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The Effect of Labour Force Participation on the Economy and Budget

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ABSTRACT: The labor force participation rate is an estimate of an economy's active workforce. The formula is the number of people ages 16 and older who are employed or actively seeking employment, divided by the total non-institutionalized, civilian working-age population.In the 12 months ending September 2022, the U.S. labor force participation rate ranged between a low of 61.7% and a high of 62.3% (which was the figure for September 2022), according to the U.S. Bureau of Labor Statistics (BLS), which publishes the figures monthly. From 2013 on, the monthly figures held steady in the vicinity of 63%, after a sharp decline in the wake of the Great Recession. However, in early 2020, the labor force participation rate fell dramatically, dropping from 63.4% to 61.4% in the first half of the year, as a result of the COVID-19 pandemic. Its low point was reached in April 2020, when the rate sank to 60.2%. The labor force participation rate is an important metric to use when analyzing employment and unemployment data because it measures the number of people who are actively job-hunting as well as those who are currently employed. It omits institutionalized people (in prisons, nursing homes, or mental health facilities) and members of the military.It includes all other people aged 16 or older and compares the proportion of those who are working or seeking work outside the home to those who are neither working nor seeking work outside the home.

KEYWORDS: labour force, participation, economy, budget, unemployment, population, military

I. INTRODUCTION

Some economists argue that the labor force participation rate and unemployment data should be considered together in an effort to better understand an economy's real employment status.The labor force participation rate has changed based on economic, social, and demographic trends over the long term. It rose steadily through the second half of the 20th century, peaking at 67.3% in April 2000. As the Great Recession hit in 2008, the participation rate entered several years of steep decline, stabilizing at around 63% by 2013.[1,2]

There was another sharp drop in labor participation in early 2020, as the COVID-19 pandemic shut down the U.S. economy. Many vulnerable workers were unable or unwilling to remain in face-to-face jobs, while others left their jobs to take care of family members at home. Short- and long-term economic trends can influence the labor force participation rate. In the long run, industrialization and the accumulation of wealth can have an impact.Industrialization tends to increase participation by creating employment opportunities. High levels of accumulated wealth can reduce participation because wealthier people simply have less need to work for a living.In the short term, business cycles and unemployment rates influence the participation rate. During an economic recession, the labor force participation rate tends to fall because many laid-off workers become discouraged and give up looking for jobs. Economic policies such as heavy labor market regulation and generous social benefit programs may also tend to decrease labor force participation. The trend in the women's labor force participation rate largely parallels the long-term trends for the total population. The women's labor force participation rate nearly doubled from 32% to 60% in the 50 years from 1948 to 1998. This rate has since dropped as a result of the COVID-19 pandemic to 54.6% in April 2020, from 57.9% in February 2020.[3]

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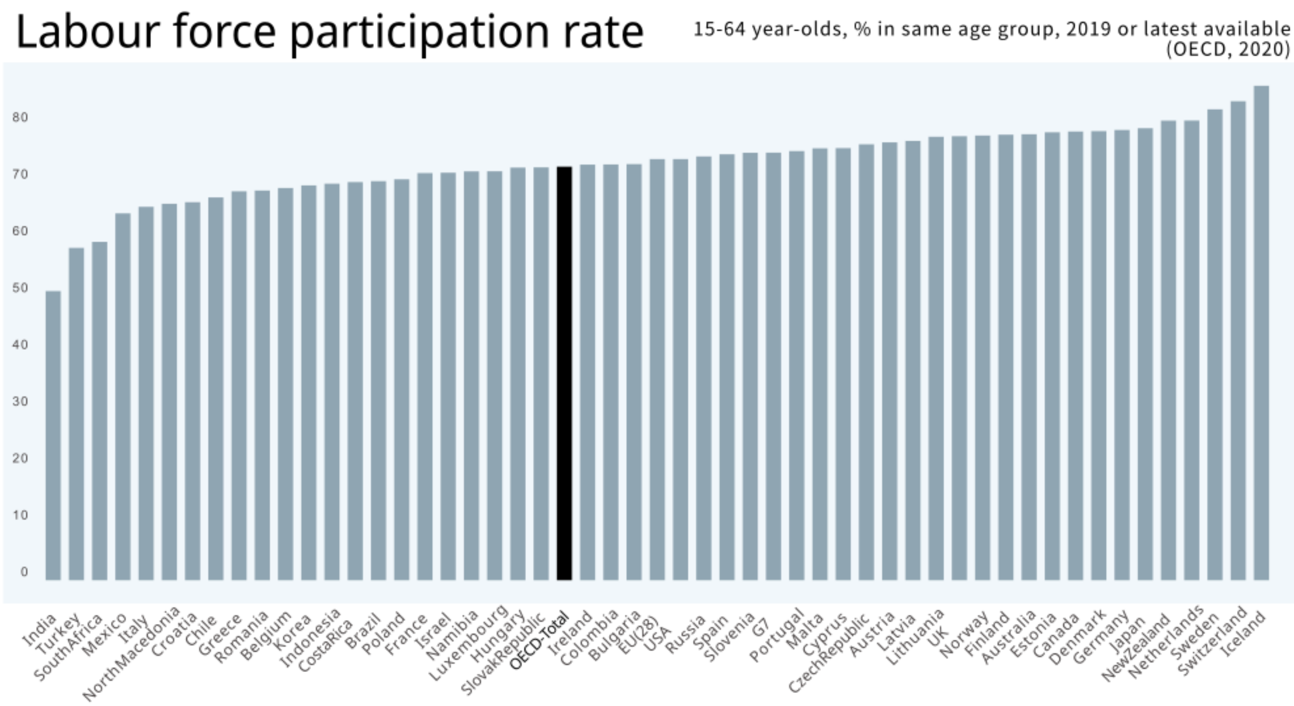

