Labor Force Participation Rate: A Research Brief

Insights on a critical workforce trend for West Michigan education, workforce, and business leaders
About Talent 2025

Talent 2025 is a catalyst for an integrated talent development system for West Michigan. Composed of over 100 CEOs from the region’s 13 counties, the organization strives to be a driving force for an ongoing supply of world-class talent by convening leaders and organizations who will help shape a thriving economy.
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The Labor Force Participation Rate is an important measure of the health of the economy. While the unemployment rate focuses on the number of individuals who are not working and looking for work as a proportion of the number of individuals in the labor force, the labor force participation rate looks at the size of the labor force relative to the total adult population*. The labor force participation rate reflects that some unemployed individuals are not seeking employment and as a result, they are not considered part of the labor force. These individuals may not be working for a variety of reasons, be it retirement, illness or disability, education, caretaking, or any other reason.

- Nationally, the rate has been steadily declining since the start of the 21st century when the measure hit a series peak of 67.3%. This decline was slightly accelerated with the onset of the Great Recession at the end of the last decade. By the end of 2016, the U.S. labor force participation rate had slipped below 63%.

- There are many reasons why the labor force participation rate has changed in the way it has over the past half century, from shifts in demographics (the aging-up of the population causing retirements) to the emergence of women in the workplace (the driving force behind much of the rise in the rate during the last half of the 20th century).

- In Michigan, the labor force participation rate rose to around or over 62% during the first five months of 2017, drawing the state slightly closer to the national rate. Although largely tracking with the national rate, Michigan saw a more dramatic decrease in the participation rate both before and especially after the Great Recession. Beginning in 2012, the rate in Michigan largely leveled off. However, labor force participation has shown some upward movement beginning in late 2015.

- In West Michigan, the labor force participation rate has largely followed the path of the rate in Michigan, yet has had an overall higher level, ranging from about 2 to 4 percentage points higher. Using a 12-month rolling average to smooth the time series, the participation rate in West Michigan was at 66.7% in May 2017, and has showed a slow increase over the past several years.

- While many potential solutions to the downward trend of the labor force participation rate fall to public policy, there are many actions employers can take to encourage participation among their workforce and in their community. Employer initiatives that could increase the labor force participation rate include: flexible and innovative work schedules, marketing to talent currently outside of the labor force, supportive onboarding and mentoring of new hires, paying a liveable wage, and initiatives to break down barriers for returning citizens.

*For the purpose of the labor force participation rate, the total adult population only includes the non-institutionalized, civilian population.
The labor force participation rate is the proportion of adults ages 16+ who are either employed or unemployed out of all civilian, non-institutionalized adults. That is, the percentage of the adult population that is either working or is actively seeking work. If an individual is not working and not seeking employment, they are counted as not in the labor force.

- From a national perspective, the labor force participation rate has been declining for the last 15 years. The proportion of adults who are participating in the labor force is at the lowest point nationally than it has been at any point in the last 40 years.
- When the U.S. Bureau of Labor Statistics began tracking the labor force participation rate in the late 1940s, the national rate was between 58 and 60 percent. Despite some variation, this remained true for the next 20 years.
- Beginning in the late 1960s, the labor force participation rate steadily increased from around 60 percent in 1969 to around 67 percent in the late 1990s. This increase was largely due to the increase in labor market participation by women. In fact, from March 1997 to June 2000, the participation rate never dropped below 67 percent.
- Alongside the early-2000s recession spurred on by the dot-com bubble, the labor force participation rate began to decline. Although the rate steadied somewhat for around five years from late 2003 to 2008 (hovering around 66 percent), the proportion of adults participating in the labor force continued to decline into the current decade, hastened by the Great Recession at the end of the 2000s.
- Through the first five months of 2017, the U.S. labor force participation rate has dropped to around or under 63 percent. Over the last five years, the rate has decreased 1.0 percentage point from 63.7 percent in May 2012 to 62.7 percent in May 2017.
The decrease in the labor force participation rate since 2000 has been a subject of discussion for policy makers, economists, as well as employers. Especially in the last several years as the rest of the economy has made strong gains, the percentage of adults working or looking for work has yet to stabilize or recover.

This decrease has been significant because it’s different and unique. It’s more protracted than in previous recessions and has actually been going back since the turn of the century (meaning that there has been a sustained decrease during the last two recessions, but also during the period between them).

If there’s one area of agreement, it’s this: there are many reasons for this decrease, which is to be expected from a fundamentally complex measure of economic health. As overviewed in the previous section, historical factors such as demographic shifts (due to age and gender) and economic recessions are reflected in the labor force participation rate. However, there has been much literature produced about further contributing reasons for the decrease, and we’ll highlight just a few here:

- **Aging of the Workforce**

One of the main areas of research has focused on the decline in the participation rate as a result of the aging of the Baby Boomer generation (those born between 1946 and 1964). The labor force participation rate includes all adults over age 16, therefore retired adults count as “out of the labor force.” As a result, populations with an older population tend to have lower participation rates. In 1975 when the participation rate began its significant climb, the share of the adult population over age 65 was 14.1%. By 1995 when the rate began to peak, this older portion of the population had risen to 16.0%.

