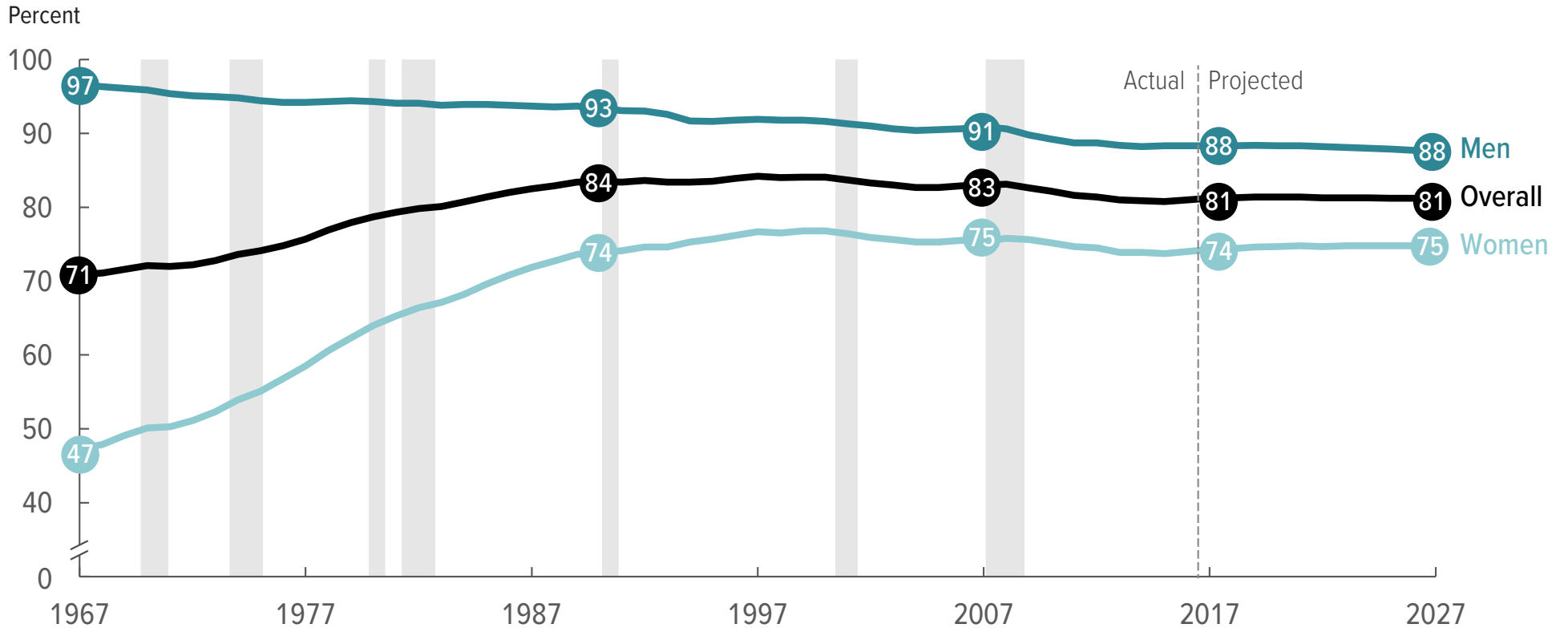


CBO

Factors Affecting the Labor Force Participation of People Ages 25 to 54

Labor Force Participation Rate



FEBRUARY 2018

Notes

All years referred to in this report are calendar years.

Numbers in the text and exhibits may not sum to totals because of rounding.

Shaded vertical bars indicate periods of recession, which extend from the peak of a business cycle to its trough.

The labor force participation rate is the percentage of people in the civilian noninstitutionalized population who are working or actively seeking work.

For this report, CBO analyzed data from the following sources: the Current Population Survey (CPS), which is sponsored jointly by the Census Bureau and the Bureau of Labor Statistics (for data on labor force participation); the Social Security Administration (for data on the Disability Insurance program); the Bureau of Justice Statistics (for data on the incarcerated population); the Department of Defense (for data on the population in the military); and the Internal Revenue Service (for data on family income and taxes). The CPS covers the civilian noninstitutionalized population living in housing units, as well as members of the armed forces living either in a civilian housing unit on a military base or in a household not on a military base.

The baseline budget projections that underlie this report are those published in Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2017 to 2027* (June 2017), www.cbo.gov/publication/52801. The baseline estimates that underlie this report do not include the effects of Public Law 115-97, an act to provide for reconciliation pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, which was signed into law on December 22, 2017. For a more detailed description of that legislation (commonly referred to as the Tax Cuts and Jobs Act), see Congressional Budget Office, cost estimate for the conference agreement on H.R. 1 (December 15, 2017), www.cbo.gov/publication/53415.

For exhibits that show projections through 2027, all values from 2017 onward are projections from CBO's June 2017 baseline. For other exhibits, the 2017 values are based on CPS data.

Data underlying the exhibits are posted along with this report at www.cbo.gov/publication/53452.



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Introduction

Between 1990 and the 2007–2009 recession, the rate of labor force participation—the percentage of noninstitutionalized people who have jobs or are available for work and are seeking jobs—was relatively stable for individuals ages 25 to 54. People of those ages are typically finished with schooling but not yet near retirement age and as a group have the highest participation rate in the labor force.

Between the end of the recession and 2015, however, the rate fell by 2 percentage points, from 83 percent to 81 percent. Although the rate inched up slightly in both 2016 and 2017, it is likely to stay about the same between 2018 and 2027, the Congressional Budget Office estimates. Most of the changes since 1990 in the labor force participation rate have been related to demographic factors, economic conditions, and the government’s fiscal policies.

Labor force participation varies with people’s demographic characteristics, such as sex, year of birth, education, marital status, and the presence of young children at home. Trends in labor force participation within demographic groups combined with changes in demographic characteristics of the population help to account for shifts in the overall labor force participation rate. For example,

since about 2000, the labor force participation of people without a college degree has declined, but the effect of that decline on the overall labor force participation rate is lessened because the share of the population without a college degree has decreased. (Although age is an important factor in the labor force participation of people younger than 25 or older than 54, it is not an important factor for people between those ages.)

Economic conditions and fiscal policies also affect labor force participation. Recessions tend to push labor force participation down relative to its potential, an effect that lingers for several years even after they end, in CBO’s judgment. The recovery of labor force participation following the 2007–2009 recession has been especially slow. Some fiscal policies, such as the earned income tax credit (which subsidizes the earnings of certain low-income workers), tend to increase labor force participation whereas others, such as the Social Security Disability Insurance (DI) program, are associated with lower labor force participation.

People report various reasons for not participating in the labor force. For example, many people, particularly men, report that they are not working because of an illness or disability. Many women

report being out of the labor force because they are caring for a family member.

Changes in labor force participation have significant economic and budgetary implications. A lower labor force participation rate is associated with lower gross domestic product (GDP) and lower tax revenues. It is also associated with larger federal outlays, because people who are not in the labor force are more likely to enroll in certain federal benefit programs.

How Do Demographic Factors Relate to Participation in the Labor Force?

This analysis examines seven demographic factors that are related to overall labor force participation. They are presented here roughly in order of the strength of their relationship to the overall labor force participation rate of people ages 25 to 54. (Some of the factors have very strong relationships to labor force participation but are relevant for only small populations and therefore have less of an effect on the overall rate.) Both the demographic composition of the population and the relationship between each demographic factor and labor force participation can change over time.

