

Box 1

RECENT DEVELOPMENTS IN LABOUR FORCE PARTICIPATION IN THE EURO AREA AND THE UNITED STATES

Since the onset of recession in 2008 the US unemployment rate has risen from around 5% to 8.1% at the start of the second quarter of 2012 – although it is now some way below its 10.0% peak, reached in the final quarter of 2009. The aggregate euro area unemployment rate rose from 7.2% in the first quarter of 2008 to 10.9% in the first quarter of 2012. While part of the euro area increase

reflects ongoing labour market adjustments in several member countries, some of the difference in euro area unemployment developments relative to the United States reflects very different labour force participation developments in the two economies. Indeed, since the onset of the financial crisis, the participation rate has increased in the euro area, while it has declined significantly in the United States. This box investigates differences in participation rates in the euro area and the United States since 2000, with particular attention to age and gender developments.

Euro area and US participation behaviour and population dynamics

The labour force participation rate is defined as the proportion of the population that is employed or actively seeking work as a percentage of the total working age population.¹ The chart compares developments in the euro area and US aggregate participation rates for the working age population – shown by the solid blue line in each panel – since 2000 (the first year for which euro area data are available).² Two striking differences are immediately apparent: first, the higher level of the US participation rate (which averaged just over 75% between 2000 and 2011) compared with the euro area rate (which averaged just under 70% over the same period); and second, the very different nature of the developments since 2000, with US participation rates having declined notably, but with euro area participation rates having risen over much of the period.

Between 2000 and 2011 the aggregate euro area participation rate rose from 68% of the total working age population to 72%, while the US participation rate fell from 78% to 73%. The participation rate is influenced both by the participation rates of the various segments of the

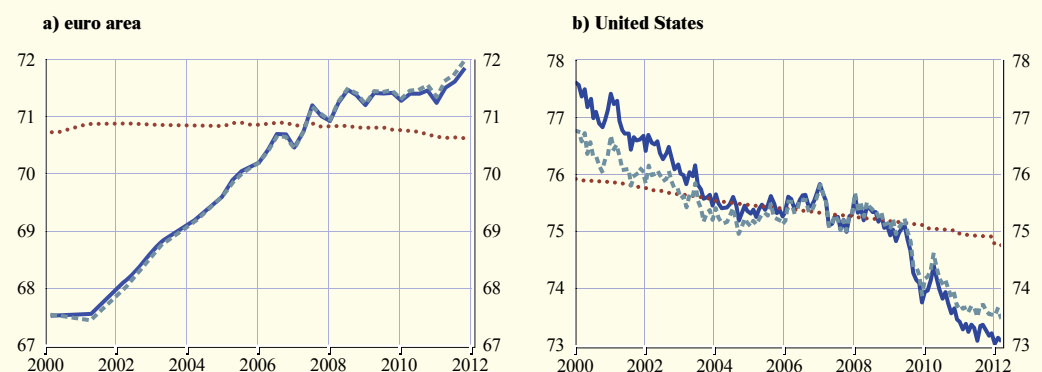
1 Typically, participation rates are reported for the population over 15 (or 16) years. However, as the relevant group is the working age population, this box refers to the latter concept (looking at the population between 15/16 and 64), which is more comparable across economic areas and over time.

2 Euro area data to 2004 are available only for one quarter per year.

Recent developments in euro area and US labour force participation rates

(percentages)

— actual labour force participation rate
 participation rates fixed
 - - - - population weights fixed



Sources: Eurostat, US Bureau of Labor Statistics, National Bureau of Economic Research and ECB calculations.
 Notes: Participation rates are expressed as a percentage of the working age population (15-64 for the euro area; 16-64 for the United States). "Actual labour force participation rate" refers to the observed labour force participation rate; "participation rates fixed" refers to a hypothetical labour force participation rate calculated using 2007 participation rates for ten sub-groups, weighted by their changing shares in the total working population; "population weights fixed" uses 2007 population shares as weights and applies changing participation rates. Euro area figures between 2000 and 2004 have been extrapolated from quarterly data.

population and the weights of these segments in the overall population. A simple way of separating the roles played by participation behaviour versus population dynamics consists of fixing the participation rates or population weights across age and gender groups in a precise period and then assessing the evolution of the resulting adjusted series. The chart shows the results of this exercise, fixing each variable in turn at its 2007 pre-crisis level.