- **Increased School Enrollment**

The idea that increased school enrollment affects the participation rate was written about even before the most recent recession, such as in a 2006 report out of the Brookings Institute, but has recently been backed up by reports like those out of the Federal Reserve Bank of San Francisco in 2015. This conclusion not only takes into account those who choose to go to school (high school or post-secondary education) instead of working from ages 16 to 24, but also the rates at which people choose to do both at the same time.

- **Increased Disability Rates**

Most of the literature agrees that there is at least some connection between the rates at which individuals claim Social Security Disability Insurance (SSDI) and participation in the labor force. The American Enterprise Institute highlighted conclusions drawn by Capital Economics which state that from 2000 to 2014, about 1.2 percentage points of the decline can be attributed to the increase in the disability rate.

In 2014, the team at Brookings followed up their 2006 study, and concluded that disability insurance accounted for 0.5 percentage points, or about one-third of the drop seen between the fourth quarter of 2007 and the second quarter of 2014. Although increasing disability rates constituted a significant factor, the research team noted that it was the third most influential after the age distribution of the country (-1.3 percentage points) and cohort effects (-1.7 percentage points).
Much of the literature also goes into potential policy solutions. This is intended to show several of the solutions explored, not to directly advocate for any.

- **Increase the Earned Income Tax Credit**

  There are many ways to adjust the Earned Income Tax Credit (EITC), but one specifically mentioned by Michael Strain at the Cato Institute is to expand the program to include greater eligibility for childless workers. This would help expand the program to many low-income men, the individuals many programs try to target when hoping to bring individuals back in the labor force.

- **Promote “Family Friendly” Workplace Policies**

  “Family friendly” workplace policies would include policies which support caretakers entering the labor force again, which might include maternal or paternal leave, as well as solutions to issues like child-care, says Elisabeth Jacobs of the Washington Center for Equitable Growth. Other researchers like Eleanor Krause and Richard Reeves of the Brookings Institute stress the importance of extending family leave benefits to fathers as well.

- **Criminal Justice Reform**

  Jacobs also mentions criminal justice reform, something not to be overlooked. A White House report looking specifically at the participation rate of prime working-age men published in June 2016 shows that the incarceration rate in 2015 in the US (nearly 700 per 100,000 residents) is almost two-and-a-half times higher than the next highest OECD country. While this doesn’t directly influence the participation rate while those individuals are incarcerated, having a criminal record can severely hamper employment options after release.

- **Reform Occupational Licensing**

  Dr. Aparna Mathur of the American Enterprise Institute mentions that a possible constraint that can be addressed is occupational licensing, and the differences in state requirements. This could be one possible way of addressing a large problem theorized on national and local levels—matching up the skills of potential workers who are out of the labor force with employment opportunities.

**Looking Ahead**

Unfortunately, many academics, policy makers, and private institutions are projecting the participation rate to continue to fall nationally. As of late 2015, Goldman Sachs, who make many economic predictions every year about the state of the economy, expects the rate to continue falling at a quarter-point per year.

Correspondingly, three models by the team at Brookings show decreases continuing from 60.4 percent to 58.9 percent through Q2-2024. This group predicted with incredible accuracy the decline through the Great Recession back in 2006.
Michigan has seen the national trends reflected locally, oftentimes more dramatically, with regards to the participation rate.

In Michigan, the labor force participation rate in May 2017 was 61.8%, with just under 4.9 million individuals being considered in the labor force out of a civilian non-institutional population of just over 7.9 million. Michigan’s participation rate was just under one percentage point lower than the national rate in May 2017, which is among the closest the state has come to matching the national rate since the mid-2000s. While the national rate has been declining to some extent for several decades, Michigan’s participation rate trended more dramatically downwards with the last two recessions, specifically from June 2009 (63.8%) to the summer of 2012 (59.9%).

Throughout 2016, Michigan’s labor force participation rate showed signs of reversing, or at least delaying, the steady downward trend seen in many states. From July 2015 to March 2017, the participation rate rose by 1.8 percentage points from 60.3 to 62.1 percent, before falling again to 61.8 percent according to preliminary May 2017 data. Given that the general trend over the past 18 months has shown a rise in the participation rate, it will be important to monitor further progress as data becomes available each month.

Michigan as a state has ranked poorly among the 50 states since data became available in 1976, from a low ranking of 45th during the summer of 2011 to a high ranking of 21st around 1999 to 2000. More recently, Michigan has been among the lowest 10 to 15 states since the Great Recession.
The U.S. Bureau of Labor Statistics does not track local data of the labor force participation rate for geographies smaller than states. However, there is a way we can track the participation rate for the 13-county West Michigan region.