- **Sex.** Men are more likely to participate in the labor force than women, although their rate of

participation fell by 5 percentage points (from 93 percent to 88 percent) between 1990 and 2017. In contrast, the rate for women was the same at the start and end of that period—at 74 percent—though it fluctuated by several percentage points in the intervening years. Between 2018 and 2027, CBO projects, the labor force participation of men will decline slightly and the participation of women will increase very slightly, leaving the combined participation rate little changed at roughly 81 percent.

- **Birth Cohort.** Participation in the labor force varies by a person's year of birth. For example, men born in the 1920s and 1930s (who thus are part of the 1920s–1930s birth cohort) were more likely to participate in the labor force at any given age between 25 and 54 than men born in later periods. Conversely, women born in the 1920s and 1930s were less likely to participate than women born in later periods. Some of the differences in participation rates are explained by demographic characteristics and economic conditions that varied over time. The remaining differences are attributed to unobserved characteristics that are specific to a birth cohort. For instance, shifting social norms probably help to explain women's increased rate of labor force participation before 2000. Some of those differences are not well understood. For example, it is unclear why each successive cohort of men has participated less in the labor force than its predecessors did.
- **Education.** People with more education are likelier to participate in the labor force than people with less education. In 2017, the

participation rate of men ages 25 to 54 with at least a college degree was 9 percentage points higher than the rate for men without a college degree. For women, the difference was 13 percentage points. For both sexes, since about 2000, the difference in labor force participation between people with more education and people with less education has grown. Between 1990 and 2017, the share of men with at least a college degree increased from 27 percent to 33 percent and the share of women with at least a college degree climbed from 23 percent to 38 percent. In CBO's estimation, those shares will continue to increase, boosting labor force participation higher than it would be if educational attainment did not rise over time.

- **Race and Ethnicity.** Labor force participation differs by racial and ethnic group. From 1990 to 2017, black men ages 25 to 54 were less likely than other men of those ages to be in the labor force. Among women, Hispanic women between ages 25 and 54 were least likely to be in the labor force, and white and black women were more likely. Over time, the share of men and women (combined) ages 25 to 54 that is Hispanic has increased, pushing up the average labor force participation rate for men and pushing it down for women. The share of the population that is Hispanic will continue to rise through 2027, CBO estimates. That increase is likely to have only a small effect on the overall labor force participation rate.
- **Disability.** People with disabilities generally have lower labor force participation than

people without disabilities. One measure of the prevalence of disability is the share of people who receive benefits from the Social Security Disability Insurance program. (That measure does not reflect all people with disabilities.) The DI program pays cash benefits to people who have worked in the past but are judged to be unable to continue performing substantial work because of a disability. DI beneficiaries may do only a limited amount of work while receiving benefits. The share of the population between ages 25 and 54 that receives DI benefits increased between 1990 and 2012 before falling slightly. The increase was especially large for people without a college degree.

- **Marital Status.** The relationship of marital status to labor force participation differs for men and women. Married men are more likely to participate in the labor force than men who are not married, whereas married women are less likely to participate than their unmarried counterparts. The 1990–2017 decline in the share of the population between the ages of 25 and 54 who are married was associated with a decrease in the labor force participation of men and an increase in the labor force participation of women.
- **Presence of Young Children at Home.** Having children under the age of 5 at home is related to the labor force participation of women but not men and varies with marital status. Married women with young children are less likely to work than married women without young children, whereas unmarried women with young children are more likely to work

than unmarried women without children. The share of women, either married or unmarried, with young children has decreased since 1990. In recent years, that decrease has pushed up the labor force participation of women (both married and unmarried) from what it otherwise would have been.

Some of those demographic factors are influenced by federal policies. For example, education policy has affected the education of the population, and immigration policy has affected the racial and ethnic composition of the population. Those effects in turn have an impact on the rate of labor force participation.

Federal policies also affect the labor force participation rate directly, and the effects vary by demographic factor. For example, the earned income tax credit substantially pushes up the labor force participation of single mothers without a college degree but has only a slight effect on the participation of married women with college degrees. Similarly, under current law certain provisions of the Affordable Care Act (ACA) tend to raise effective tax rates, thereby reducing workers' take-home pay and potentially discouraging labor force participation. Those effects vary with income, which partly depends on education, marital status, and the presence of young children.

How Will Economic Conditions and Fiscal Policies Affect Labor Force Participation Over the Next Decade?

During periods of economic weakness, a lack of good job opportunities both discourages some

people from searching for employment—because they believe that they could not find a job even if they looked—and encourages some people to instead pursue other activities, such as staying at home to care for a family member. As a result, the labor force participation rate tends to decline during economic downturns and rebound during recoveries.

The lingering effects of the 2007–2009 recession and the ensuing weak recovery held down the labor force participation of people ages 25 to 54 and will continue to restrain participation slightly through about 2020, in CBO's view. At that time, CBO estimates, the labor force participation rate of people ages 25 to 54 will be close to its potential rate (that is, the percentage of the population who would be employed or seeking work if the economy was producing its maximum sustainable amount of output), indicating that most of the effects of the recession will have subsided.

The slow recovery of the labor market largely reflects lackluster demand for goods and services and hence slow growth in GDP. The deep contraction in the demand for goods and services caused sharp increases in unemployment and, subsequently, in the number of workers unemployed for long periods. The lack of available jobs during the recession and the ensuing slow recovery probably discouraged many people who had been unemployed for more than six months, causing them to stop searching for a job (and thus exit the labor force). As the labor market improved and jobs became more plentiful, some of those discouraged workers reentered the labor force. CBO expects that discouraged workers

are likely to continue to reenter the labor force as more people find jobs and as wage growth increases.

Although this report does not disentangle the effects of federal tax and spending policies from the broader category of economic conditions, CBO expects some of those policies to affect labor force participation over the next 10 years by changing some people's take-home pay. For instance, provisions of the Affordable Care Act tend to reduce labor force participation rates.¹ And the structure of the tax code, which pushes some people with rising income into higher tax brackets over time (a process known as real bracket creep), will also tend to lower participation rates.²

What Keeps People From Participating in the Labor Force?

People who are out of the labor force report various reasons for not looking for a job. Those

1. See Edward Harris and Shannon Mok, *How CBO Estimates the Effects of the Affordable Care Act on the Labor Market*, Working Paper 2015-09 (Congressional Budget Office, December 2015), www.cbo.gov/publication/51065.
2. The baseline projections reported in this document do not include the effects of Public Law 115-97, an act to provide for reconciliation pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, which was signed into law on December 22, 2017. Title I amended numerous provisions of U.S. tax law. Among other changes, P.L. 115-97 temporarily reduced most income tax rates for individuals and modified the tax brackets for those taxpayers. The law also changed the indexing of tax provisions, which will accelerate real bracket creep, and repealed the penalties associated with the requirement of the ACA that most people obtain health insurance coverage (also known as the individual mandate).

reasons include caring for a family member; having an illness or disability (one that may or may not qualify them for DI benefits) that makes it difficult or impossible to find and keep a job; retirement; and being discouraged from seeking a job because they do not believe they could find one with a suitable wage. Since at least 1990, illness or disability has been the primary reason that men have been out of the labor force. For women, the primary reason has been to care for a family member.

Although people who are in prison or jail are not part of the civilian noninstitutionalized population and are therefore not included in the measure of the labor force participation rate, increases in incarceration, especially among men, have contributed to some of the decline in labor force participation over time. Increases in incarceration push down the labor force participation rate because people who have been incarcerated are less likely than others to be employed in the future, for two reasons: They have a more tenuous connection to employment, and they have a criminal record, which employers generally avoid.³ (However, in the short term, incarceration may boost the labor force participation rate by removing people who are less likely to participate from the pool of potential participants.)