Labour force participation rate

Demographic Factors

Changes in the working-age population from generation to generation influence labor force participation as well. As large age cohorts enter retirement age, the labor force participation rate can fall.The retirement of a steady stream of baby boomers has reduced labor force participation. According to the Federal Reserve, the share of prime-working-age people (25 to 54 years old) in the labor force peaked at 72% in 1995 and declined to 63.7% over the next 25 years. This roughly corresponds to some of the declining trends in labor force participation in the 21st century. An increase in college attendance at the younger end of the age spectrum is another factor that reduces labor force participation. College enrollment by 18- to 24-year-olds increased from around 35% to 41% from 2000 to 2018. However, enrollment rates have dropped due to the pandemic, with undergraduate enrollment declining 7.8% from fall 2019 to fall 2021.

II. DISCUSSION

Global labor force participation has shown a steady decline since 1990. According to the World Bank, the global labor force participation rate stood at 59% at the end of 2021, down from 62.4% in 2010.[4]

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The following table highlights the countries with the highest and lowest labor force participation rates as of 2021:

Countries with Highest and Lowest Labor Force Participation Rates (2021)

Country (Highest)	Rate	Country (Lowest)	Rate
Qatar	87%	Tajikistan	40%
Madagascar	85%	Algeria	40%
Solomon Islands	85%	Moldova	39%
Zimbabwe	84%	Jordan	38%
Tanzania	83%	Yemen	37%
Rwanda	82%	Somalia	34%
North Korea	82%	Djibouti	31%
Cambodia	80%		
Nepal	80%		

The U.S. territory of Puerto Rico also made the list, ranking among those with the lowest labor force participation rates at 40%. The labor force participation rate measures a country's active workforce of people 16 and older. It takes into account people who have stopped looking for work but still want to work, unlike the unemployment rate. Three major factors influence the rate: economic, demographic, and social. For instance, the recent retirement of baby boomers in great numbers has pushed the rate down, while the introduction of large numbers of women into the workforce in the second half of the 20th century increased the rate. In April 2020, after the COVID-19 pandemic struck the U.S., the rate went down by more than 3% compared to the beginning of that year. According to the World Bank's most recent data from 2021, the U.S. falls in the middle of the pack at 61%, two points ahead of the world rate of 59%. There were 87 countries with a higher rate, 91 countries with a lower rate, and eight countries with the same rate (including Germany, Ireland, and Russia). As of September 2022, the U.S. rate stands at 62.3%. The labor force participation rate is measured by the Bureau of Labor Statistics, based on a monthly household survey by the U.S. Census Bureau. This survey asks respondents about their age and whether they are employed or looking for work. On that basis, the government can estimate the labor force participation rate. The participation rate has steadily declined since the late 1990s, largely due to the retirement of baby boomers and other demographic changes. In 2020, there was a sharp drop in labor participation due to the Covid-19 pandemic, which shuttered many businesses and forced many vulnerable people to leave the workforce. The labor force participation rate measures the percentage of adults who are either employed or actively looking for a job. It does not include those in the military, prisons, or otherwise outside of the ordinary labor market. It also accounts for the people who are not seeking work, making it a more reliable statistic than the regular unemployment rate.[5,6]

