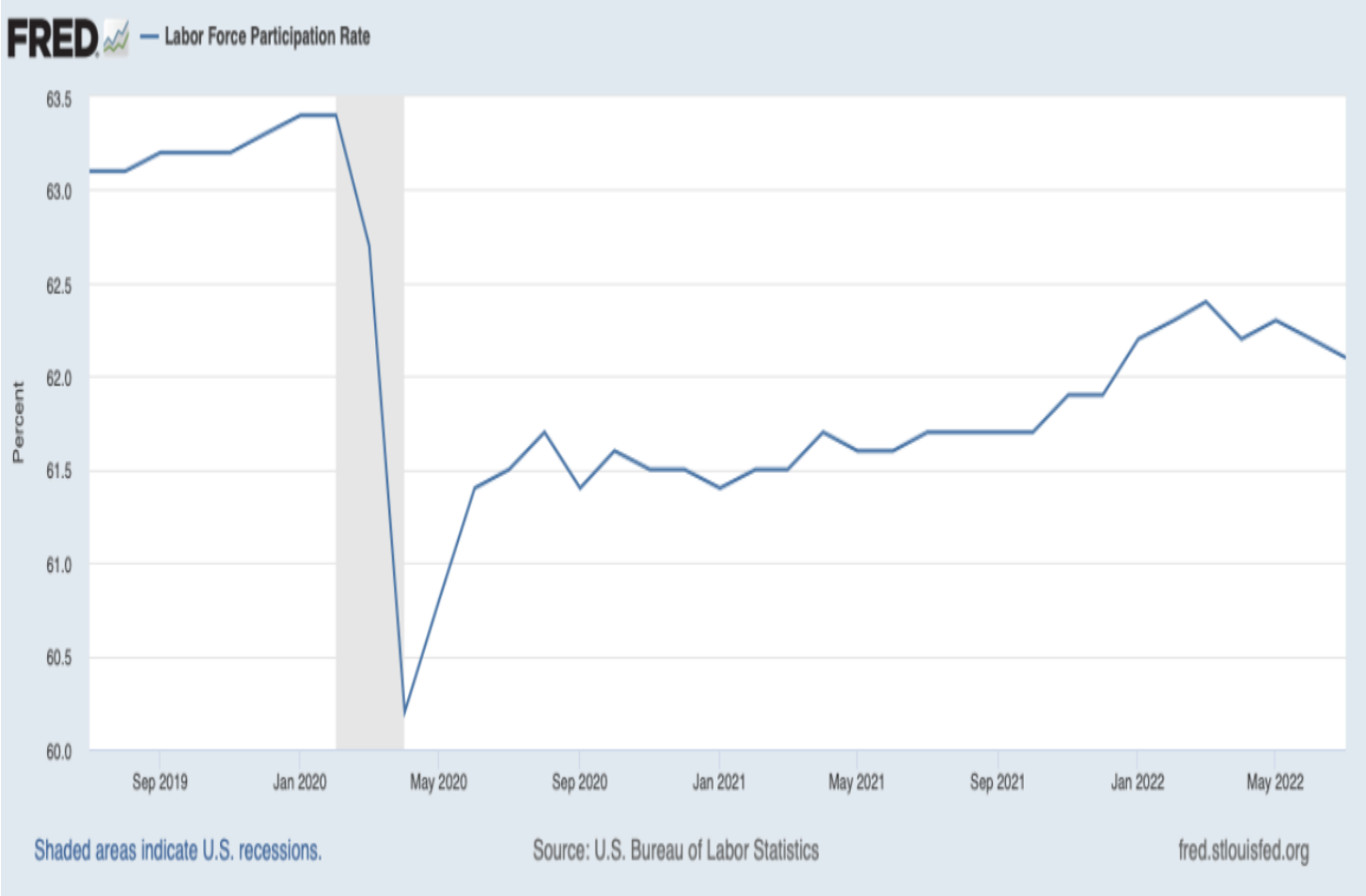
The Daily Dish

The Biggest Mystery

DOUGLAS HOLTZ-EAKIN | AUGUST 15, 2022

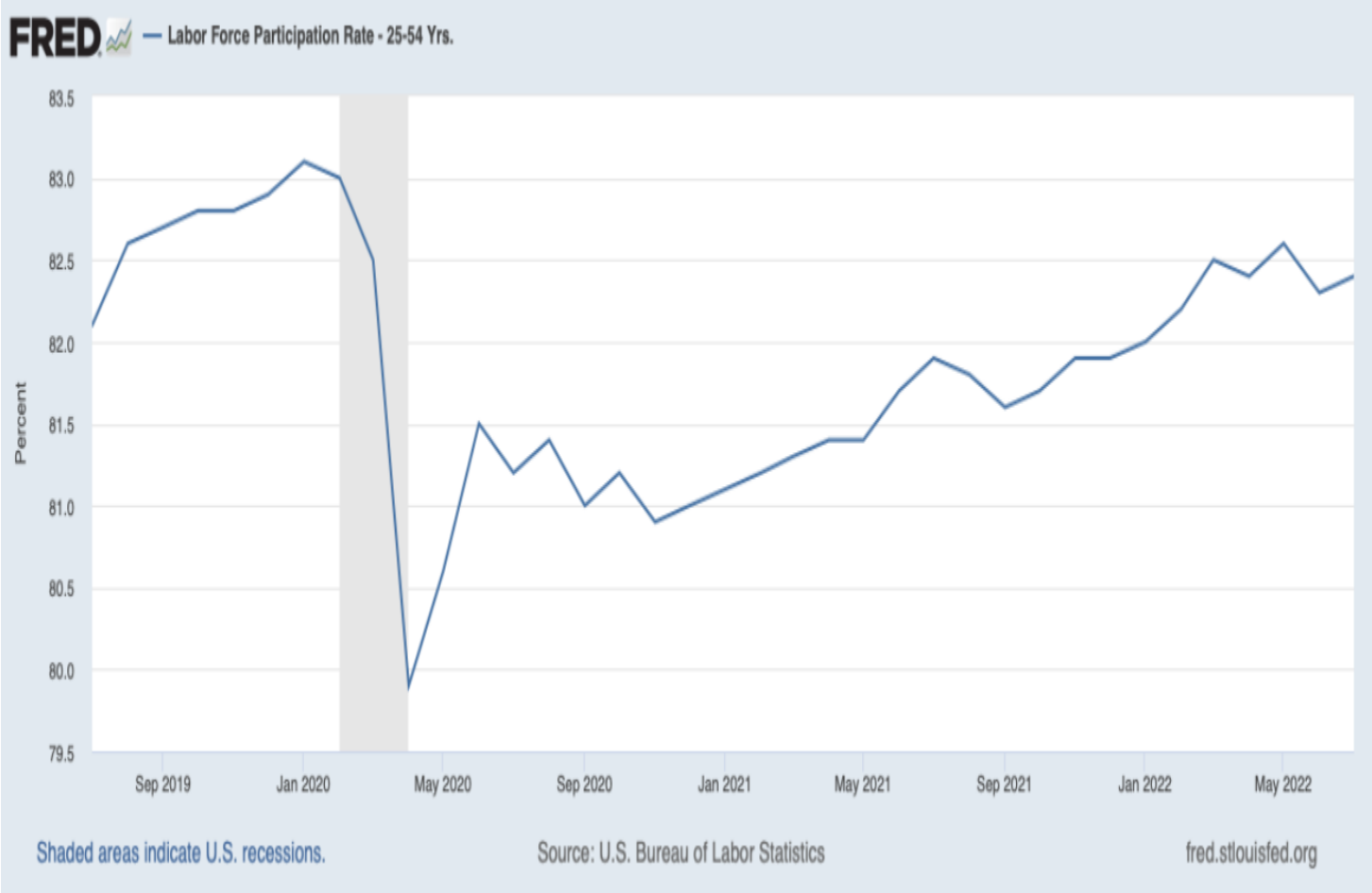
The biggest mystery is not whether the United States is in a recession. It is not how quickly inflation will abate. The biggest mystery is, however, closely related to those pressing issues: What is driving the decline in labor force participation?