3. See Congressional Budget Office, *Trends in the Joblessness and Incarceration of Young Men* (May 2016), www.cbo.gov/publication/51495; and Harry J. Holzer, Steven Raphael, and Michael A. Stoll, “Perceived Criminality, Criminal Background Checks, and the Racial Hiring Practices of Employers,” *Journal of Law and Economics*, vol. 49, no. 2 (October 2006), pp. 451–480, www.journals.uchicago.edu/doi/abs/10.1086/501089.

What Effects Does Labor Force Participation Have on the Economy and the Budget?

Labor force participation is an important component of economic growth: As more people participate in the labor force, firms are able to expand employment and increase production. CBO estimates that growth in potential (that is, maximum sustainable) output over the next decade will be faster than it has been since the 2007–2009 recession, in part because of the projected stability—after a sustained decline—of the labor force participation rate for people ages 25 to 54. (However, that growth in potential output is projected to be slower than the average growth over the 1980s, 1990s, and early 2000s.)

Greater labor force participation is associated with higher tax revenues because the number of employed people, and therefore the number of people paying income and payroll taxes, tends to rise. It is also associated with lower spending on means-tested programs (which provide cash payments or other forms of assistance to people with relatively low income or few assets), such as Medicaid, and on refundable tax credits.

Changes in the labor force participation rate can distort the significance of the unemployment rate—that is, the share of people in the labor force without a job—as a measure of the health of the economy. For example, between the end of the 2007–2009 recession and 2017, the unemployment rate for people ages 25 to 54 fell by 4.5 percentage points even though the share of that population with a job increased by just 3 percentage

points. The unemployment rate declined partly because of an increase in the share of the population that was employed but also because of a decrease in the labor force participation rate.⁴

Why Did CBO Focus on People Ages 25 to 54?

The experience of people ages 25 to 54—who, in 2017, accounted for nearly two-thirds of the labor force—gives a clearer indication of the health of the labor market than the experience of all people ages 16 or older because it minimizes the effect of the aging of the population on labor force participation. The labor force participation rate for both groups declined between the 2007–2009 recession and 2017, but the most important factor contributing to that decline in the broader population was the aging and retirement of members of the baby-boom generation (people born between 1946 and 1964). In contrast, aging and retirement were not important factors in the decline in participation among people ages 25 to 54.

4. Congressional Budget Office, *The Budget and Economic Outlook: 2017 to 2027* (January 2017), p. 42, www.cbo.gov/publication/52370.



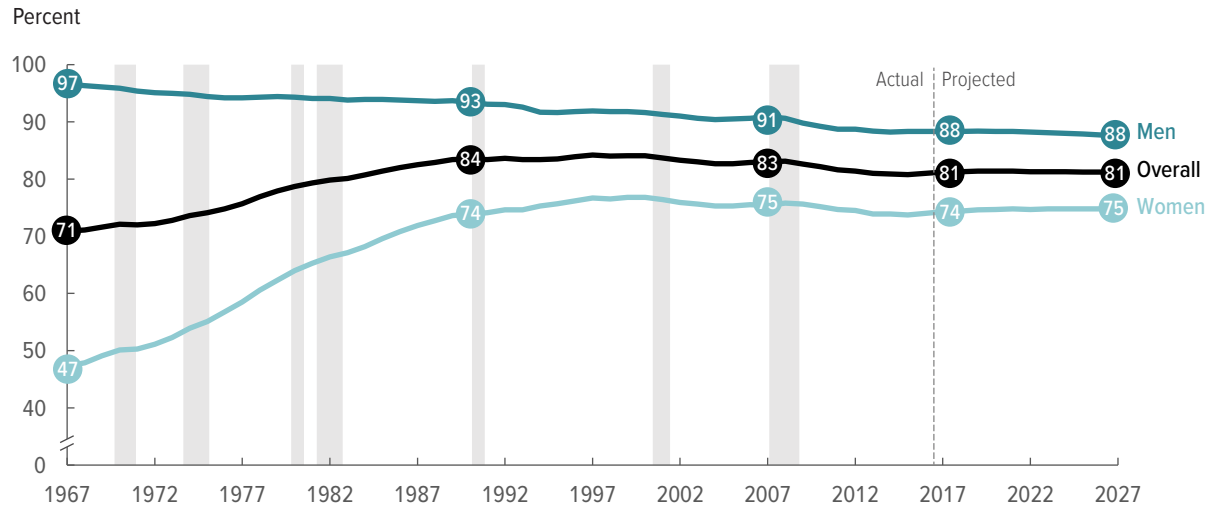
Changes in Labor Force Participation Rates, by Demographic Characteristic



From at least the 1960s through the 1980s, the labor force participation rate of people ages 25 to 54 increased steadily as women's participation in the labor force grew substantially. Beginning in about 1990, however, the overall participation rate leveled off as the influence of other demographic factors became more pronounced. (A significant portion of the decline in labor force participation since the 2007–2009 recession has been associated with economic factors, as opposed to demographic ones.) The demographic factors that help to explain changes in labor force participation, roughly in the order of the strength of their association with the labor force, are sex, birth cohort, education, race and ethnicity, disability, marital status, and the presence of young children at home.

Exhibit 1.

Labor Force Participation of People Ages 25 to 54, by Sex



Source: Congressional Budget Office, using data from the Current Population Survey and projections from CBO’s June 2017 baseline.

Between 1967 and 1990, the overall labor force participation rate of people ages 25 to 54 increased substantially, driven by the influx of women into the labor force and despite a long-running, gradual decline in the participation rate of men. The overall rate fluctuated by a few percentage points between 1990 and 2007 as women’s labor force participation continued to rise until about 2000 but men’s participation continued to fall.

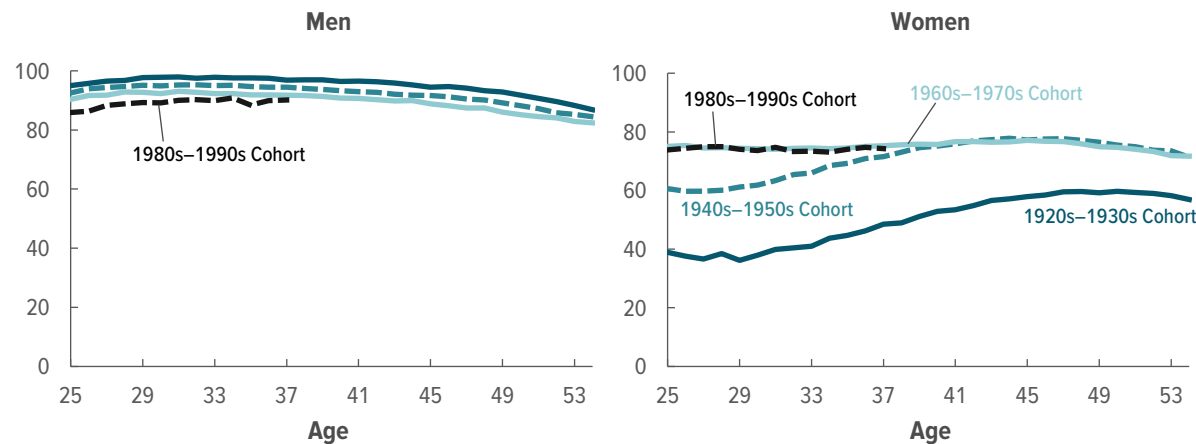
Labor force participation rates for both men and women ages 25 to 54 fell between the end of the 2007–2009 recession and 2017. That decline was 2 percentage points for men and 1 percentage point for women (or, in numbers, 1 million men and 400,000 women). Rates for men began leveling off in 2015, and those for women started to rebound in 2016.

