Where Have All the Workers Gone?

An Express Employment Professionals White Paper
America's Low Labor Force Participation Rate

“Following the Great Recession, we’ve entered into the Great Shift.”

– Bob Funk, CEO and Chairman of the Board, Express Employment Professionals

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Where Have All the Workers Gone?

Perhaps the most confounding phenomenon of the post-recession recovery is the sharp decline in the labor force participation rate (LFPR), the percentage of Americans who are working or looking for work.

The labor force participation rate is currently at a level not seen since the 1970s – 63.4 percent.3

While the unemployment rate has steadily decreased from its high of 10.0 percent in October of 2009 to 7.4 percent in July of 2013,4 the percentage of Americans in the labor force has not risen. It has fallen about 2.7 percentage points since the onset of the latest recession.5

This is a tragedy in the making, and its impact on the country has been underestimated. When Americans quit looking for work because they conclude not working beats working, America faces a significant problem.

We view this change in behavior as a “Great Shift,” worthy of focus and attention, because its implications for the economy, the social safety net, the deficit and America’s quality of life are profound, especially for Millennials and older workers who have quit looking for jobs.

The sad reality is that the falling labor force participation rate is actually driving much of the decline in America’s unemployment rate. Millions of Americans have just stopped looking for work,6 and to be counted among the unemployed, you have to be searching for a job.

So why is America’s labor force shrinking, relative to its population size?

Economists are engaged in a vigorous debate about the causes behind the shrinking workforce and the extent to which each plays a role in today’s labor market. But there are three undeniable facts.

1. Baby Boomers are retiring.
2. Workers in their prime, especially Millennials, are unexpectedly giving up on the job search.
3. A growing number of Americans are stuck in the safety net of government benefits.7

“Lots of people lost jobs during the Great Recession. In the aftermath, the great surprise has been how few are looking for jobs.”

Understanding the Relationship Between the Labor Force Participation Rate and Unemployment Rate

Imagine a country of 10 people. Bob, Bill, Betty, Bonnie, and Ben have full-time jobs. Chuck and Celia are looking for work after losing their jobs. David, Dee, and Darla are retired.

The labor force participation rate is 70 percent. Seven in 10 have a job or are looking for work. Three in 10 are retired and out of the labor force.

The unemployment rate would be 28.6 percent because two of the seven in the workforce don’t have a job.

Now imagine that Chuck, despite wanting a job, has lost hope. He gives up looking. That means he leaves the labor force, so the labor force participation rate decreases to 60 percent. But even though Chuck is not working, the unemployment rate actually goes down. No one new found work, but the unemployment rate would now be 16.7 percent. Of the six people left in the labor force, only one isn’t employed.

Sometimes the good news of a falling unemployment rate hides the bad news of dispirited workers leaving the labor force.

A Baby Boom Becomes A Retirement Boom

Studies and economic modeling suggest that about half of the decline in the LFPR in recent years is due to expected trends, most notably the retirement of the Baby Boomer generation, defined as those born between 1946 and 1964, from the workforce.

The first Boomers turned 60 in 2006, so no one is surprised that they’re retiring. The size of this generation, which comprises 26.4 percent of the population and makes up the largest percentage of the workforce in the U.S. at 38 percent, is producing an increase in the retirement rate, impacting the labor force simultaneously.

As they continue to retire, the LFPR will be pushed further downward if unaffected by other upward trends like increased participation among younger workers.

While retiring Boomers have already impacted the labor force significantly, the recession-induced economic uncertainty has slowed the pace of exiting Boomers to some extent. Many saw their retirement savings take a dramatic hit during the recession, and as a result were forced to work past retirement to rebuild their savings.

But on the other hand, there are also younger Boomers who have decided to retire early, though, not necessarily by choice. After losing long-held jobs in the economic downturn, unfortunately many Boomers just can’t compete in today’s workforce. So with few employment prospects, they’ve given up and have left the labor force.

Many of these workers are in their mid to upper 50s or early 60s. In most cases, they’re hanging on by the skin of their teeth, stretching their money hoping to make it long enough to qualify for Social Security and Medicare. As Boomers like these leave the workforce, we’re also seeing an increase in disability.

This is a national problem. The prospect of never working again particularly hurts older workers and their families, and it adds to the nation’s debt and deficit woes.