Keeping population weights fixed (as shown by the dashed teal green line in each panel) isolates the developments in the aggregate participation rate that are entirely due to changes in participation decisions within age and gender groups. Changing participation decisions – particularly among certain groups within the labour market, as discussed in the next section – account for almost all of the change in the observed aggregate euro area participation rate over the 2000-11 period. Participation effects were also important in the United States over this interval, but they were not the exclusive driver. The gap between the observed aggregate US participation rate and the rate measuring changes in participation propensities of the various sub-groups is explained by the impact of changes in population composition (obtained by fixing the participation rates at their 2007 levels, as shown by the dotted red lines in the chart). As the chart indicates, since the early 2000s population composition effects have resulted in a reduction of around 1 percentage point in the aggregate US participation rate.³ The main driver of this effect can be traced to the impact of the US “baby boomers” (born between 1946 and 1964) and their transition from the prime-age group to the older groups, which have a lower attachment to the labour market. In the euro area, by contrast, population effects had very little impact on the overall participation rate over the period.

The pattern of participation: gender and age developments

In both economies, changes in participation decisions within groups have had an important influence on aggregate participation rates. Over the period 2000-11, the gap between the aggregate participation rates for the working age populations of the euro area and the United States narrowed substantially. This was due to both an increase in aggregate participation in the euro area and a decline in aggregate participation in the United States (see Table).

Men comprise the bulk of the labour force in both economies. Since 2000 the male participation rate for the euro area as a whole has remained remarkably constant (averaging around 78% between 2000 and 2011, as shown in the table, albeit with a slight decline since the downturn). In the United States, by contrast, male participation rates have shown a relatively sustained downward trend (equivalent to a decline of around 0.2 percentage point per year, on average) since the early 1970s. Factors behind this trend include a decline in the real wages of low-skilled workers and increased access to social-security benefits, which make work less attractive financially. Developments in the 2000s are rather mixed, with some stabilisation of this trend during the period of stronger employment growth in the middle years of the decade (2003-07). However, since the recession, male participation has begun to decline again. As a result of these distinct developments across the two economies, male participation rates had by 2011 reached remarkably similar levels in the euro area and the United States.

Behind the male participation rate in aggregate there are distinct differences across the age-groups. For younger males, while euro area participation was typically much lower over the period

³ Indeed, a longer-term analysis for the United States indicates that the composition of the population had started to exert downward pressure on aggregate US labour force participation in the mid-1990s.



Labour force participation rates in the euro area and the United States, 2000-11

(percentages)

	2000	2007	2008	2009	2010	2011	2000-07 (average)	2000-11 (average)
Total working age population (men and women combined)								
Euro area	67.5	70.9	71.3	71.4	71.4	71.5	69.1	69.9
United States	77.2	75.3	75.3	74.6	73.9	73.3	76.0	75.4
Men								
<i>all men</i>								
Euro area	77.2	78.6	78.7	78.4	78.2	78.1	77.8	77.9
United States	83.9	81.7	81.5	80.4	79.5	78.9	82.5	81.7
<i>young (under 25)</i>								
Euro area	47.7	47.8	47.8	46.7	45.5	44.9	47.6	46.9
United States	68.6	61.6	61.0	58.5	56.8	56.6	64.6	62.4
<i>prime-age (25-54)</i>								
Euro area	93.0	93.0	93.0	92.6	92.4	92.2	92.9	92.7
United States	91.7	90.9	90.6	89.8	89.3	88.7	90.9	90.5
<i>older (55-64)</i>								
Euro area	48.4	55.6	56.5	57.5	58.2	59.0	51.8	54.0
United States	77.2	75.3	75.3	74.6	73.9	73.3	76.0	75.4
Women								
<i>all women</i>								
Euro area	57.9	63.1	63.8	64.3	64.6	65.0	60.4	61.8
United States	70.7	69.1	69.3	69.0	68.4	67.8	69.7	69.3
<i>young (under 25)</i>								
Euro area	40.9	40.9	41.0	40.5	39.5	39.4	40.4	40.2
United States	63.0	57.2	56.5	55.2	53.6	53.3	59.7	58.0
<i>prime-age (25-54)</i>								
Euro area	71.1	76.3	77.1	77.5	77.9	78.2	73.7	75.1
United States	76.7	75.4	75.8	75.7	75.2	74.7	75.8	75.6
<i>older (55-64)</i>								
Euro area	26.5	37.0	38.1	39.8	41.0	42.9	31.1	34.6
United States	51.8	58.3	59.1	60.0	60.2	59.6	55.8	57.1

Sources: European Commission, US Bureau of Labor Statistics and ECB calculations.