Between 2018 and 2027, the overall labor force participation rate is likely to remain about the same, at a rate about 2 percentage points below that in 2007, CBO projects. Over the next decade, the rate for men is expected to decrease slightly and the rate for women to increase very slightly (by less than a percentage point in each case). ♦

Exhibit 2.

Labor Force Participation of People Ages 25 to 54, by Sex and by Birth Cohort

Percent



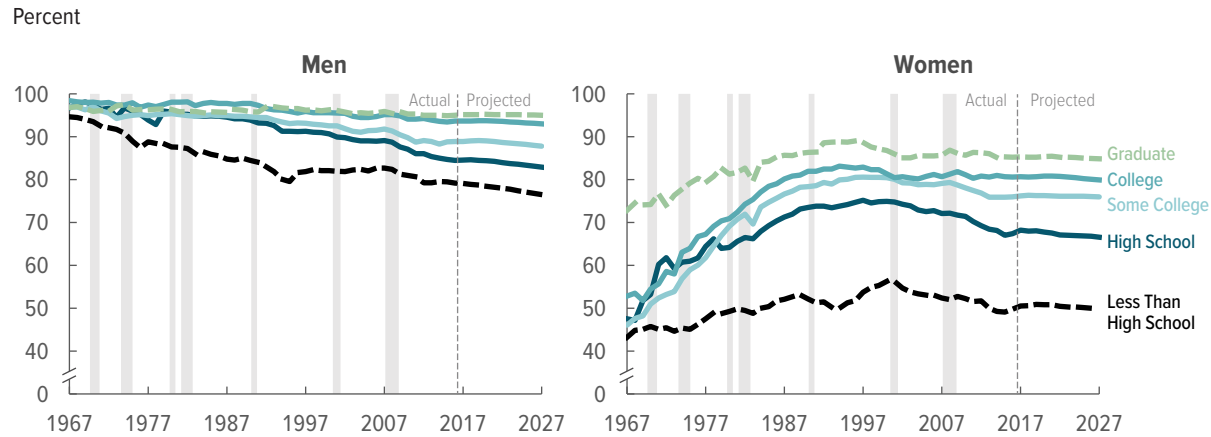
Source: Congressional Budget Office, using data from the Current Population Survey.

Participation in the labor force varies by year of birth. Men born more recently have lower labor force participation at every age between 25 and 54 than their counterparts who were born earlier. The difference is particularly striking for men born in the 1980s and 1990s, who have participated in the labor force less in their 20s and 30s than men born in earlier decades did. (The decline in labor force participation of more recent birth cohorts occurred despite an increase in their education relative to that of earlier cohorts.) CBO expects that the lower rates of labor force participation among men born more recently will persist, tamping down men's overall labor force participation over the next 10 years.

Participation rates of women born more recently are higher than those of the earliest cohort examined here. Part of the increase is associated with the greater education of women over time. Other factors contributing to the increase—particularly for women ages 25 to 40—are delayed childbearing and the decreasing tendency of women to stay at home to raise children. ♦

Exhibit 3.

Labor Force Participation of People Ages 25 to 54, by Sex and by Education



Source: Congressional Budget Office, using data from the Current Population Survey and projections from CBO’s June 2017 baseline.

Men and women with more education tend to participate in the labor force at higher rates than their less educated counterparts, and the differences have generally grown over time. Between 1967 and 2017, the participation rates of men with less education declined faster than the rates for men with more education. For women, labor force participation rates generally rose until about 2000, at which point the rates for women without a college degree began to fall relative to the rates for women with at least a college degree. The decline in the labor force participation of people with less education relative to those with more education is probably related to the growing wage differential between those groups.

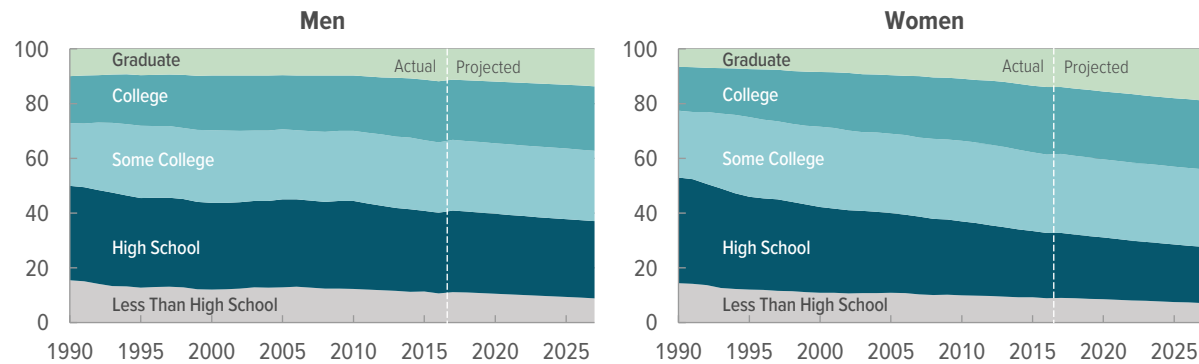
Between the start of the 2007–2009 recession and 2017, declines in the labor force participation of people with less than a college degree were a main cause of the drop in the overall labor force participation rate. For men and women without a college degree, labor force participation fell by 3 percentage points over that 10-year period, whereas rates for men and women with at least a college degree fell by 1 percentage point.

Through 2027, labor force participation rates for men and women at each education level are projected to decline, continuing recent long-term trends. (Nevertheless, because of increased education over that time, the average participation rate for women is expected to increase slightly.) The labor force participation rates of men and women without a college degree will decline more, on average, than rates for their counterparts with at least a college degree, CBO projects. ♦

Exhibit 4.

Education of People Ages 25 to 54, by Sex

Percentage of Total



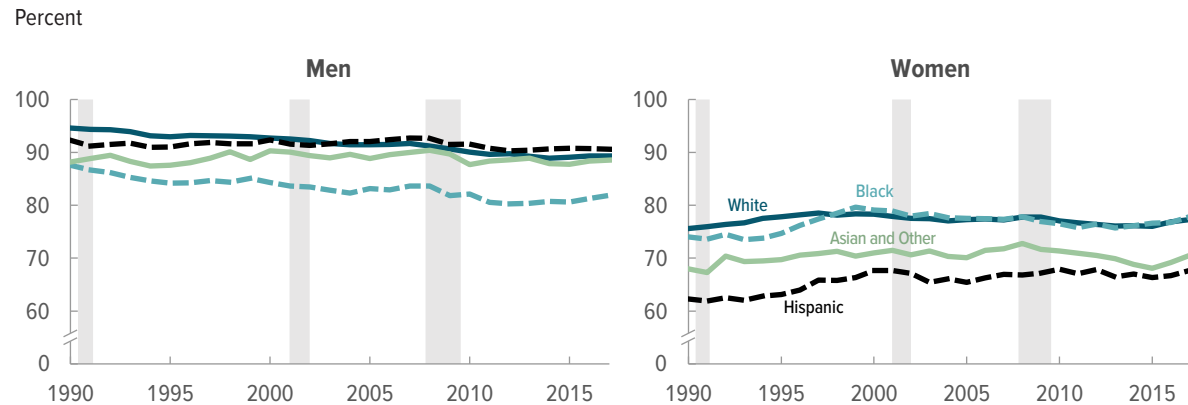
Source: Congressional Budget Office, using data from the Current Population Survey and projections from CBO’s June 2017 baseline.