A Story From the Front Lines

“We received a referral for a job seeker who had worked for a large pharmaceutical company in California for 19 years. Having conducted an extensive search in California without any success, she decided to try outside the state and moved to Oregon. Once again she searched extensively without any success and decided to return to California. Sadly she feels she now has to lower her expectations from looking for a highly compensated clinical technician position to ‘anything’ she can get.”

– Neal McMillan, Express Employment Professionals franchisee

Ask the Express Employment Professionals Experts

“Since the declining unemployment rate is being driven down in large part by falling labor force participation rates, it should give us pause to contemplate our real progress.”

– David Lewis, Express Employment Professionals Vice President of Franchising
Younger Workers Staying Home

The increase in retirees is only half the picture.

The recession and the difficult job market caused the decline in LFPR to accelerate more than it otherwise would have. Why? An unprecedented number of Americans – not just Baby Boomers – simply started giving up, leaving the workforce despite their desire to work.

“What is new, surprising, alarming and often overlooked in the labor force today,” writes Washington Post economic policy correspondent Jim Tankersley, “is the exodus of workers in their prime – and all the growth opportunities they’ve taken with them.”

Among the estimated 89.9 million Americans not in the labor force as of July 2013, at least 6.6 million still want a job, according to the Bureau of Labor Statistics.

There are an estimated 1.8 million young adults who are not in the labor force because they have given up on job hunting for the time being. These are not retirees; these are Americans who should be at the top of their employment game.

The scary part is that just includes those who have given up. Overall, there are at least 6.5 million young adults who are not in school and are also without a job.

Gallup reports that, “The lack of new hiring over the past several years...seems to have disproportionately reduced younger Americans’ ability to obtain full-time jobs.”

According to Gallup’s “Payroll to Population” measure, fewer Millennials were working full time in June of 2013 than in June of 2012, 2011, or 2010.

A recent 2012 Pew Research Center study found that 36 percent of the nation’s Millennials were still living with their parents. “This is the highest share in at least four decades and represents a slow but steady increase over the 32 percent of their same-aged counterparts who were living at home prior to the Great Recession in 2007 and the 34 percent doing so when it officially ended in 2009,” notes the Pew Research Center.

“Over the last 12 years,” writes David Leonhardt of The New York Times in a report titled “The Idled Young Americans,” “the United States has gone from having the highest share of employed 25- to 34-year-olds among large, wealthy economies to having among the lowest.”

“‘The last thing America can afford,’ says Bob Funk, the CEO of Express Employment Professionals, ‘is for America to accept high levels of youth unemployment. The history and tradition of our nation is that we’re go-getters. The Great Shift is starting to change this tradition.”

“I feel hopeless, actually... I feel like I’m never going to get out on my own again. It’s like I’m stuck in a time warp. Feels like I’m 16 all over again...except worse.”

– Georgette K., 25, tells a Salon reporter about the frustration of having to move back in with her parents after finding nothing but dead-end minimum wage jobs.

“It turns out that the Millennial unemployment rate fell, in part, because many young people left the labor force last month discouraged from persistent lack of opportunities.”

– Rory O’Sullivan and Tom Allison, Millennials writing for PolicyMic, July 2013

“The recent withdrawal of prime-age workers from the labor market is unprecedented...”

– Federal Reserve Bank of San Francisco
Stuck in the Safety Net

A study from the Federal Reserve Bank of San Francisco also attributes the drop in LFPR in part to the “increased use of some social benefit programs, notably disability insurance.”23

Fourteen million Americans, including roughly 8.5 million former workers receive disability. In 2011, that included 4.6 percent of the population between the ages of 18 and 64. These Americans are not included among the “unemployed.” And it’s estimated that less than one percent of them have returned to the workforce in the last two years.

There’s no doubt that age, ailment, injury and other factors leave millions of Americans unable to work, but “disability insurance has clearly become, in part, a form of extended unemployment insurance and early retirement, with Medicare benefits,” says Michael Boskin, a Stanford economics professor and former chairman of the president’s Council of Economic Advisors.25

According to the Social Security Administration, the number of Americans with little to no work experience who receive disability payments is up 29 percent since 2003. There’s also been a 44 percent increase in claims by people formerly in the workplace.26

One factor contributing to the rise in disability is that states are happy to shift Americans from welfare or unemployment to disability because it means the federal government, rather than the state government, picks up the tab.27 Once on disability, there are perverse incentives for people to stay on it.

