



What Lower Labor Force Participation Rates Tell Us about Work Opportunities and Incentives

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Chairman Coats, Ranking Member Maloney, and Members of the Committee, thank you for the opportunity to testify before the Joint Economic Committee today. Policy cannot succeed but accidentally if we do not have a clear understanding of the problems that face us. It is my belief that much of what we think we know about living standards, economic insecurity, and the state of the economy is incorrect, based on a mistaken read of the available data. Furthermore, our misinterpretation of the data, more often than not, translates into an exaggeration of the economic challenges we face. I hope I can illustrate this today and provide a new way to think about labor force participation data and what they mean for opportunity and incentives.

Understanding trends in labor force participation requires that different demographic groups be assessed individually. Failing to distinguish between the experiences of different groups will often cause important details to be missed. In particular, since expectations of and preferences for work have historically differed so much between men and women, it is necessary to examine them separately. Because labor force participation changes throughout the life course, as people move from schooling to work to retirement, age should also be taken into account in assessing trends. Other times, educational attainment or ethnic background are relevant markers for fundamentally different interactions with the labor market.

In my past research, I have examined trends in the labor force participation of men between the ages of 25 and 54.¹ That research found that a strong majority of men in this age range who are out of the labor force—roughly 70 percent on the eve of the Great Recession—tell government surveyors when asked outright that they do not want a job. The increase in their numbers between 1979 and 2006 explains nearly all of the decline in labor force participation among men between the ages of 25 and 54.

Furthermore, roughly half of men in this age range and out of the labor force cite a disability when asked the reason for not working or looking for work. The increase in their ranks explains about one-third of the decline in labor force participation. Most data on health indicators offer little reason to think that disabilities are becoming more common, but receipt of federal disability benefits has increased significantly since the 1980s.² Roughly half of the increase since 1989 may be attributed to policy changes that have made it easier to receive disability benefits (and made them more attractive).

¹ Scott Winship (2015). “Nice Nonwork If You Can Get It,” *National Review* 67(1).

<https://www.nationalreview.com/nrd/articles/395974/nice-non-work-if-you-can-get-it>.

² Scott Winship (2015). “How to Fix Disability Insurance,” *National Affairs* (23).

² Scott Winship (2015). “How to Fix Disability Insurance,” *National Affairs* (23).

<http://www.nationalaffairs.com/publications/detail/how-to-fix-disability-insurance>.

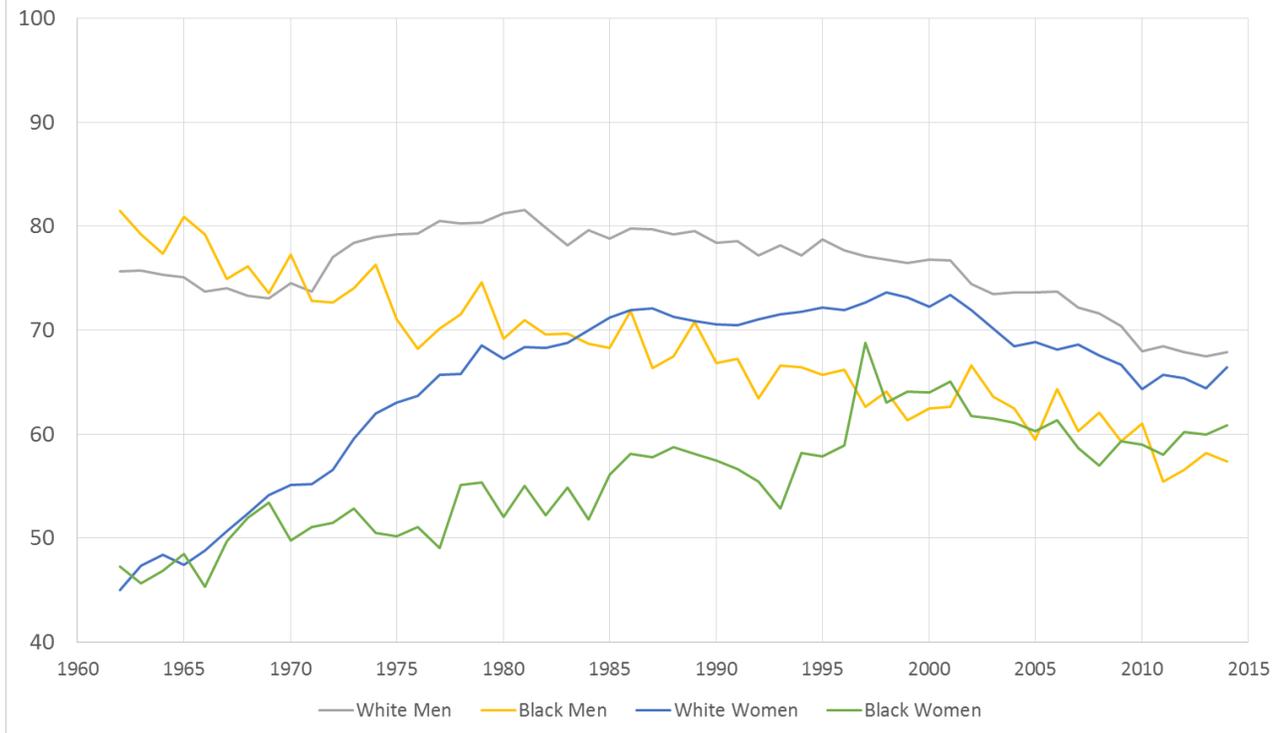
Federal disability benefits increasingly serve as a shadow long-term unemployment program for a group of able-bodied men with low skill levels.