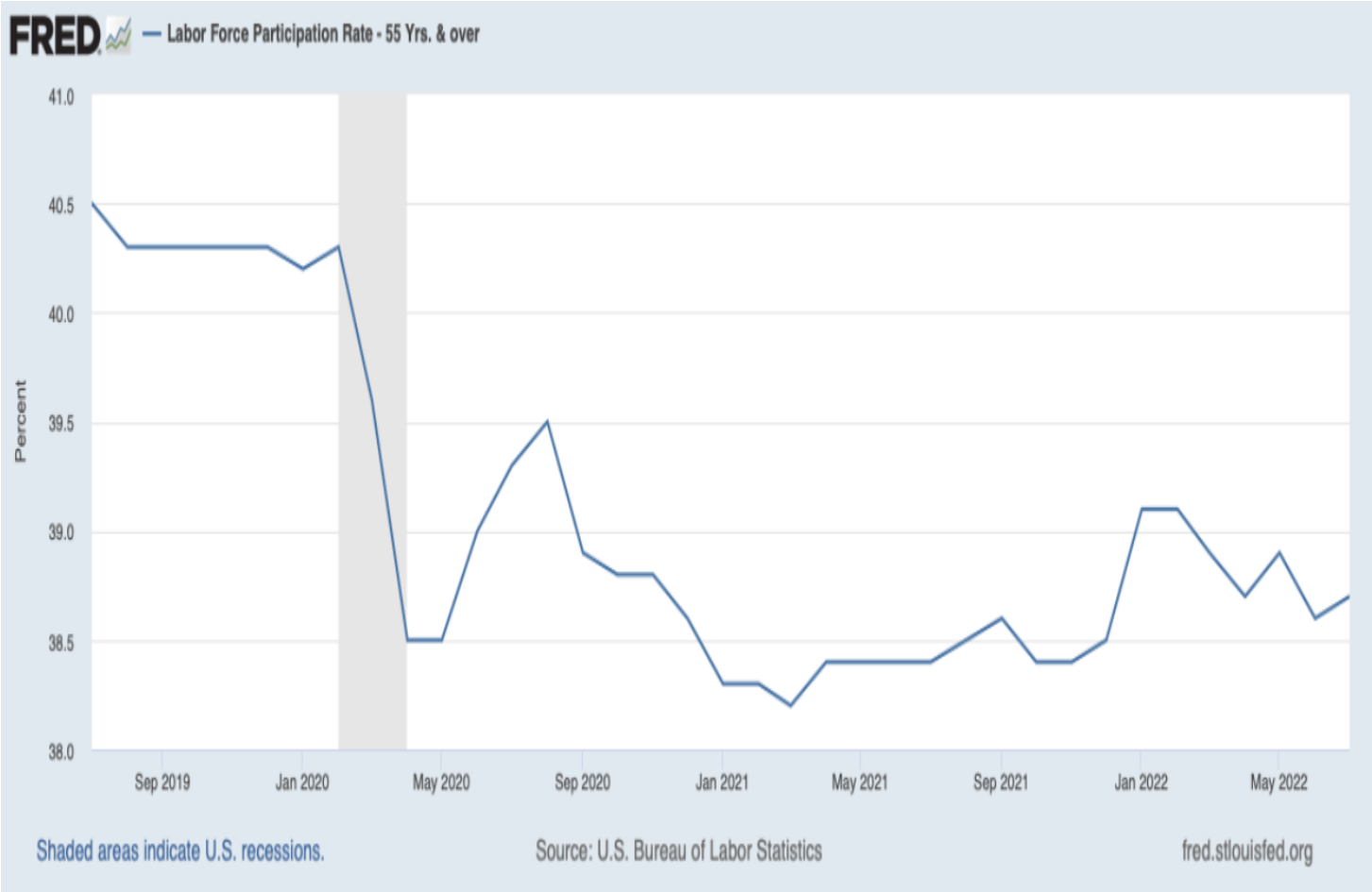
Recall this basic fact: In February 2020, 63.4 percent of the civilian population participated in the labor force. Today it is 62.1 percent.



That 1.3 percentage point gap – 3.4 million workers – exacerbates the excess demand in the labor market that fuels cost-push inflation and will require the Federal Reserve to reduce demand even more to bring it under control.

Who are these workers? Why are the no longer engaged with the market economy? One can start rounding up the usual suspects. Is it some difference between prime-age workers and retirees?