Although the labor force participation rates of people without a college degree have been falling rapidly since the beginning of the 2007–2009 recession, increases in educational attainment have partially offset the effects of that downward trend on the overall labor force participation rate. Over the coming decade, as more people are expected to attend and complete college or graduate school, those increases in education will continue to buoy the overall labor force participation rate, CBO projects.

Gains in education have been greater for women than for men. In 2002, about 30 percent of women and men had at least a college degree; by 2017, those shares were 38 percent and 33 percent, respectively. Those shares—and the difference between them—are projected to continue to grow through 2027. ♦

Exhibit 5.

Labor Force Participation of People Ages 25 to 54, by Sex and by Race and Ethnicity



Source: Congressional Budget Office, using data from the Current Population Survey.

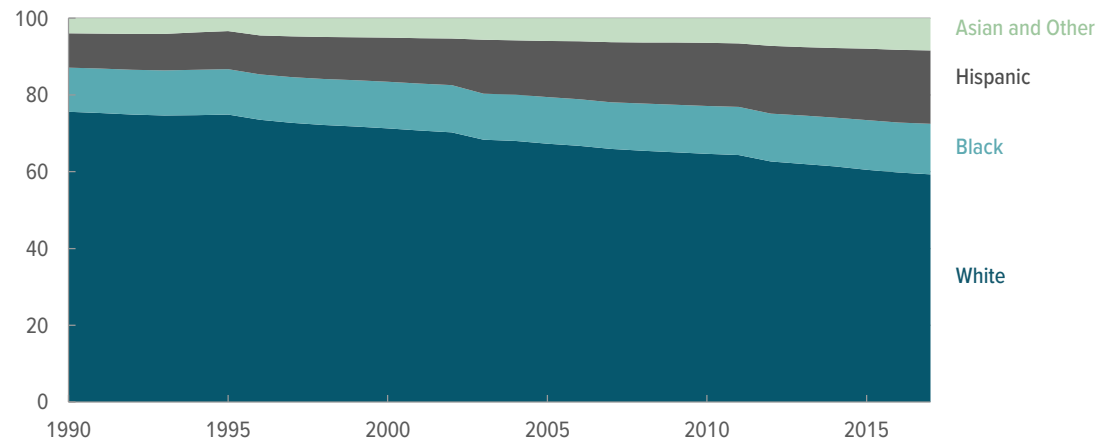
For more information about how race and ethnicity are associated with labor force participation, see Joseph G. Altonji and Rebecca M. Blank, “Race and Gender in the Labor Market,” in Orley Ashenfelter and David Card, eds., *Handbook of Labor Economics* (Elsevier, 1999), pp. 3143–3259.

Labor force participation varies considerably by race and ethnicity. Of the groups of men examined here, Hispanic men and white men had the highest rates of labor force participation and black men had the lowest. In 2017, the rate for black men was about 8 percentage points lower than the rates for white and Hispanic men. Conversely, black women had the highest participation rate among women in 2017, and Hispanic women had the lowest.

The longer-term trends have differed among the groups. Between 1990 and 2017, labor force participation rates for black men and white men fell by more than 5 percentage points. In contrast, participation rates for Hispanic and other men stayed relatively stable over that period; their values in 2017 were roughly the same as in 1990. For women, participation rates for each race and ethnicity were higher in 2017 than in 1990; gains for black and Hispanic women were especially large, at 4 percentage points and 5 percentage points, respectively. ♦

Exhibit 6.**Race and Ethnicity of People Ages 25 to 54**

Percentage of Total



Source: Congressional Budget Office, using data from the Current Population Survey.

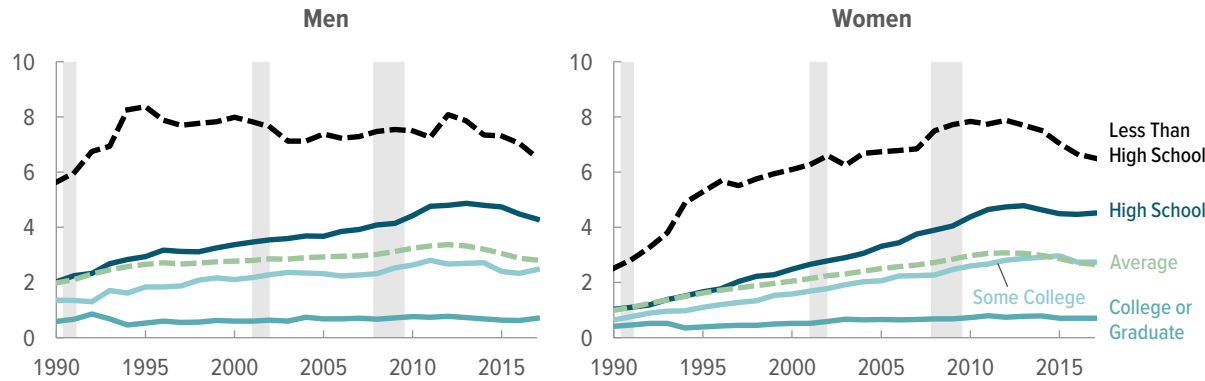
The share of the population ages 25 to 54 that is white decreased between 1990 and 2017, falling from 76 percent to 59 percent. Conversely, the share that is Hispanic increased over that period, rising from 9 percent to 19 percent. (Because the population shares for men and women are very similar, they are not shown separately in this exhibit.)

The increase in the share of the population that is Hispanic has boosted the labor force participation of men because Hispanic men have a relatively high rate of labor force participation. In contrast, the increase in the share of the population that is Hispanic has depressed the labor force participation of women because Hispanic women have a rate of labor force participation that is lower than the average for all women. On the whole, the increase in the share of the population that is Hispanic has had—and, CBO projects, will continue to have—only a small effect on the overall labor force participation rate. ♦

Exhibit 7.

Share of the Population Ages 25 to 54 That Receives Benefits From the Social Security Disability Insurance Program, by Sex and by Education

Percent



Source: Congressional Budget Office, using data from the Current Population Survey and the Social Security Administration.

To estimate the rate of disability insurance receipt by education, CBO calculated, by age group, the distribution of education of people who reported that they were out of the labor force because of an illness or disability and applied that distribution to data on disability insurance caseloads; rates for men and women were calculated separately.

The share of the population ages 25 to 54 that receives benefits from the Social Security Disability Insurance (DI) program grew steadily between 1990 and 2012 before declining somewhat. In 2017, 2.7 percent of the population ages 25 to 54 received such benefits, up from 1.5 percent in 1990.

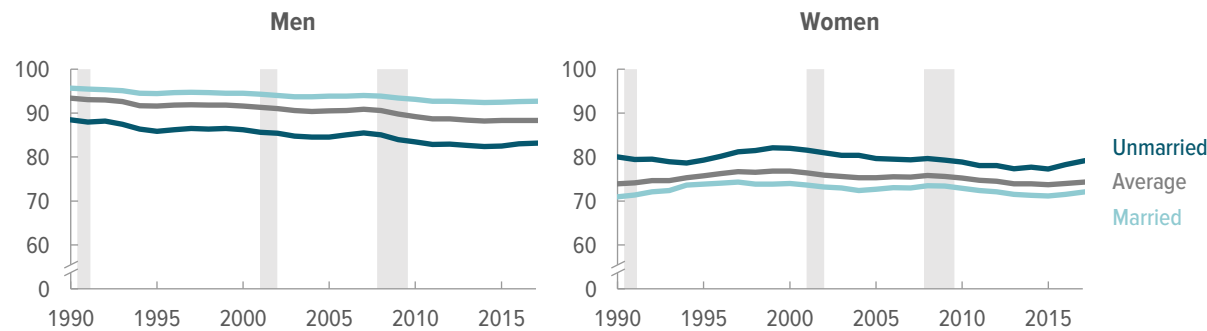
Very few people who receive DI benefits participate in the labor force. (To be approved for benefits, the program stipulates that beneficiaries be unable to perform substantial gainful activity.) For that reason, the increasing DI receipt rate was associated with a decline in the labor force participation of people between 25 and 54.

DI receipt rates have grown more—and labor force participation rates have fallen more—for people without a college degree than for people with at least a college degree. People with less education are more likely to receive DI benefits in part because those people tend to have jobs that are more physical in nature, so an accident or injury is more likely to leave them unable to work. People with less education also tend to have lower earnings and perhaps more difficulty finding a job, so the earnings they forgo by exiting the labor force tend to be lower than those of people with more education. ♦

Exhibit 8.

Labor Force Participation of People Ages 25 to 54, by Sex and by Marital Status

Percent



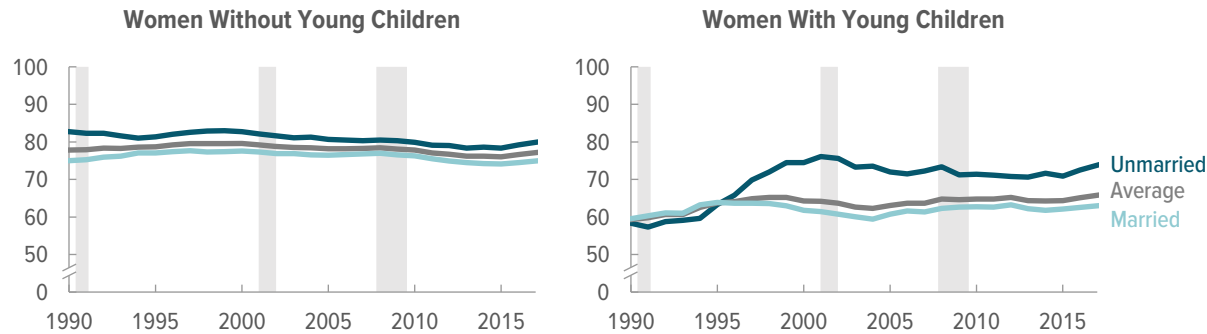
Source: Congressional Budget Office, using data from the Current Population Survey.

Married men participate in the labor force more than unmarried men; conversely, married women participate less than unmarried women. Those differences could stem from the fact that men who work are more likely to marry than those who do not or from the division of labor within a household. The gap between the participation rates of married and unmarried men has widened over time because the rate for unmarried men fell more than the rate for married men. In contrast, the gap between the labor force participation rates of married and unmarried women has stayed about the same over the past decade. ♦

Exhibit 9.

Labor Force Participation of Women Ages 25 to 54, by Presence of Young Children and by Marital Status

Percent



Source: Congressional Budget Office, using data from the Current Population Survey.

Young children here refers to those under age 5.

For women ages 25 to 54, participation in the labor force varies depending on the presence of young children—those under age 5—at home. Women without young children participate in the labor force at higher rates than women with young children, many of whom probably stay home to care for children who are not yet in school.

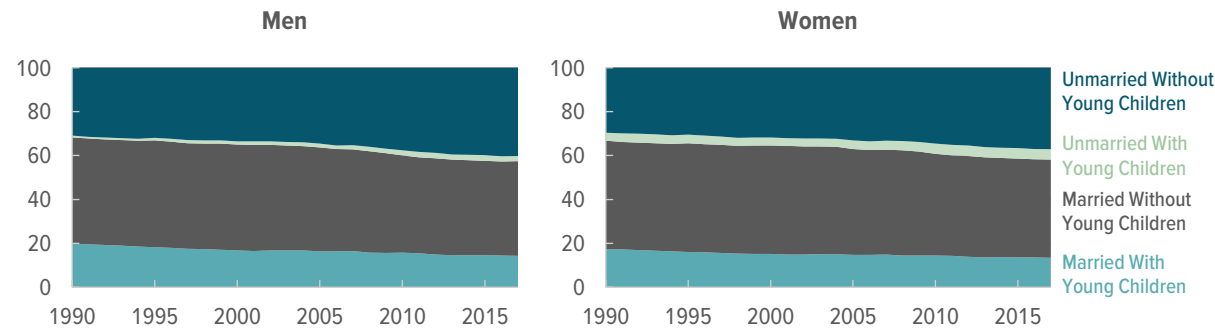
Participation also varies with marital status. Between 1990 and 2017, unmarried women without young children had the highest labor force participation rate of the groups examined here. In contrast, married women with young children had the lowest participation rate over most of the period.

Before 1996, labor force participation rates for unmarried women with young children were lower than those for married women with young children; during the mid- to late 1990s, however, participation among unmarried women with young children grew substantially. That increase partly resulted from the 1993 expansion of the earned income tax credit, which encourages low-income people to work by increasing the amount refunded for each additional dollar they earn, and from enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996. That law replaced the Aid to Families with Dependent Children program with the Temporary Assistance for Needy Families program. Though both of those programs generally provided assistance to unmarried parents with children, PRWORA increased the incentives to work. ♦

Exhibit 10.

Family Structure of People Ages 25 to 54, by Sex

Percentage of Total



Source: Congressional Budget Office, using data from the Current Population Survey.

Young children here refers to those under age 5.

Changes in marriage rates have had countervailing effects on the overall labor force participation rate. Between 1990 and 2017, the share of people between the ages of 25 and 54 who are married fell by 10 percentage points, from 68 percent to 58 percent. Because married men are more likely to participate in the labor force than unmarried men, the reduction in the share of married men is associated with a lower rate of labor force participation for men. Married women, however, are less likely to participate in the labor force than unmarried women, so the drop in the share of women who are married is associated with an increase in women’s rate of labor force participation. On net, the decline in the marriage rate is associated with a slight decrease in the overall labor force participation rate.