Promoting the growth of the disability programs are attorneys and law firms who profit from helping people get on disability, even if they might be able to work in the right situation. A recent investigation by Planet Money and NPR dubbed this the “Disability-Industrial Complex.”

There are also more than 1.2 million children on disability. Children can qualify if it is determined something is keeping them from progressing in school. What does this have to do with working-age adults? Some families come to depend on their children’s disability checks according to Chana Joffe-Walt, a reporter for NPR. This, too, creates something of a moral hazard. On the one hand, parents want their children to overcome their learning disabilities; but on the other hand, they don’t want to lose income on which they’ve come to rely.29

“America is a caring country and those who are disabled need and deserve help,” says Express CEO Bob Funk. “But we’re all in trouble if the ease of qualifying for disability means able-bodied workers can qualify for disability instead of going out and getting a job.”

Disability programs cost American taxpayers in excess of a quarter trillion dollars a year.30 Much of it is certainly needed, but the system can also make relying on disability seem like a better option than being in the labor force.

“That’s a kind of ugly secret of the American labor market... Part of the reason our unemployment rates have been low, until recently, is that a lot of people who would have trouble finding jobs are on a different program.”
– David Autor, MIT economist31

“People who leave the workforce and go on disability qualify for Medicare, the government health care program that also covers the elderly. They also get disability payments from the government of about $13,000 a year. This isn’t great. But if your alternative is a minimum wage job that will pay you at most $15,000 a year, and probably does not include health insurance, disability may be a better option.”
– Chana Joffe-Walt, “Unfit for Work,” an NPR, Planet Money investigation32

Department of Health and Human Services, Social Security Administration; Credit: Lam Thuy Vu / NPR34

NUMBER OF FORMER WORKERS ON DISABILITY

9 Million
8
7
6
5
4
3
2
1
0
1985
1990
1995
2000
2005
2010

Department of Health and Human Services, Social Security Administration; Credit: Lam Thuy Vu / NPR34
The Bureau of Labor Statistics reports there are 3.9 million job openings in America. Millions of people are looking for jobs, but it turns out millions of jobs are looking for people.

The problem is that the available workers are not always a good fit for the available jobs. They don't have the training, experience, or knowledge to successfully fill open positions. This is the much-discussed "skills gap," and it helps explain why many Americans have given up; they're not considered qualified for the jobs that exist. And if they are, the pay isn't always competitive.

A recent survey of Express Employment Professionals offices across the United States asked, "How easy is it for you to recruit and fill positions?" Only one percent of Express Employment Professionals offices said “very easy” and 19 percent said ”somewhat easy.” In contrast, 66 percent said “somewhat difficult” and 12 percent said “very difficult.”

The survey also found that 53 percent of more than 400 U.S. employers say that recruiting and filling positions is "somewhat difficult" or "very difficult.”

Likewise, a 2013 study by CareerBuilder and Inavero, the exclusive research partner of the American Staffing Association, reports, “3 in 5 hiring managers say there is a skills gap in their industry.”

The skills gap is one of the forces keeping Americans out of work, and as weeks turn to months, job seekers get discouraged and leave the workforce. Thus, it leads to lower labor force participation.

In a 2011 study, the Manufacturing Institute found 600,000 open jobs in the manufacturing sector alone, unfilled because employers couldn’t find capable workers.

The Institute estimates that $461,509 in output is lost per unfilled position annually. Of significant note is that an additional 406,441 jobs would be added to the economy if those 600,000 open positions were filled. That’s a total of 1 million Americans who could be working today if employers felt they had the right skills.

Experts point to the need for greater training and education. But, these solutions are not quick fixes. They take time and investment, and that investment is particularly hard for an unemployed worker to make, just as it is for governments with strained budgets or for businesses that are cutting back.

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"In 2012, the average monthly job openings rate rose from 2.3 percent to 2.6 percent. The increases in average monthly hires and separations, however, were not as large.”