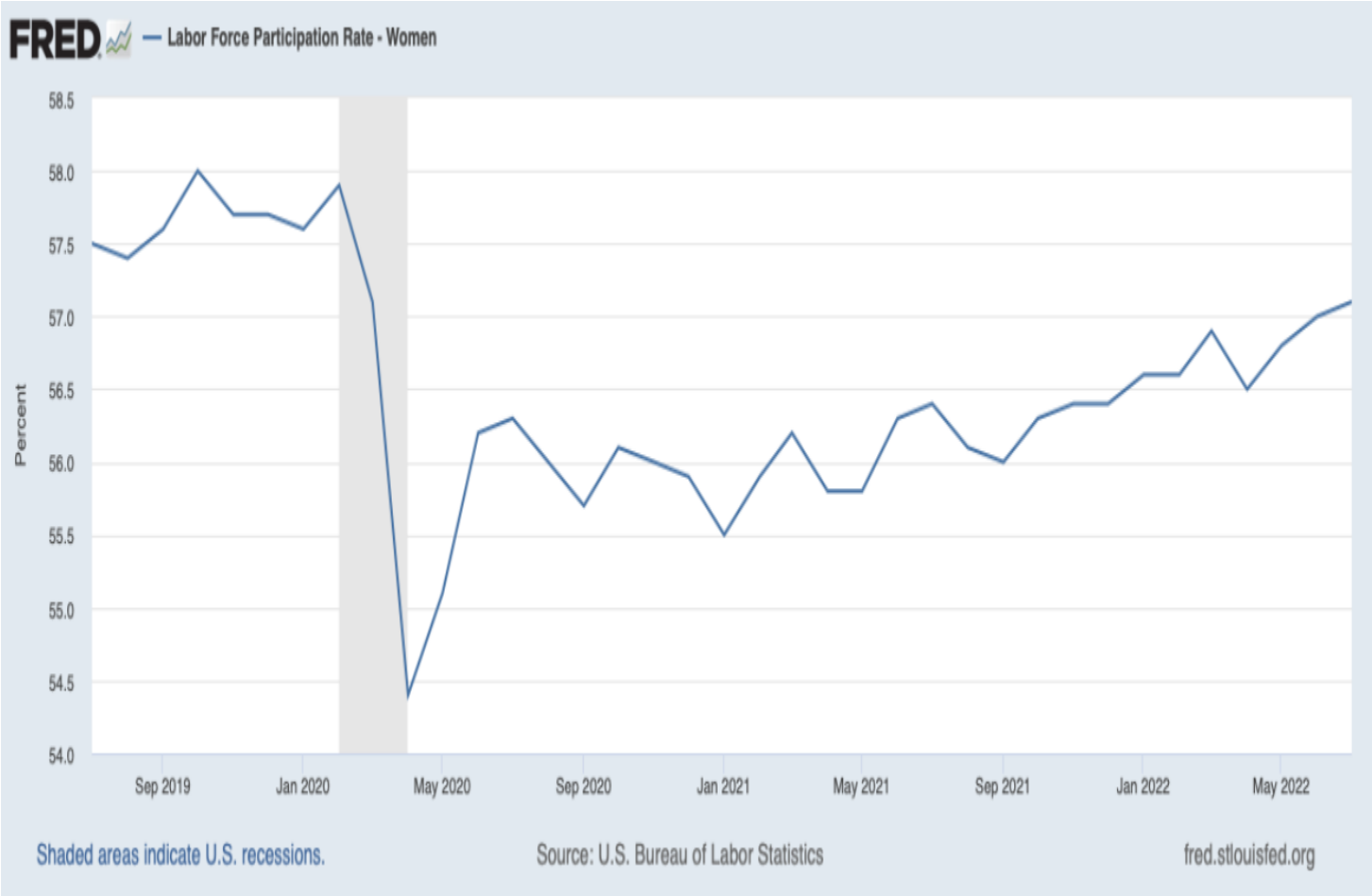




No. Both show diminished labor force participation.