Today, I will focus my remarks on the labor force participation of black and white men and women under age 25. The degree to which these groups are attached to the labor force is a vital empirical question, as is the extent to which changes in their labor force attachment reflect on their opportunities. These adults also provide a clear illustration of the ways in which policy can affect incentives to increase labor force participation. Confining the analyses to these groups will also help to make manageable the task of illustrating how tricky it is to make sense of seemingly straightforward data.

Figure 1 displays labor force participation trends for adults 18 to 24, broken out by sex and race.³ Considering women first, black and white women had the same labor force participation rates during the 1960s, but a gap opened up in the 1970s and widened through 1993. For both groups, participation rose through 1997 (for black women) or 1998 (for whites). White women's participation began to plateau starting in 1987 after having risen consistently since at least 1962.

³ All of the analyses in this testimony rely on my analyses of the Annual Social and Economic Supplement to the Current Population Survey. They exclude Hispanics, nonwhites other than African Americans, and multiracial adults. They also exclude members of the Armed Services and the institutionalized, including the incarcerated. The latter point should be kept in mind, since incarceration has risen over time, and more so for African American men than for others. The Current Population Survey does not include the institutionalized population or non-civilians living on military bases.

Figure 1. Labor Force Participation,
Adults 18-24



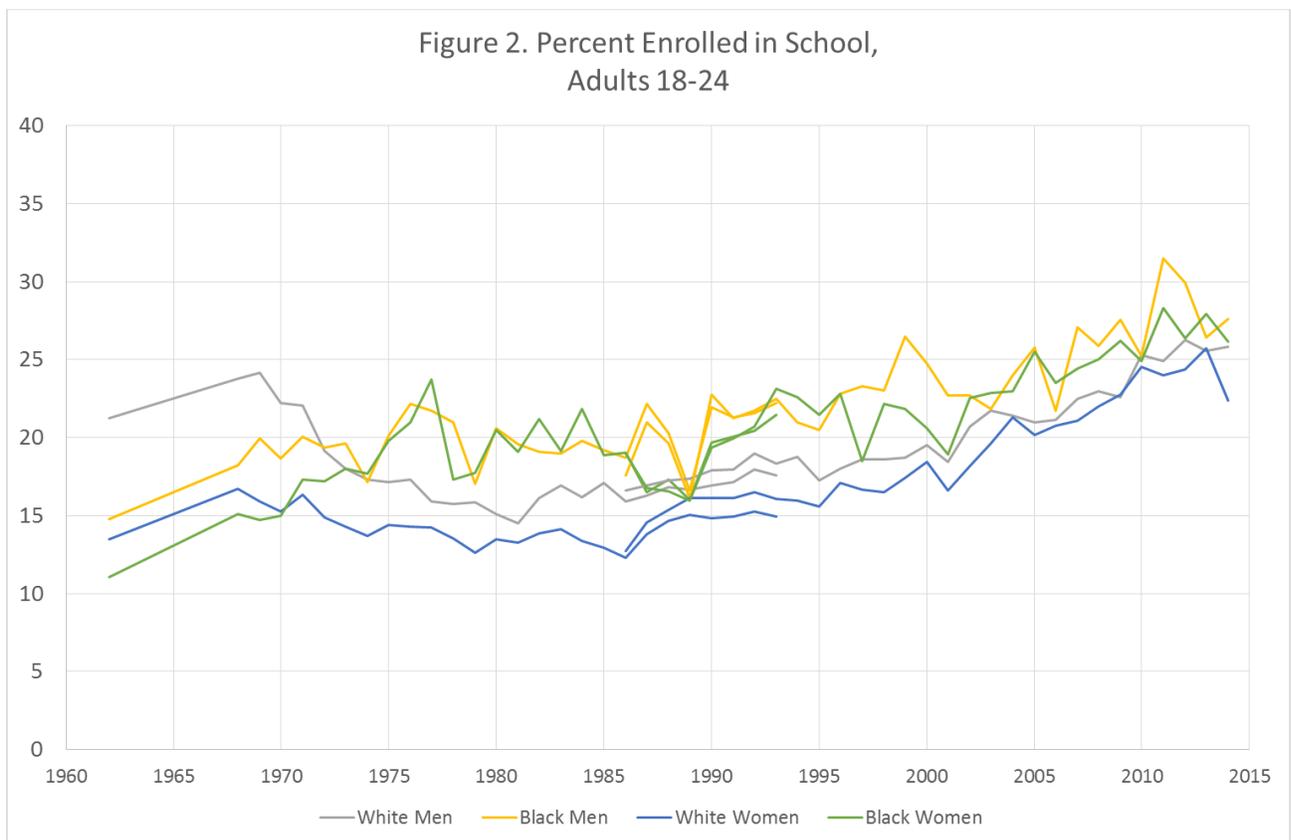
The increase in participation among young black women was not as continuous, and unlike the rate for white women, participation fell significantly from 1988 to 1993 – to below its 1969 level. Strikingly, however, the participation rate for young black women jumped from 53 percent to 69 percent in the four years between 1993 and 1997. That increase is unlike anything else in the chart and begs for an explanation.