– Bureau of Labor Statistics

Where Are the Jobs?
Express Employment Professionals currently has immediate openings for more than 16,500 jobs. The following are the top 10 cities in which jobs are looking for people:

1. Nashville, TN
2. Napa Valley, CA
3. Dallas, TX
4. Eau Claire, WI
5. Oklahoma City, OK
6. Portland, OR
7. Austin, TX
8. Indianapolis, IN
9. Tacoma, WA
10. Terre Haute, IN

Why Aren't Jobs Filled?
In the America Employed survey of Express Employment Professionals franchises, owners were also asked the “primary reason” open jobs are not filled. The following are the top four responses:

1. Lack of available applicants
2. Not enough pay offered
3. Lack of hard skills
4. Lack of experience

Hard-To-Fill Jobs
According to the Express Employment Professionals survey the top-10 hardest jobs to fill due to the lack of qualified workers are:

1. CNC Programmer (Manufacturing Engineer)
2. Welders
3. Machinists
4. Accounting (Accountant, Auditor, Accounts Receivable/Payable)
5. Sales
6. Commercial Licensed Truck Drivers
7. Information Technology (Technician, Web Design, Programmer)
8. Engineers
9. Medical Professionals
10. Administrative (Office Manager, Administrative Assistants, Bookkeeper/ Payroll Specialist, Legal Assistant, Data Entry, Customer Service Rep.)
What’s On the Horizon? Why Should We Care?

There’s some degree of consensus that the labor force participation rate will stay at its current level for the next two years. That’s good news insofar as it’s not falling further. But it’s bad news that the LFPR is still extremely low.

So why should Americans be concerned?

For one, as the labor force shrinks, the number of retired Americans grows, meaning it costs more per worker to cover entitlement costs.

For example, when Social Security started, there were approximately 12 workers for every retiree. Today the ratio is closer to 1.5 to 1. “Social Security as we know it, entitlements as we know it, are really not sustainable,” according to Professor Tassu Shervani of Southern Methodist University’s Cox School of Business. “By 2050, we would be lucky to have three-quarters of a person working for every retired person.”

Unless the birthrate in the United States suddenly climbs well above the 2.1 replacement rate – the birthrate required to maintain population levels – there will be a major strain on the safety net from retired Americans.

That also means American immigration policy is an important consideration when looking at the economic landscape. While it may not seem obvious today, a Boston Consulting Group analysis predicts that in the year 2020, America will have a shortage of 17 million workers. Without new workers, business will look overseas for their labor pool.

“In order to keep the ratio of working to retired population constant in 2020 at 2004 levels, the United States will need to import 17 million people of working age,” explains Shervani, “or 1 million people a year beginning now.”

View From the Front Lines

“The bottom rung of job seekers – those who lack skills or whose skills are a mismatch for demand – are discouraged and no longer appear on the list of those unemployed even as thousands of skilled positions remain unfilled in almost every market.”

– Neal Bhamre, Field Consultant for the Specialized Recruiting Group Division of Express Employment Professionals

Ask the Express Employment Professionals Experts

“The average American doesn’t realize that there are millions of unfilled, high quality, high wage jobs available today. As a country, we need a dialogue about how we can train or retrain individuals so we can continue to compete globally.”

– Jonathan Thom, Express Employment Professionals Vice President of Professional Staffing
Where Do We Go From Here?

The overarching solution is clear: achieve stronger economic growth to increase labor force participation. It’s achievable when we close the skills gap, relieve pressure on the safety net, and have an immigration policy that works.

Jobseekers, businesses, and federal and state governments alike will also have to find ways to invest more in training and education programs to help develop skills for today’s most in demand jobs.

“My advice to job seekers, especially to those without college degrees, is to be sure you learn a skill or a trade, otherwise this economy is very tough. Keep applying yourself to the opportunities you do have and work toward the career you want no matter what it takes,” says Bob Funk, CEO of Express Employment Professionals.

Businesses can’t wait for changes in the education system or the economy to help improve workforce readiness. Companies of all sizes will have to continue to find ways to train inexperienced employees to build skills and competencies and increase participation rates. A 2008 study from the Society for Human Resource Management reported that at least nine out of 10 organizations provide or pay for skills training or professional development, but less than half of employees at various career phases participated in skills training. Employers may also have to consider adding more exhaustive training in the future.

State and local governments must work to ensure their social policies promote job attainment. The moral hazard created by extending unemployment benefits and the growth in the number of workers claiming disability needs to be taken more seriously. Worker training should be an integral part of businesses’ operations and the country’s education policy.

Express Employment Professionals is committed to helping workers find jobs and jobs find workers. This is a national priority. Whatever path the country takes, it’s clear: the economic status quo is not sustainable.

The Great Recession is over; the Great Shift must not become permanent.
Sources


34. CareerBuilder and Inavero, “A Path to Excellence and Growth, Highlights from the 2013 Opportunities in Staffing Research.”