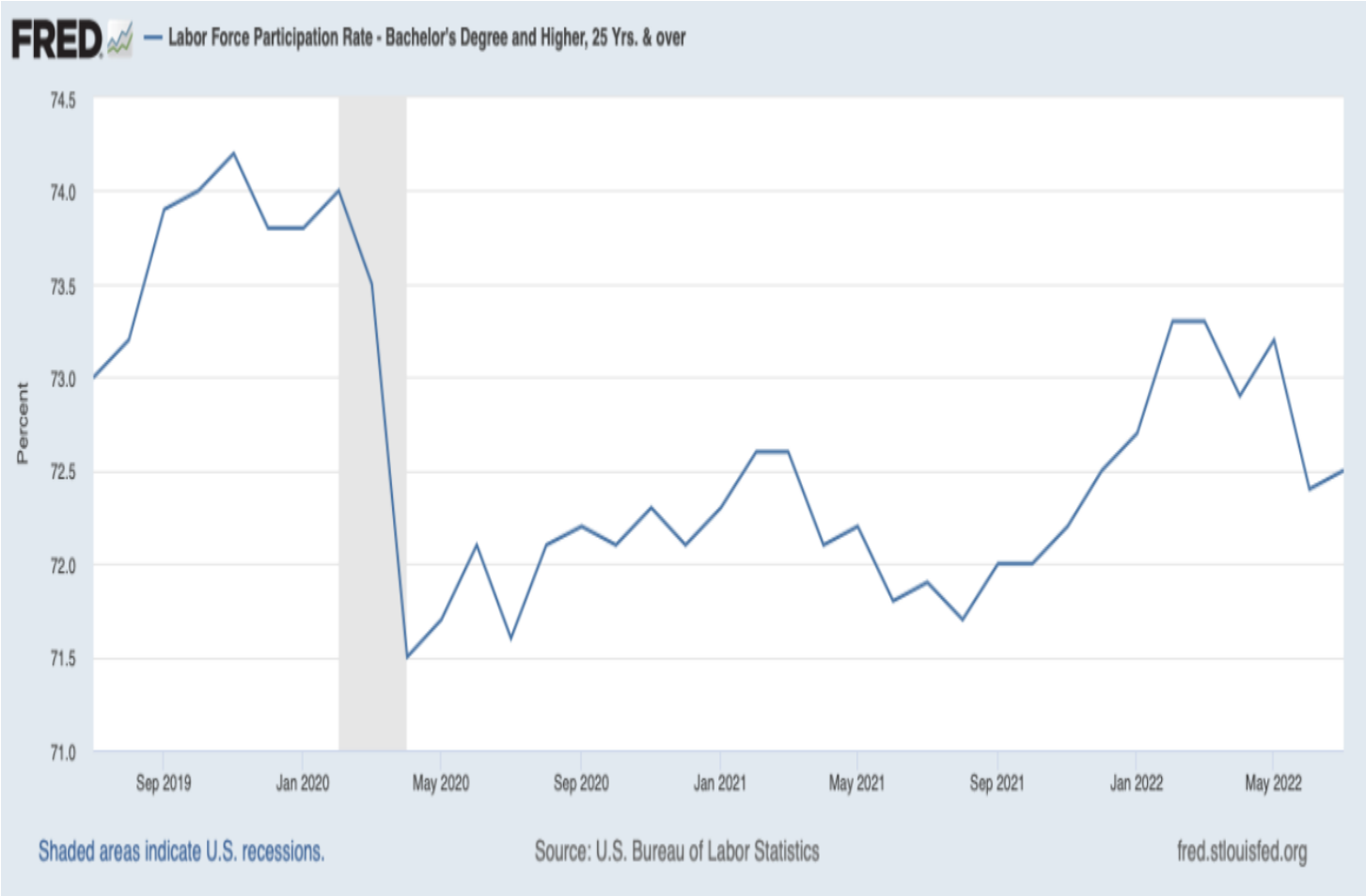
How about men versus women?