Before turning to that, however, it is worth examining the trends for young men, among whom labor force participation has been on the decline for decades. It peaked for white men in 1981, while the black participation rate has declined steadily since at least 1962. The labor force participation rate was actually higher among young black men than among whites during the 1960s, but the two rates crossed over around 1970. The gap that opened up during the 1970s barely narrowed at all thereafter.

Since young black men were the only group not to experience a rise in labor force participation at some point over the period, it is tempting to conclude that the black male trend is an especially alarming outlier. However, as we will see, Figure 1 presents too pessimistic a picture of how the labor market is performing. Labor force participation can fall for reasons we should celebrate, and it can rise due to developments that are concerning. An increase in school enrollment, for instance, will

lower labor force participation, while a decline in school-going will raise it. Trends in school enrollment turn out to matter a great deal in assessing the patterns in Figure 1.

Figure 2 shows trends in school enrollment, using overlapping series based on distinct survey responses. In the set of estimates for the earlier period, enrollment rates indicate the percent of people for whom being in school was the major activity in which they were engaged and who were out of the labor force. The estimates for the more recent period indicate the share of people who were enrolled in school and were outside the labor force. The two series tell the same story, as can be seen looking at the years in which they overlap, from 1986 to 1993.



White and black men and women all experienced the same broad enrollment rates and trends after the early 1970s. Among white men, the drop in participation after 1981 coincides with an increase in school enrollment starting the same year. The 12-point rise in their enrollment after 1981 corresponds to the 13.5-percentage-point drop in labor force participation shown for them in Figure 1. Among white women, labor force participation fell 7 points from its peak in 1998 to 2014, and school enrollment rose 6

points. Among black women, the 8-point drop in participation after 1997 was matched by an 8-point rise in school enrollment.

School enrollment trends can also partly explain why black male labor force participation rates have fallen without pause while white men saw a temporary increase in participation. In 1969, young black and white men had the same labor force participation rates. But between 1969 and 1981, white male labor force participation rose by 8.5 points, while it fell among black men by 2.5 points. This gap has persisted ever since.

What happened during the 1970s? Figure 2 reveals that school enrollment among white men fell substantially, from 24 percent to 14.5 percent – a 9.5-point drop that then persisted, leaving enrollment below its 1962 level until 2003. The decline primarily occurred between 1969 and 1973, a period that also accounted for much of the increase in white male labor force participation. In 1969, school enrollment among young men was more or less at a historic high point. In part this was because the Vietnam War had provided veterans with benefits from the GI bill and given potential draft inductees incentive to stay in school to obtain a deferment.

Meanwhile, young black men had roughly the same school enrollment rate in 1981 as they did in 1969, putting school-going higher among them than among their white peers.⁴ As a consequence, their labor force participation did not rise. Over the whole 1962 to 2014 period, black male labor force participation fell by 24 percentage points. The share in school and not in the labor force rose by 13 points though. Among white men, labor force participation fell by just 8 points, but the share in school and out of the labor force rose by 4 points.

In Figure 1, then, young black men look like an outlier relative to other groups in that their participation rate shows no increase before falling in subsequent years. However, taking school enrollment into account, it appears that young white men would have experienced a more similar trend if not for the fact that their Vietnam-War-era school enrollment was artificially high, making their late-1960s labor force participation artificially low. Much of the decline in young black male labor force participation reflects the positive trend of rising school enrollment, and much of the rise in young white male labor force participation relative to the black rate reflects the negative trend of falling white male school enrollment.

Meanwhile, school enrollment also rose among young black and white women, but their labor force participation rates rose nevertheless. In part, and particularly for white women, that increase reflects the secular rise in attachment to work among young

⁴ Note that in Figure 2 and throughout these analyses, the school enrollment rates include only those students who are not in the labor force as being enrolled. White enrollment levels look better relative to those of blacks when students who are also in the labor force are included. Because I am trying to ascertain the effect on the labor force participation rate of school enrollment, the estimates provided here are the appropriate ones.