Trends in the share of women with and without children under the age of 5 at home also had an effect on the labor force participation rate. Over the 1990–2017 period, the share of women who are married and have young children at home decreased while the share of women who are not married and have young children at home increased. Both of those trends pushed up the labor force participation rate of women. CBO estimates that, on the whole, changes in the share of women with young children at home increased slightly the overall labor force participation rate of people ages 25 to 54. ♦



Changes in Labor Force Participation Rates Stemming From Economic Conditions and Fiscal Policies

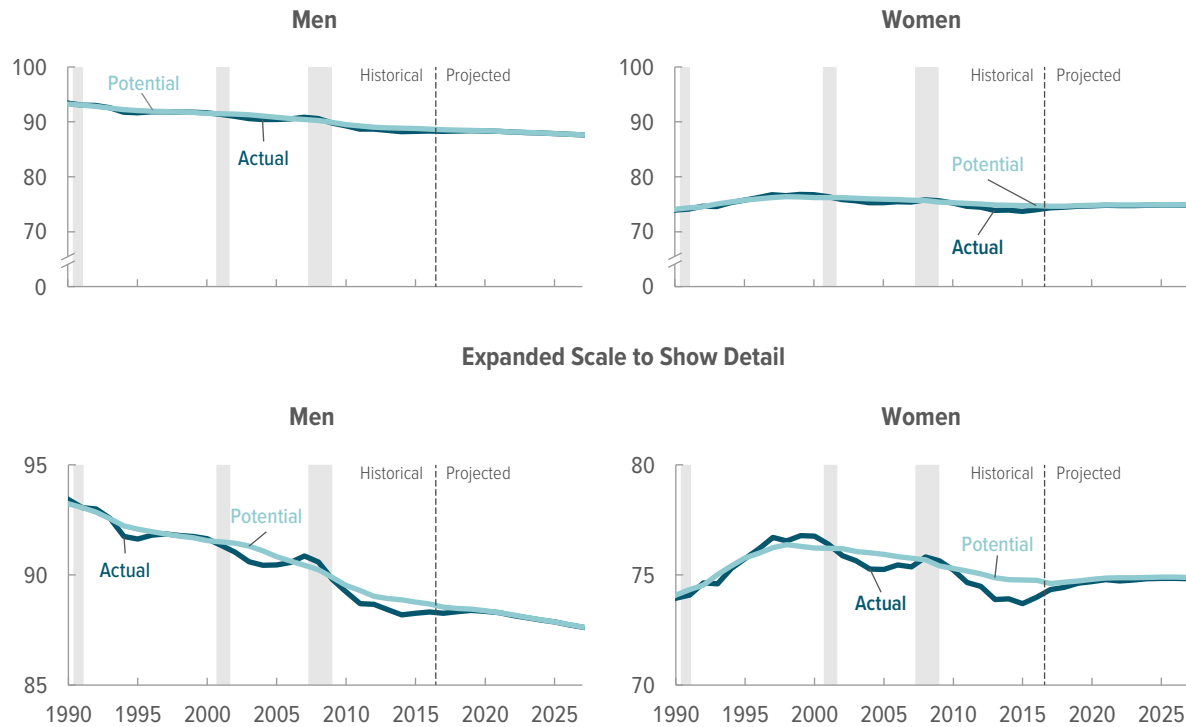


Changes in the state of the economy and in the government's fiscal policies have been associated with fluctuations in labor force participation over time. For instance, the deep 2007–2009 recession and slow recovery over the past decade have reduced labor force participation from what it otherwise would have been. Between 2018 and 2027, the rate of labor force participation is projected to be relatively stable at about 2 percentage points below its prerecession level. Changes in various fiscal policies, including tax credits and benefit programs, have had a modest effect on the overall labor force participation rate since 1990.

Exhibit 11.

Potential and Actual Labor Force Participation of People Ages 25 to 54, by Sex

Percent



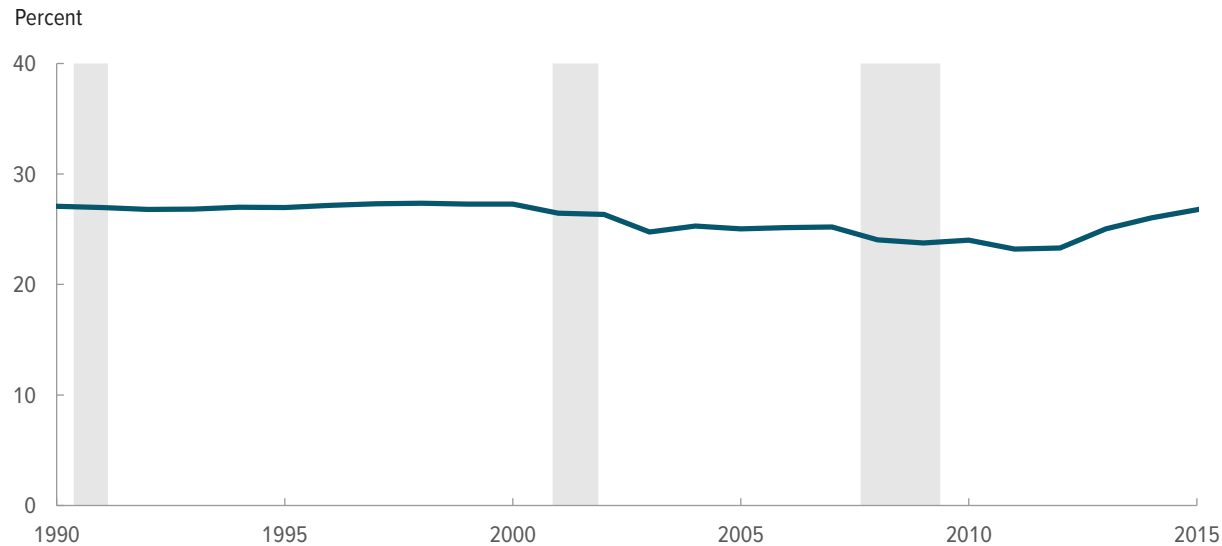
Source: Congressional Budget Office, using data from the Current Population Survey and projections from CBO's June 2017 baseline.

The potential labor force participation rate is the percentage of the population who would be employed or seeking work if the economy was producing its maximum sustainable amount of output.

Following the last two recessions (in 2001 and from 2007 to 2009), the gap between the actual and potential labor force participation rates of men and women ages 25 to 54 widened as many jobless people became discouraged and gave up searching for work. After the most recent recession, the gaps between potential and actual labor force participation reached their widest point in 2014 and 2015 for men and women, respectively. Shortly afterward, when the performance of the economy had improved considerably and the demand for goods and services had increased, some people who had been out of the labor force began to search for or found work.

Through about 2020, labor force participation rates are expected to continue to recover—that is, actual rates will move closer to potential rates—as unused resources in the labor market dissipate and wages increase. Particularly for men, however, participation rates will not return to their prerecession levels in the next decade, according to CBO's projections. The persistence of two demographic trends—the tendency for men born more recently to participate less in the labor force and the increasing share of the population with a disability—has lowered the potential participation rate relative to what it was before the recession and, in the case of men, is expected to continue to do so through 2027. ♦

Exhibit 12.

Average Effective Marginal Tax Rate on Labor Income

Source: Congressional Budget Office, using data from the Internal Revenue Service.

The average effective marginal tax rate on earnings includes income and payroll taxes as well as benefits specified in tax law. It also accounts for certain provisions of the Affordable Care Act, including subsidies for health insurance received through the marketplaces and the requirements that most people obtain health insurance or pay a penalty if they are not exempt (also called the individual mandate) and that large employers offer their employees coverage meeting specified standards or face a penalty (also called the employer mandate).

For a fuller discussion of how marginal tax rates affect incentives to work, see Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers in 2016* (November 2015), www.cbo.gov/publication/50923.

The average effective marginal tax rates shown here are for all families with earnings who file tax returns, regardless of the ages of the family members.

Tax and spending policies affect people's decisions about whether to work and how much to work. One measure of work incentives in the tax system is the effective marginal tax rate, which is the percentage of an additional dollar of earnings that is unavailable to a worker because it is paid in taxes or offset by reductions in benefits.