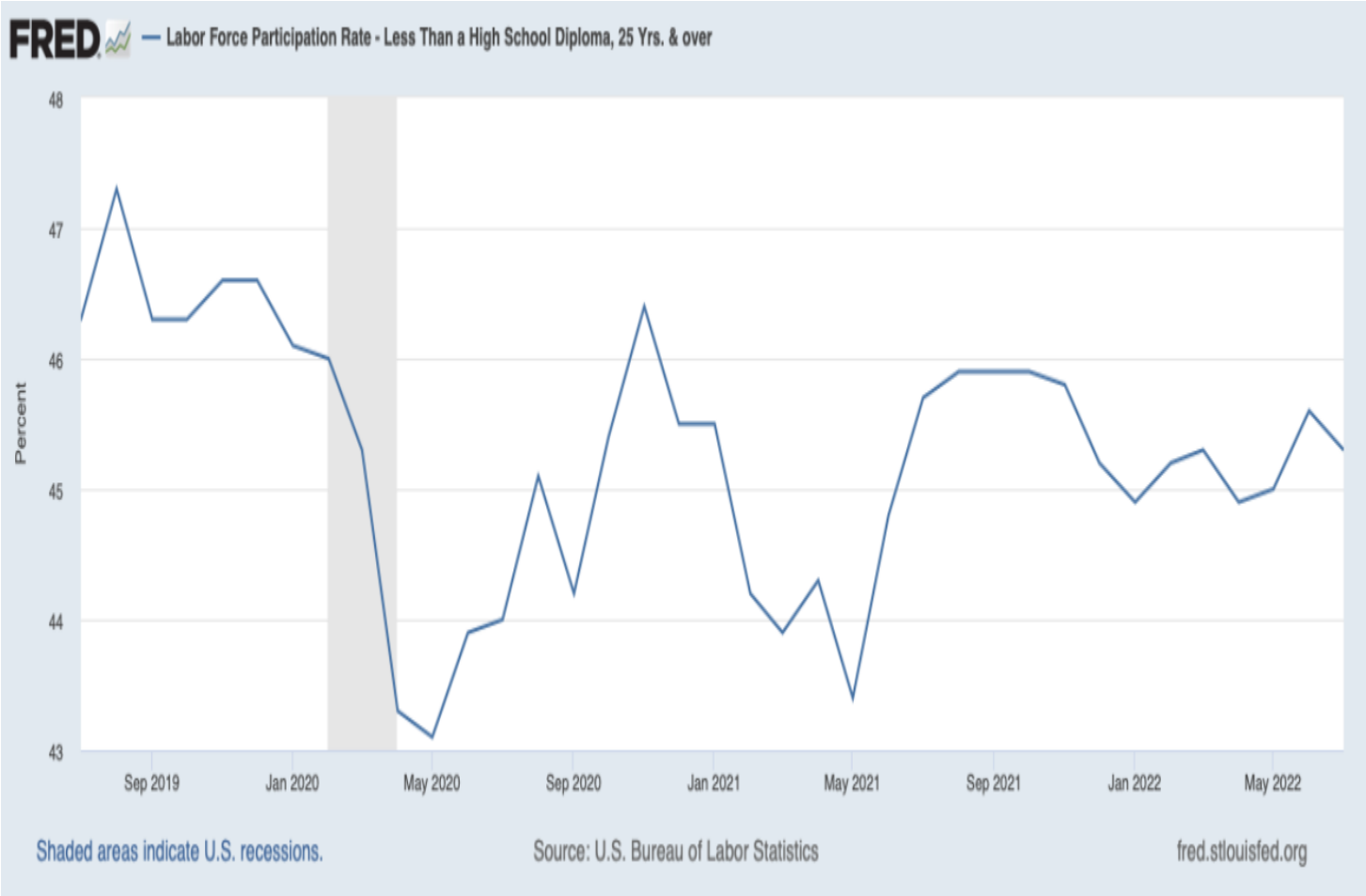

FRED
— Labor Force Participation Rate - Men
71
70
69
68
67
66
65
Percent
Sep 2019
Jan 2020
May 2020
Sep 2020
Jan 2021
May 2021
Sep 2021
Jan 2022
May 2022
Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org



Same basic story. Both are down.

Another possibility is that the especially hard-hit service sector created a difference between high-skilled workers and low-skilled workers.


FRED
— Labor Force Participation Rate - Bachelor's Degree and Higher, 25 Yrs. & over
74.5
74.0
73.5
73.0
72.5
72.0
71.5
71.0
Percent
Sep 2019
Jan 2020
May 2020
Sep 2020
Jan 2021
May 2021
Sep 2021
Jan 2022
May 2022
Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org



Again, both groups' labor force participation rate is down. (Although, intriguingly, the low-skilled rate briefly recovered pre-pandemic levels in early 2021.)

We could go on, but the same picture emerges nearly regardless of how one cuts the data. Engagement in work is down in the United States, with important ramifications for all of the major pressing national economic issues.

It is the biggest mystery.