



A Cross-Country Comparison of Labor Force Participation

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The recent evolution of the U.S. labor force participation rate—that is, the percentage of the population employed or looking for work—has been a controversial topic in macroeconomic discussions and policy debates. After peaking in early 2000, the rate has trended downward, with the bulk of the drop occurring after 2008. The controversy focuses on whether the trend is the result of weak economic conditions or long-run structural forces.

The labor force participation rates for prime-working-age men have been falling across countries.

The Great Recession was a global phenomenon felt far beyond the U.S. economy. In this analysis, we compare the evolution of labor force participation in seven developed countries since the mid-1970s with that of the United States to shed light on what is and is not unique to the U.S. economy. The seven countries are Canada, the United Kingdom, Spain, Sweden, Japan, France, and Germany.¹ International comparisons are not always straightforward because labor market variables and statistical methods vary across countries. We use adjusted Organisation for Economic Co-operation and Development (OECD) data to facilitate comparison across countries. In our analysis, we focus on the population 16 to 64 years of age for Spain, the United Kingdom, and the United States and 15 to 64 years of age for the other countries.²

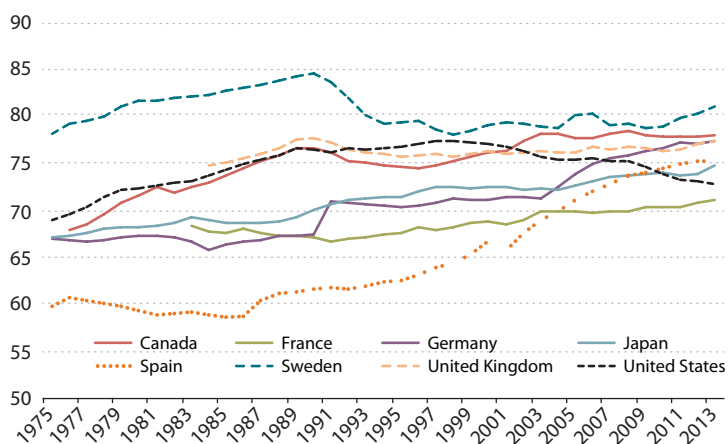
The first figure shows the evolution of the labor force participation rate for the eight countries from the mid-1970s to 2013. For the United States, the rate increased early on, peaked in the late 1990s, and has fallen substantially since. With the exception of Sweden, the other countries' rates have been steadily increasing. As addressed below, these trends are the

result of sometimes opposing forces that reflect changes across countries in social preferences for work and the pursuit of higher education.

Labor Force Participation of the Young

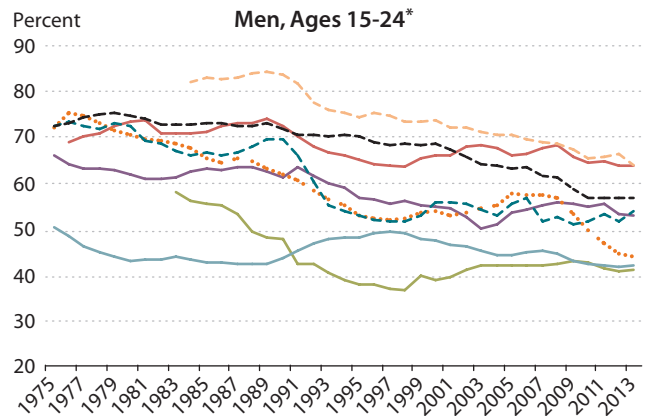
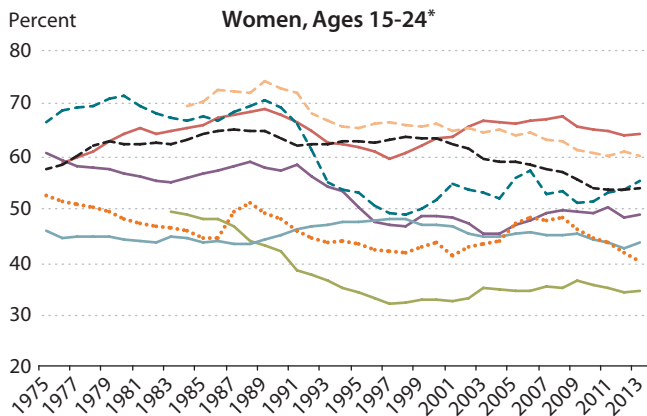
Panel A of the second figure shows labor force participation rates for young women and men (up to age 24). In both panels the trends across countries are clear: With the exception of Japan and Canada, the labor force participation rates for young men and women have been declining in the past few decades. As discussed in the literature, one main reason for the swift decline is that young people across countries are delaying entry into the labor market to pursue higher education.³ In fact, OECD data show that the education enrollment rate for young people across the countries increased an average 6.3 percent from 1995 to 2012. In the United States, the bulk of the drop in labor force participation

Labor Force Participation Rates, Both Genders, Ages 15-64*

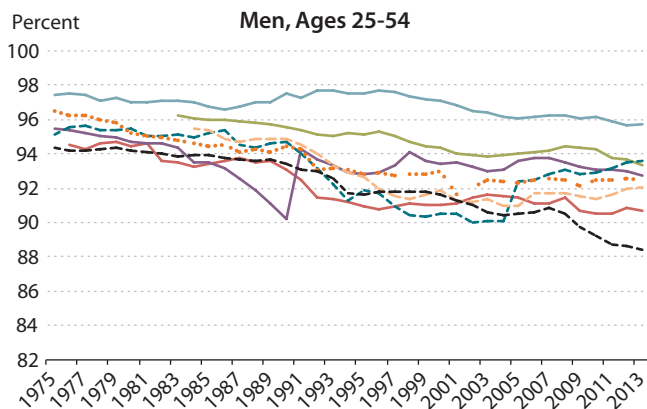
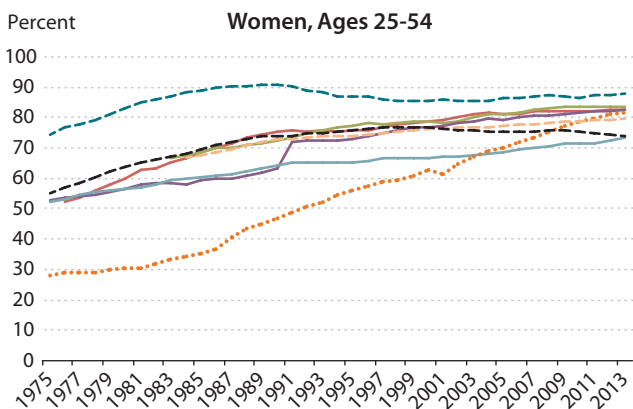


NOTE: *Data for the United States, United Kingdom, and Spain begin at 16 years of age.
SOURCE: Authors' calculations using OECD data for 1975-2013.

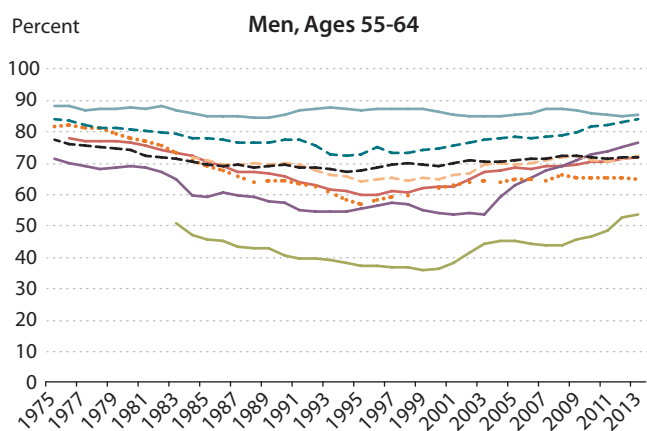
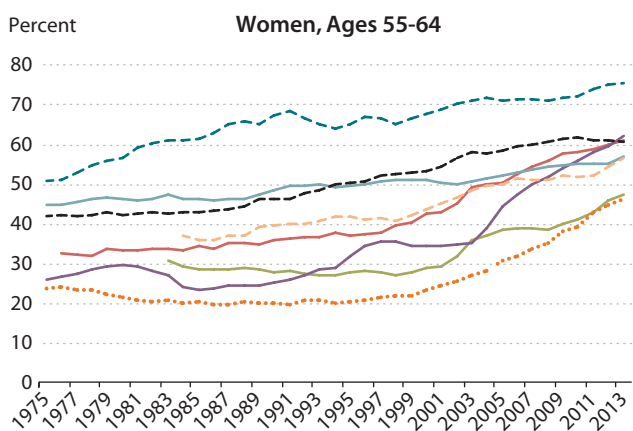
A. Labor Force Participation Rates for the Young



B. Labor Force Participation Rates for the Prime-Working-Age Population



C. Labor Force Participation Rates for the Pre-Retirement-Age Population



— Canada — France — Germany — Japan
 — Spain — Sweden — United Kingdom — United States

NOTE: *Data for the United States, United Kingdom, and Spain begin at 16 years of age.
 SOURCE: Authors' calculations using OECD data for 1975-2013.

of the young is motivated by education; however, there has also been a mild increase in the number of young people not in the labor force and not pursuing an education or training.⁴ For the latter group, the most likely reason is decreasing demand for unskilled labor.

Labor Force Participation of the Prime-Working-Age Population

Panel B shows labor force participation rates for the prime-working-age population—those 25 to 54 years of age. The trends differ for women and men. With the exception of Sweden, the rates for women have rapidly increased and the dispersion of rates across countries has decreased. One plausible explanation for this finding is that the labor force participation of woman started increasing at different times across countries and countries with initially low participation rates have since caught up. More recently, though, in the United States and Sweden, the rates have remained fairly constant or even decreased somewhat. Until the mid-1990s, the United States had one of the highest labor force participation rates for woman in this age group; it now has one of the lowest.

In contrast, the labor force participation rates for prime-working-age men have been falling in all of the countries. For the United States, the rate fell particularly rapidly—almost 6 percentage points from 1975 to 2013—and has been among the lowest over that time. The rate is now 2.25 percentage points below that for Canada, the next-lowest rate. Given that prime-working-age men are the largest group in the labor force, this decline contributes substantially to the drop in the overall rate. The literature has signaled the process of job polarization as likely responsible for the declining labor force participation rates in many countries around the world. In addition, increased participation in social programs (e.g., disability insurance and food stamps), to which this group is particularly sensitive, may have contributed to the larger decline observed in the United States.⁵

Labor Force Participation of the Pre-Retirement-Age Population

Panel C shows labor force participation rates for the population close to retirement age, those 55 to 64 years of age. The trends for this group vary over time and are common across most of the countries. In almost all of the countries, the rates for men display a U-shaped pattern, decreasing until the mid-1990s but then trending upward.

The rates for women, on the other hand, have been increasing throughout. Much of the increase is explained by labor force participation at earlier ages and that once in the labor force, workers tend to remain in it.

Despite the similar long-run trends across countries in the labor force participation rates for the young, prime-working-age, and pre-retirement-age populations, the United States is the only country in the sample experiencing a decline in the aggregate rate in recent years. This finding is explained mostly by a larger-than-average drop in the labor force participation rate for prime-working-age men, a decrease in the rate for prime-working-age women, and a lower-than-average increase in the rate for those near retirement age. In addition, we also find that the share of people in the U.S. prime-working-age population has fallen somewhat, which also contributes to the drop in the overall labor force participation rate. ■

NOTES

¹ Data for Germany are for West Germany only through 1990 and for reunified Germany thereafter.

² The U.S. labor force participation rates reported by the OECD are calculated from U.S. Bureau of Labor Statistics data.

³ See, for example, Canon, Kudlyak, and Liu (2015).

⁴ Many European countries have also experienced a rapid increase in the share of young people not in the labor force, school, or training. For further details, see Mascherini et al. (2012).

⁵ See Hall (forthcoming) and Aaronson et al. (2014).

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