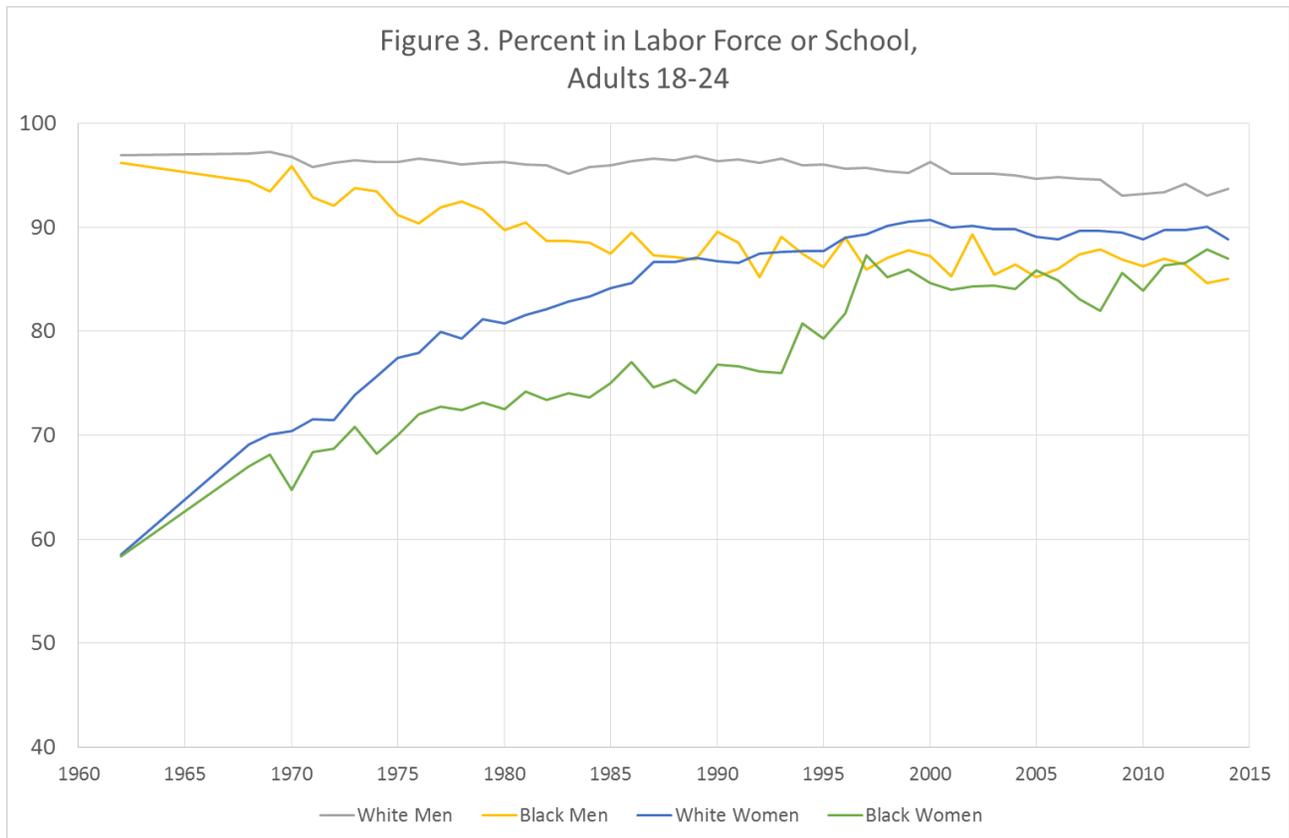
women as more and more pushed back the ages at which they married and had children. But through most of the 1970s, the labor force participation rate of black women stagnated while it continued marching upward among white women.

School enrollment rates again hold part of the answer to this racial difference. Though greater work among women exerted upward pressure on participation rates for both white and black women, school enrollment levels fell among white women during the 1970s while they rose by 5.5 percentage points among black women. School enrollment among black women exceeded that of white women after 1971, when most of the black-white participation gap developed.⁵

In 1988, the labor force participation rate of young black women was 11.5 points higher than in 1962. From 1988 to 1993, however, the participation rate of black women fell by 6 percentage points – another feature of Figure 1 that looks alarming. But the share of black women in school and out of the labor force also rose by 6 points (compared with less than 1 point for white women).

To put Figure 1 in the proper perspective, taking school enrollment into account, Figure 3 shows trends in the share of men and women who are either in the labor force or in school. These estimates look less worrisome than the conventional ones that don't distinguish students from other people out of the labor force. Among young white men, the decline was only from 97 percent to 94 percent. The drop for young black men was from 96 percent to 85 percent – a decline of 11 points instead of the 24-point drop in labor force participation. The share of young white women in the labor force or in school peaked at 91 percent in 2000 and was still 89 percent in 2014. Among young black women, the share reached 87 percent in 1997 and remained at 87 percent in 2014, barely lower than among white women.

⁵ Again “enrollment” here means “enrolled and not in the labor force.” School enrollment rates conditional on labor force participation are generally higher for whites than for blacks, but since blacks are less likely to be in the labor force, more of them are both enrolled and not in the labor force than is the case for whites.