Notes: Aggregate participation rates refer to the working age population (15-64 for the euro area; 16-64 for the United States). Participation rates for sub-groups are expressed as percentages of the age and gender-specific populations. Euro area data to 2004 are only available for one quarter per year.

considered, it remained broadly stable, while US participation rates declined. In part, this strong downward trend is likely to reflect increasing school enrolment rates for younger cohorts generally, but it seems to have been exacerbated to a much greater degree by the 2008-09 crisis in the United States than in the euro area. For prime-age men, euro area participation rates exceeded those in the United States throughout the 2000-11 period, and this gap has increased further since the recession. In part, this is likely to reflect the strong growth of euro area employment in the middle years of the period in sectors traditionally associated with prime-age male workers. In addition, structural reforms in many euro area countries, which specifically targeted increased labour force participation, are also likely to have played a role. Finally, stronger employment protection legislation in the euro area is also likely to have helped mitigate job losses among prime-age males in hard-hit sectors to a greater extent than in the United States.

The US-euro area gap in participation rates is particularly large for older workers (at roughly 14 percentage points in 2011). Nevertheless, this represents some considerable narrowing on the almost 30 percentage point gap evident for this age group in 2000. Participation rates among older people (of both sexes) have continued to increase in the euro area since 2000, but have steadily declined through much of the period in the United States – albeit from a significantly higher starting level. In the United States, higher participation rates among older people are

likely to be primarily linked to improved health and longevity and the increasing need to build retirement savings.⁴ The fact that older age-group participation rates have become more similar across the two economies owes more to the strong increase seen in the euro area than to the modest decline seen in the United States. The increase in the euro area can be ascribed to a number of factors, including the changing sectoral composition of employment, which is likely to have made it (physically) easier to remain in the labour force than for previous generations; reversals of the early retirement schemes which had been introduced in some euro area countries in the 1980s and 1990s; and efforts to reform pension systems in a number of euro area countries in the 2000s.

One of the most widely-reported developments in euro area labour markets over the course of the 2000s has been the marked increase in female participation.⁵ The table shows that this has been common to all age groups other than the under 25s, and that this upward trend continued even in the aftermath of the financial crisis. As with men, participation among prime-age women in the euro area now exceeds that of US women in the same age-group, though both groups still exhibit rates significantly below those of men. However, strong growth in female participation over the period helped erode the male-female differential in the euro area to around 14 percentage points in 2011, compared with almost 22 percentage points in 2000. Over the same period, the US differential barely changed. In the euro area, the rise in participation rates has been particularly strong for older women (from just over 25% in 2000 to around 43% in 2011). US rates rose by much less over this period. Indeed, since the financial crisis of 2007-08, the participation rate among older women has declined slightly in the United States, while it has continued to increase in the euro area. Female participation rates in the youngest group have shown a sustained decline in both economies, a trend which appears to have been reinforced since the 2007-08 crisis.

Overall, participation rates among young females are now almost at the level of those of young males in both economies. Factors behind the upward trend in female participation in the euro area reflect the increasing integration of women in the labour market and their growing labour market attachment; the impact of earlier anti-discrimination legislation; structural reforms to tax and benefit systems, which help to increase the returns from employment; and reforms to employment law and working hour legislation, which have helped increase the proportion of part-time and flexible working arrangements – of particular interest to women aiming to combine work with family life. Ongoing growth in female participation rates in the euro area may also reflect increased financial needs of households in the aftermath of the financial crisis. For the youngest women, the long-term decline in participation is likely to reflect, as for younger men, the extension of years devoted to education in order to gain access to higher skilled jobs.

Concluding remarks

Over the period 2000-11 US labour force participation rates fell – as a result of both a long-term decline in participation rates among most labour force groups and the impact of demographic changes affecting the overall composition of the labour force (in particular, the US “baby boomers” starting to reach retirement age). In the euro area, by contrast, participation rates have risen continually since 2000. This development has been heavily influenced by strong increases in

4 For a detailed analysis including a forward looking perspective, see Toossi, M., “Labor force projections to 2020: a more slowly growing workforce”, *Monthly Labor Review*, US Bureau of Labor Statistics, January 2012.

5 See, for instance, Task force of the Monetary Policy Committee of the European System of Central Banks, “Labour supply and employment in the euro area countries – developments and challenges”, *Occasional Paper Series*, No 87, ECB, Frankfurt am Main, 2008.

participation by two groups over the period – namely women and older people. Both groups have benefited in particular from structural reforms – to employment legislation and tax and benefit systems, including reforms to pension systems and legislation on working hours – which have been introduced in many euro area countries with a view to encouraging greater flexibility within the labour market and increasing the economic incentives for working.