III. RESULTS

Labour force participation rate is defined as the section of working population in the age group of 16-64 in the economy currently employed or seeking employment. People who are still undergoing studies, housewives and persons above the age of 64 are not reckoned in the labour force. The labour force participation rate is the measure to evaluate working-age population in an economy. The participation rate refers to the total number of people or individuals who are currently employed or in search of a job. People who are not looking for a job such as full-time students, homemakers, individuals above the age of 64 etc. will not be a part of the data set. This is an important metric when the economy is not growing or is in the phase of recession. It is that time when people look at the unemployment data.

At the time of recession, it is generally seen that the labour force participation rate goes down. This is because, at the time of recession, the economic activity is very low which results in fewer jobs across the country. When there are

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fewer jobs, people are discouraged to focus on employment which eventually leads to lower participation rate. The participation rate is also important in understanding the unemployment rate in the economy. Analysing consistently the unemployment rate in the economy is very important.[7,8]

People who are not interested in working or getting some sort of employment are not included in the participation rate, but to understand the unemployment data better, participation rate is considered carefully. An ageing population may have a negative impact on any economy. That is when the labour participation rate comes into the picture. If the rate is on the higher side, it is a good sign. But if it is on the lower side, it can also act as a warning sign for any economy. For that reason, participation rate as well as unemployment data should be looked into simultaneously to understand the overall employment status in the economy.

Labor force participation is important for women because it is associated with female empowerment in the family and in the broader society. The relationship between women's labor force participation and economic development has been found to follow a U-shaped pattern. Female labor force participation is high at earlier stages of economic development, when women tend to be heavily involved as family workers (often unpaid) on the farm or in family businesses, or otherwise working for pay or producing for the market within the household. Their labor force participation initially falls in the course of economic development, as the locus of production moves out of the household and family enterprises and into factories and offices. Goldin argues there is a stigma against wives doing wage work in manufacturing and agriculture that contributes to reducing women's participation at this stage. As women's education levels rise and their job opportunities become more attractive, the stigma against married women working is diminished and female labor force participation increases. Although female labor force participation has risen in most countries, there are, nonetheless, substantial differences even among the economically advanced countries. These differences are due to a variety of factors ranging from religion and culture to economic organization to government policies. Some evidence suggesting a potentially important role for government policy is suggested by international comparisons of the impact of family-friendly policies; this research also shed light on recent developments in the US.[9]

After a half century of strong growth after World War II, US female labor force participation rates began to stagnate in the mid-1990s. In 1990, the United States had one of the higher female participation rates among economically advanced countries – it ranked sixth out of a set of 22 OECD countries in that year. By 2010, however, as other nations caught up to and surpassed the US, the US ranked 17th

To understand how to raise labor force participation of older workers, it is necessary to understand demand, supply, and institutional factors. Labor supply and retirement decisions of older workers are at the core of microeconomic research and many countries have recently reformed their pension systems to make early retirement financially less attractive. Noneconomic factors like quality of work, health status, social networks, and peer group behavior are important as well. The demand side of the labor market is equally important, particularly now that recent pension reforms have raised labor supply.[10]

IV. CONCLUSIONS

Most of the interest in both academic and public policy circles around the labor force participation effects of health insurance has been focused on retirement and public assistance participation. But, in terms of the impacts on aggregate hours worked, the most important effects may well be on the work decisions of prime age workers, and particularly secondary workers. These effects arise because health insurance is generally offered for the entire family, so that having only one spouse with a job offering insurance is enough to provide the opportunity for coverage for the entire family. As a result, the availability and coverage of health insurance for primary workers may be a key determinant of the labor supply decisions of secondary earners in the family.[11] Changing demographic patterns, family composition, labor force participation and geographical mobility are reducing the (potential) pool of family caregivers for older people. The substantial inputs of unpaid family caregivers (in terms of practical help, companionship, assistance in getting out, and general supervision) often go unrecognized. Yet

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without them either the state or civil society (voluntary/charitable) bodies would have to step in to provide formal care support, or older people or their families would have to purchase care themselves. The alternative would be poor and deteriorating quality of life for older people and others with long-term care needs.[12]

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