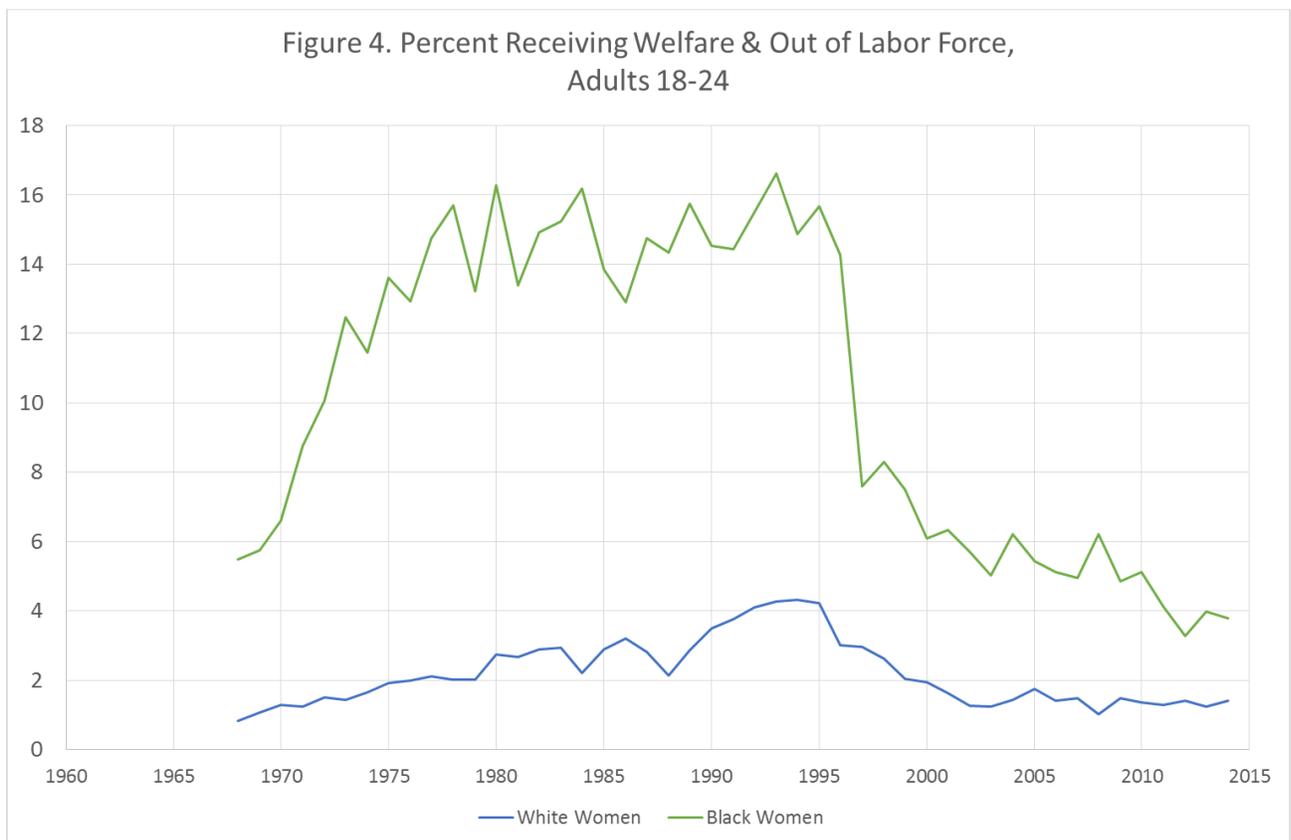


One notable feature of Figures 1 and 3 left to explain is the rise in the share of young black women in the labor force during the mid-1990s. In 1993, the labor force participation of black women was lower than that of white women by 19 percentage points despite being nearly equal in 1969. The share in the labor force or in school was lower by 12 percentage points. From 1993 to 1997, however, the share of young black women in the labor force or in school jumped by 11 percentage points, putting them above black men and nearly at the level of white women.

What occurred during this period? Between 1993 and 1997 two major policy reforms created strong incentives for single mothers to look for employment rather than remaining out of the labor force and depending on cash welfare assistance. In 1993, the Earned Income Tax Credit (EITC) was expanded to support more low-wage workers more generously. And in 1996, the cash welfare program, Aid to Families with Dependent Children (AFDC) was converted to Temporary Assistance for Needy Families (TANF). Under TANF, cash assistance was time limited, and work requirements were imposed on recipients. The entitlement to assistance was eliminated, and states were given broad latitude to design their TANF programs as they saw fit. The result was an unprecedented decline in caseloads. The combination of the

expanded EITC and welfare reform raised the employment rates of single mothers significantly during the 1990s.⁶

Figure 4 suggests how this social policy revolution affected the labor force participation of young black and white women. It shows the percentage of women who received either AFDC, TANF, or Supplemental Security Income (SSI) benefits and who were not in the labor force.⁷ First, the chart reveals that the widening of the participation gap between black and white women during the 1970s was related to the widening gap in welfare receipt. The participation gap grew by 6.5 points between 1968 and 1980, while the welfare-receipt gap increased by 9 points.