Talent 2025 constructs the participation rate for the West Michigan region using statewide Bureau of Labor Statistics data, which involves modelling monthly working-age population levels for the region and using that as the denominator along with Local Area Unemployment Statistics county-level labor force data sets. More details about methodology can be found on page 11.

This method shows a region which largely tracks the pattern of the nation and the state, although at a higher level overall than both. Using a 12-month rolling average to smooth the trend, we see the West Michigan participation rate growing from just over 64 percent in 2012 to the most recent level of 66.7 percent in May 2017\textsuperscript{14}.

**Working-Age Labor Force Participation Rate**

The Workforce Development Working Group of Talent 2025 has adopted the Working-Age Labor Force Participation Rate (defined as those aged 25 to 54) as a Key Performance Indicator for regional success. This age-bounded rate is particularly helpful in limiting the effects of retirement on having an impact on the indicator, and instead focusing on adults you would typically assume would be engaged in the labor force. This metric can be tracked on an annual basis at the county and regional level using the results of the American Community Survey from the U.S. Census Bureau. The American Community Survey (ACS) is a survey of around 295,000 households nationwide each month on a variety of demographic, economic, and social topics, including labor force participation.

According to the most recent data released, a 5-year average spanning 2011 to 2015, the working-age labor force participation rate in West Michigan was 82.0 percent, with just over 108,000 individuals classified as not in the labor force. This proportion is lower than that seen in the five years ending in 2010, when this participation rate was 83.1 percent. This current level is also lower than comparable regions across the country to West Michigan. Among the highest ranking of those comparable regions is the Hartford-West Hartford, CT Combined Statistical Area, which had a working-age participation rate of 85.6 percent in 2015. For West Michigan to achieve this level of labor force participation, it would need an additional 21,700 individuals to move into the labor force out of the 108,000 currently out of the labor force\textsuperscript{15}.
There are many options for employers who want to attract or retain talent who are currently or were previously out of the labor force. Although these do not combat the policy hurdles to labor force participation, they can help employers in becoming a welcoming and innovative place to work.

1. Make Room for Non-Traditional Employees

Even though many job seekers are looking for full-time employment opportunities, those who are out of the labor force are often looking for flexible options on a part-time or temporary basis. Several West Michigan employers are already shifting their traditional work arrangements to accommodate and retain employees who have or are thinking of retiring. Many retirees are willing to continue working on a limited-hours basis, and can therefore continue to contribute to the organization by passing down their knowledge to other employees.

2. Develop a Project-Based Workforce

Temporary and project-based work arrangements are both variations of part-time work that can be attractive to those looking to re-enter the labor force. Some West Michigan employers are making these types of employment arrangements even more attractive to potential talent by offering benefits that are traditionally only offered to full-time employees. Additionally, benefits such as paid time off and paid holidays can be offered to temporary or part-time employees as an additional incentive to return to work.

3. Flexible Work Schedules

For employees who are hired on a full-time, part-time, or temporary basis, flexible shifts can be an important characteristic of workplaces that are conducive to those who have been out of the labor force. Allowing for alternative working schedules can especially help those who are in a caretaking role.

4. Cast the Net Wider

Specifically marketing the above and other characteristics of an employer’s work environment to talent that is currently out of the labor force could potentially persuade new talent back into the labor market.

5. Focus on On-Boarding and Mentorship

Thorough and supportive onboarding processes are important to any business hiring new talent, but the orientation and continual support of new workers who had previously been out of the labor force is incredibly crucial. Local employers have set up formal and informal mentoring programs for new hires which can give them an avenue to ask questions and seek guidance when needed.

6. Pay a Livable Wage

Paying a livable wage, as is discussed in the United Way’s ALICE (Asset Limited, Income Constrained, Employed) Project, can be particularly important for those looking to re-enter the labor force. Because of income and asset thresholds for some public assistance programs, it can actually be a disincentive for some workers out of the labor force to take a job at a very low pay level since the net outcome could be a loss of resources.

7. Hire Returning Citizens

Finally, those individuals who have exited the prison system face many barriers to employment, leading to a high rate of unemployment and a low labor force participation rate among returning citizens. Hiring practices like “move the box” can help alleviate barriers for this potential pool of talent and can lead to more potential hires.


Author calculations.

Methodology for West Michigan Labor Force Participation Rate Calculation

Labor force level estimates are produced on a monthly basis for counties by the Local Area Unemployment Statistics program, a partnership between the State of Michigan (DTMB, LMISI) and the Bureau of Labor Statistics. For this report, the population figure for the denominator was produced by using Annual Population Estimates from the U.S. Census Bureau (of the population older than 15 or 16) to find the proportion of the total population in Michigan living in West Michigan (13-county Region 4). That percentage was then applied to the statewide monthly estimate of the working-age civilian non-institutionalized population produced by Current Population Survey by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics.