The labor force participation rate measures the share of the population, 16 and older, working or looking for work. The participation rate fluctuates with the economy—increases with economic growth, declines with recessions. But the participation rate took a bigger drop during the last recession than in any other four-year period in the last 60 years, said Kansas City Fed Senior Economist Willem Van Zandweghe.

In his new research, Van Zandweghe says the sharp decline in the labor force participation rate since the onset of the recent recession is due to long-term demographic trends and to the cyclical downturn in the labor market.

In 2007, there were 146.1 million people working in the United States. By 2011, 139.9 million people were employed. The overall labor force participation rate enjoyed a steady increase from 59 percent in 1948 to 67 percent in 2000, but it has steadily declined since the 2001 recession.

If the participation rate had remained at 66 percent in 2011, the increase in population would have raised the labor force by 5.12 million between 2007 and 2011. So there were 4.63 million fewer people in the labor force by 2011 than there would have been if participation had stayed at 66 percent.
From 2007 to 2011, the participation rate dropped 1.2 percentage points for women. This decrease can be attributed to the recession.

Overall, the labor force participation rate for women had increased in the past 60 years—from 33 percent in 1948 to 60 percent 1999.

Historically, the labor force participation rate for men and women has followed different patterns.

The participation rate fell 2.8 percentage points for men from 2007 to 2011. Only two-fifths of this decline can be attributed to the recession. The remainder is part of an ongoing 60-year trend. Eighty-seven percent of eligible men participated in the labor force in 1948. Since then, the participation rate for men declined steadily to about 70 percent in 2011.

Workers who suffer long periods of unemployment may remain in the labor force but become chronically unemployed, raising the structural unemployment rate,” van Zandweghe said. “However, others may become permanently less attached to the labor force or even permanently exit the labor force.”

This permanent exit could come in the form of workers receiving long-term disability benefits or aging workers—15 percent of unemployed workers in 2011 were 55 and older—could decide to retire.

“Still others may find it difficult after a long period of unemployment to find stable employment and may spend more time out of the labor force during the remainder of their careers,” Van Zandweghe said.

Based on Willem Van Zandweghe’s research: “Interpreting the Recent Decline in Labor Force Participation.”