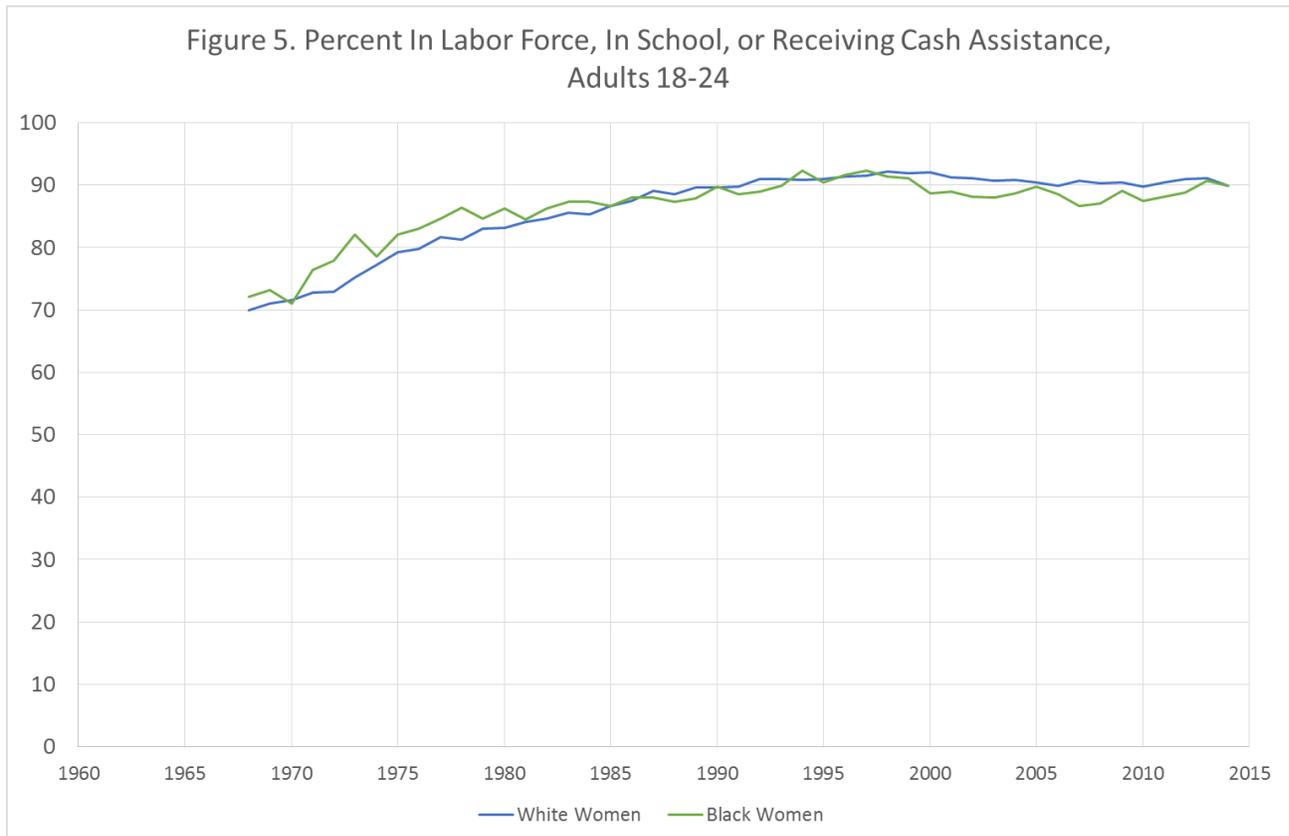
Second, Figure 4 shows that the sharp 11-point rise in the labor force participation rate of young black women between 1993 and 1997 was largely due to a 9-point drop in the share of them who received cash assistance and did not participate in the labor force. In

⁶ Scott Winship (2015). "Will Welfare Reform Increase Upward Mobility?" <http://www.forbes.com/sites/scottwinship/2015/03/26/will-welfare-reform-increase-upward-mobility/>.

⁷ SSI is a cash assistance program for adults and children with disabilities, but it has expanded in recent decades to cover many families with children who do not have severe physical or mental disabilities.

1993, 17 percent of young black women received cash assistance and were out of the labor force, compared with 4 percent of white women. By 1997, the figures were 8 and 3 percent, respectively. In 2014, 4 and 1.5 percent.

The result of taking into account welfare receipt is the remarkable Figure 5:

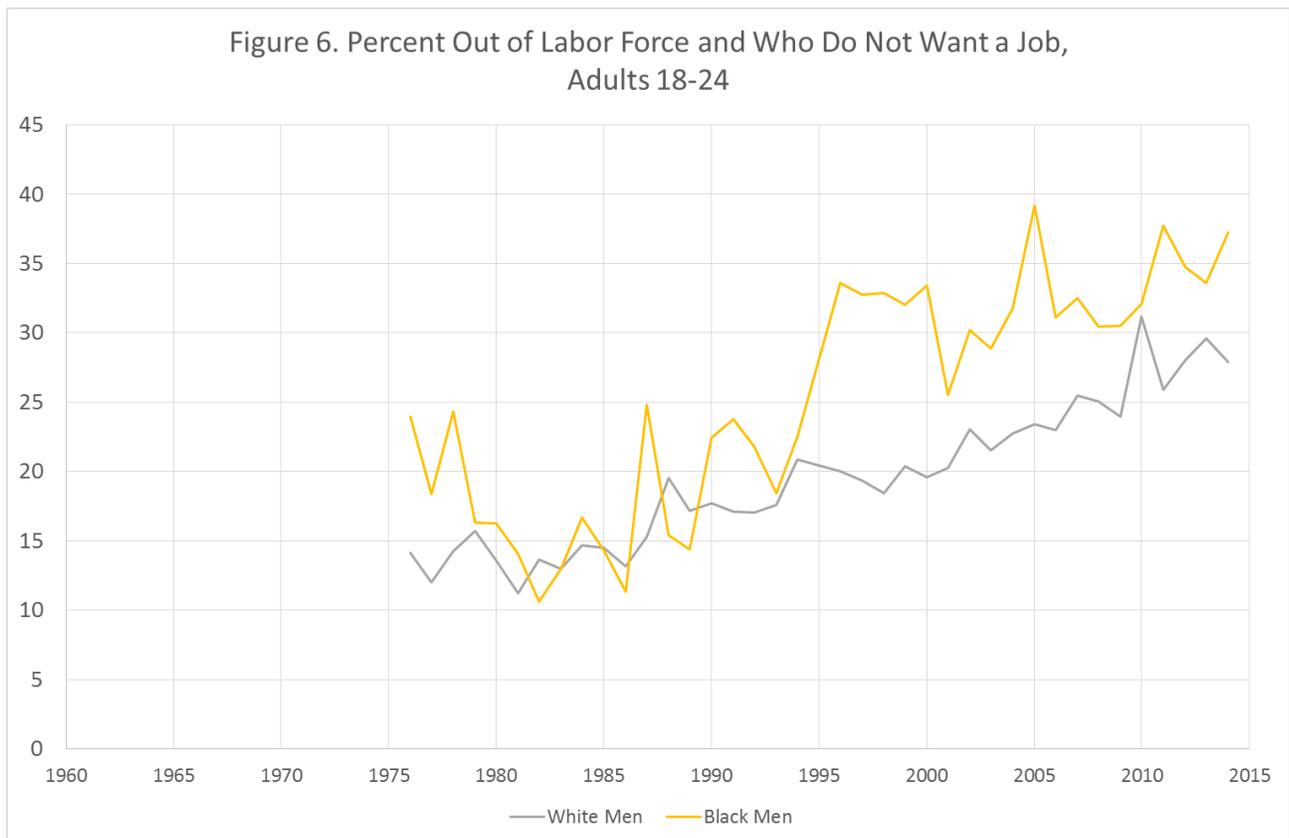


School enrollment and welfare receipt, together, explain the differences in the black and white levels of and trends in labor force participation among young women. They also explain the decline in women’s labor force participation since the late 1990s.

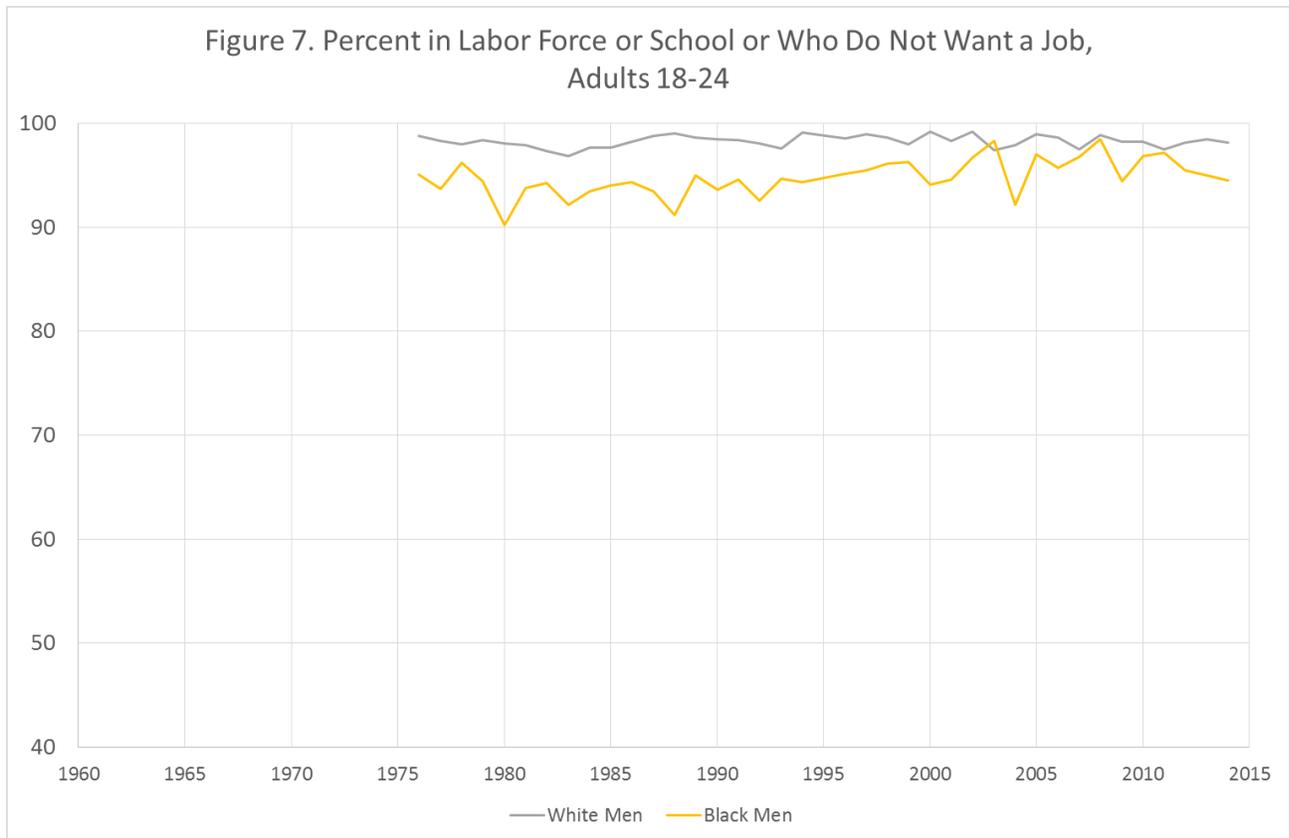
Having explained the factors behind the labor force participation of young women, let us see if we can crack the last nut and explain the remaining features of the male labor force participation trends in Figures 1 and 3. Taking a cue from my past research indicating that most men out of the labor force between the ages of 25 and 54 do not want a job, we can see whether changes in these preferences or racial differences in preferences shed any light on the patterns in Figures 1 and 3.

Figure 6 shows, from 1976 forward, the share of young black and white men who are both out of the labor force and do not want a job. A gap opens up between 1993 and

1996 in that the growth of this group is greater for black men than for whites. But among both white and black men, a rising share are out of the labor force voluntarily. Note that this group overlaps significantly with the group of men enrolled in school (many of whom do not want a job).



Finally, Figure 7 shows, for young black and white men, the share who are in the labor force, enrolled in school, or who are out of the labor force but do not want a job. Very few young men are out of the labor force, not in school, and would like to have a job. Put another way, nearly all young men who want a job are either working or looking for work. Instead of worrying that one-third of young white men are out of the labor force, we should reassure ourselves that the economy is serving most of them well – just 2 percent are out of the labor force, not in school, and would take a job if one were available. Among young black men, the equivalent estimate is 5.5 percent (not the 43 percent we would fret over if we interpreted the labor force participation rate as problematic).



Nor is there a trace of a worsening problem in Figure 7; the declining participation rate in Figure 1 is revealed to be potentially benign. Nor is there much of a racial disparity in the chart. In short, we have largely succeeded in explaining the striking features of male labor force participation in Figure 1 by referencing just two factors – school enrollment and preferences for being out of the labor market. For women, there are also two factors sufficient to explain the patterns – school enrollment and welfare receipt.

To conclude, it is easy to misinterpret labor force participation trends in such a way that it appears the labor market is failing workers, and increasingly so over time. A deeper look at men and women under age 25 reveals that the worrisome declines and disparities have relatively simple explanations, many of which suggest benign sources. For one, school enrollment rates have risen among most groups examined here, causing labor force participation to fall. In other periods, falling school enrollment – particularly among white men – makes labor force participation rise, but we should not necessarily view this in a positive light.

Second, among young women, differences in welfare receipt is an important factor behind black-white differences in labor force participation. What is more, the welfare

reforms of the 1990s clearly increased labor force participation, affecting black women in particular. As I have written elsewhere, welfare reform clearly benefitted single mothers on net; it is a remarkably successful example of how government can affect incentives to expand opportunity.⁸

Third, some of the drop in male labor force participation, and much of the black-white gap in participation, is explained by a rise in the number of young men who are out of the labor force but, for various reasons, do not want to work. Here is the most ambiguous finding in these analyses. We should not worry that preferences for work are changing, so long as state and federal governments are not footing the bills of non-workers. If more young men are going to school or – perhaps because they live with working partners or spouses – taking more time to find their next job, there may be no reason for policymakers to step in. However, if federal disability programs are subsidizing the leisure of people who could support themselves, or if federal revenues suffer because of the growth of the underground economy and tax evasion, then it could be worth addressing the increasing preference for non-work that survey respondents assert.

On close inspection, the American economy is revealed to be better at providing opportunity than the conventional wisdom has it, policies to promote independence look successful, and our employment problems start to look more like supply-side issues than matters of insufficient labor demand. Policymakers should focus on continuing to reform safety net programs with perverse incentives that impede opportunity, and they can focus on increasing economic growth rates secure in the reality that the American economy is not fundamentally broken.

⁸ Scott Winship (2014). “Work-Promoting Safety Net Reforms Have Helped the Poor,” <http://www.forbes.com/sites/scottwinship/2014/06/19/work-promoting-safety-net-reforms-have-helped-the-poor/>.