Effective marginal tax rates vary substantially with income, family structure, and federal policy. For certain groups of people, changes in tax and spending policies have greatly affected their labor force participation. For example, expansions in the early 1990s of the earned income tax credit (which subsidizes the earnings of certain low-income workers) boosted the labor force participation of unmarried women with minor children. And some provisions of the Affordable Care Act probably discouraged some people from participating in the labor force in the past few years by raising their effective tax rates. The resulting reduction in take-home pay probably had the largest effect on lower-earning workers.

The average effective marginal rate for all families, however, was relatively stable from 1990 to 2015 (the most recent year for which data are available), hovering between 23 percent and 27 percent. That stability indicates that changes in tax and spending policies before 2016 have had only a modest effect—relative to the impact of the demographic factors examined in this report—on the overall labor force participation rate, in CBO's judgment. ♦



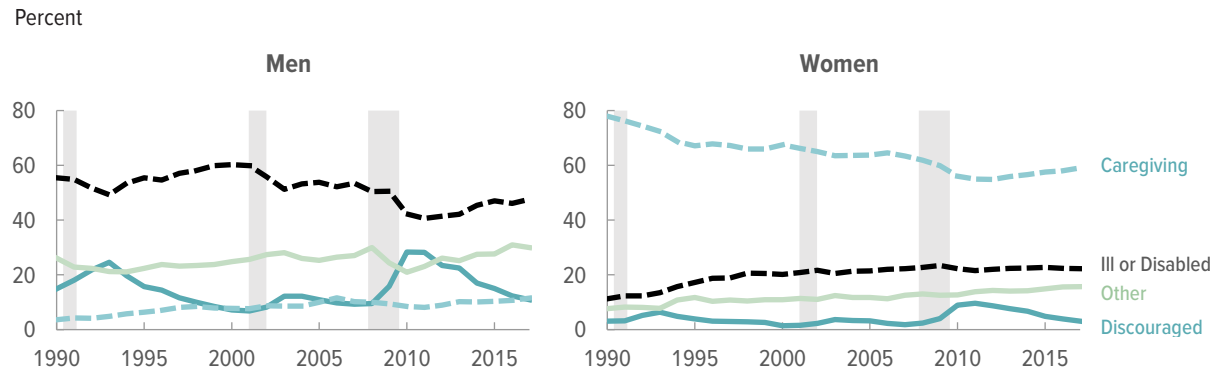
Reasons People Do Not Participate in the Labor Force



People who do not participate in the labor force report various reasons for their nonparticipation, and those reasons vary substantially by sex. Men who are not in the labor force most frequently report that they are ill or disabled, whereas women most frequently report that they are caring for other people. In addition, people who are incarcerated are not included in the official labor force participation statistics. Even after those people are no longer incarcerated and can search for work, their history of incarceration makes it harder for them to find employment, which reduces their labor force participation.

Exhibit 13.

Self-Reported Reason for Nonparticipation Among People Not in the Labor Force, by Sex



Source: Congressional Budget Office, using data from the Current Population Survey.

The category “Ill or Disabled” does not necessarily indicate the receipt of benefits from the Social Security Disability Insurance program (the measure examined in Exhibit 7). “Discouraged” refers to people who are not actively seeking a job because they do not believe they could find one. The “Other” category primarily includes retirement and enrollment in school.

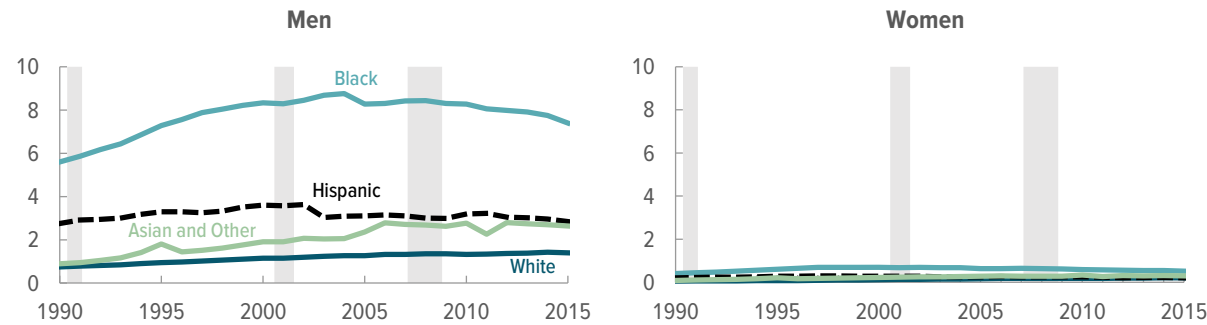
Among the most common reasons that people give for not participating in the labor force are that they cannot work because of an illness or disability, that they are caring for a family member, or that they do not believe they could find a job at a suitable wage and are therefore discouraged from seeking one. In 2017, about half of the men ages 25 to 54 who were not in the labor force reported that illness or disability kept them from participating. For women, caregiving was the most commonly reported reason for being out of the labor force in 2017. (Of all people ages 25 to 54—not just those who were out of the labor force—the share that reported having an illness or disability that prevented them from working increased from 3 percent in 1990 to 6 percent in 2017. Those shares were roughly the same for men and women.)

The share of men and women who reported being out of the labor force because they were discouraged has tended to increase during and after recessions, when jobs tend to be scarcer and harder to obtain. ♦

Exhibit 14.

Share of the Population Ages 25 to 54 That Is Incarcerated, by Sex and by Race and Ethnicity

Percent



Source: Congressional Budget Office, using data from the Current Population Survey, the Bureau of Justice Statistics, and the Department of Defense.

The share is estimated as the number of incarcerated people divided by the sum of the number of incarcerated people, the civilian noninstitutionalized population, and the population in the military.

The share of the population ages 25 to 54 that is incarcerated increased substantially between 1990 and 2015, the most recent year for which data are available. The incarceration rate for men of each race and ethnicity, except for Hispanics, was higher in 2015 than it had been in 1990. Black men had the highest rate of incarceration in 2015 of all the groups examined here—more than double the rate for Hispanic men and more than five times the rate for white men. Rates of incarceration for women have also increased since 1990, but they are much lower than the rates for men and have not been a significant factor in the labor force participation of women.

People who are incarcerated are not included in the measure of the labor force participation rate. Nonetheless, incarceration affects the labor force participation rate in two ways. One, it may boost the labor force participation rate in the short run by excluding from the measure people who are less likely to participate. Two, in the longer term, incarceration pushes down the labor force participation rate because people with criminal records often have difficulty finding work and, when they do find work, tend to receive lower wages than they would have if they had not been incarcerated. Both of those factors discourage formerly incarcerated people from participating in the labor force. ♦



About This Document

This report was prepared at the request of the Chairman of the House Committee on Ways and Means. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the report makes no recommendations.

David Burk and Joshua Montes wrote the report with guidance from Molly Dahl and Joseph Kile and assistance from Jordan Berne. Robert Arnold, Jessica Banthin, Elizabeth Bass, William Carrington, Sebastien Gay, Heidi Golding, Edward Harris, Nadia Karamcheva, Kim Kowalewski, John McClelland, Noah Meyerson, Shannon Mok, Chad Shirley, Emily Stern, Julie Topoleski, and Jeffrey Werling provided useful comments on various drafts of the report. In addition, David Powell of the RAND Corporation and Bruce Fallick of the Federal Reserve Bank of Cleveland provided helpful comments. (The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO.)

Wendy Edelberg, Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the report, Christine Bogusz edited it, and Jorge Salazar prepared it for publication. This report is available on CBO's website (www.cbo.gov/publication/53452).

Keith Hall
Director
February 2018