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Don't Blame Covid for the Worker Shortage

The ranks of American workers are thinning—often because people aged out of the workforce, or never entered it. Their absence could impede the economy's ability to grow, and make for a less prosperous future.

By Justin Lahart Follow
Jan. 27, 2023 5:30 am ET

"Your call is very important to us—please stay on the line."

Some customer service agents have moved on to more lucrative pastures during the pandemic, but a lot of America's "missing workers" might never be coming back. The shift could leave businesses continuing to struggle to find workers in the years ahead, and ultimately slow the pace at which the economy can grow without overheating.

The Covid crisis roiled the U.S. job market like nothing before. First, in the early days of the pandemic, millions of people were suddenly without work, sending the unemployment rate from 3.5% in February 2020 to 14.7% two months later. Then, jobs came roaring back. Not all the workers did, though. A constellation of factors—fears of contracting and spreading Covid, lingering symptoms, the financial wherewithal provided by several rounds of government relief, lost access to child care and a shifting of priorities set off by the pandemic—conspired to keep people off the job.

Even now, and despite economists' warnings that the country is on the brink of recession, America seems short of workers. At the end of November, the Labor Department recorded a seasonally adjusted 10.5 million job openings, or 1.7 unfilled jobs for each person counted as unemployed. The highest that ratio got in the 20 years of available data before the pandemic was 1.2.

It certainly seems like there are plenty of people still waiting on the sidelines. For December, the Labor Department reported that the labor-force participation rate—the share of the noninstitutionalized population aged 16 and up that is either working or looking for work—was a seasonally adjusted 62.3%. That compared with 63.3% in February 2020. If the participation rate was back at that prepandemic level, with the unemployment rate remaining at December's 3.5%, there would be over 2.5 million additional people counted as employed.

But University of Texas economist Ayşegül Şahin and Federal Reserve Bank of Chicago economist Bart Hobijn argue that such calculations ignore the fact that labor-force participation has been in a long downward trend since around 2000. They calculate that, considering the expected trend lower in participation, as of October the economy was just 810,000 jobs short of where it might have been absent the pandemic. Given the employment gains in the months since then, the figure would be smaller now.

One important factor behind the trend lower in participation, which will keep exerting downward pressure on participation in the years to come, is that more baby boomers are entering retirement age. With the median Boomer turning 66 last year, they "are now in an age bracket where there is a huge drop in participation," points out Dr. Şahin. Indeed, in December the participation rate among 66-year-olds (unadjusted for seasonal swings) was about 38%. Compare that with 64-year-olds, who, despite being just two years younger, had about a 46% participation rate.

There has also been a decline in participation among younger men with less education—a trend even before the pandemic struck. Washington University in St. Louis economists Dain Lee, Jinhyeok Park and Yongseok Shin calculate that the largest contributor to the overall drop in participation since the prepandemic period has been young men without a four-year college degree.

Economists have been trying to figure out why for a while. One theory, which precedes pandemic, was that videogaming was cutting into young men's willingness to work. More recent research suggests that status might be a factor, with a widening wage gap between people with and without four-year college degrees leading some less-educated men to be less willing to join the workforce.

Whatever the reason, their absence could pose a protracted problem because people who don't work when they are young often don't work as they become older. "That is a challenge not only for the individual, but society," Washington University's Dr. Shin says.

For the economy, fewer people coming into the workforce would mean that the job market wouldn't be able to grow very quickly without driving the unemployment rate, which is already at an over 50-year low, even lower. That could in turn drive up wages and, ultimately, inflation.

Absent more immigration, or an increase in worker productivity, the economy's ability to grow could be limited, making for a less prosperous future.

Still, demography isn't always destiny when it comes to the labor market. Japan is the epitome of an aging country, with United Nations projections showing its median age hit 49 last year versus 38 for the U.S. Yet its labor-force participation rate has been climbing over the past decade, and last year hit its highest level since 1999—the consequence of increasing female workplace participation.

Maybe something similar could happen in the U.S., where the female labor-force participation rate among women aged 25 to 54 (the so-called prime-age cohort) is now below Japan's. University of Michigan economist Betsey Stevenson points out that in the U.S., participation among prime-age college-educated women was on an upswing prior to the pandemic. Perhaps that was the beginning of a new trend that could help improve overall participation in the years ahead. Meanwhile, the recent increase in wage growth for lower-paid workers relative to higher-paid ones might over time help draw more young men without college degrees into the workforce.

Of course we'll only know if the economy keeps growing. If a recession comes this year, one of its most unwelcome effects could be sending even more workers into the ranks of the missing.

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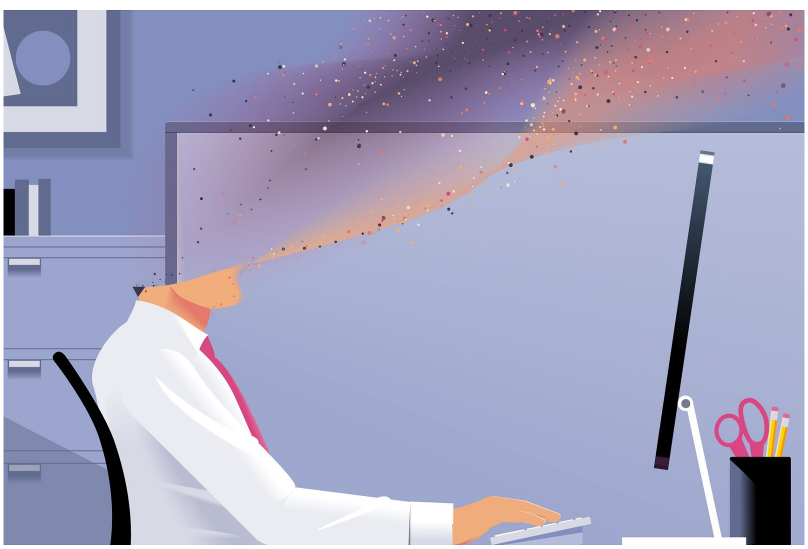

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Appeared in the January 28, 2023, print edition as 'Covid's Not to Blame For Labor Shortage'.