Labor Force Participation And Unemployment

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Summary:

- Labor force participation and its impact on the economy and unemployment rates
- Unemployment and the methods of measurement
- The existence of discouraged workers and its effect on the unemployment rate
- Types of Unemployment and policies to cater to them
- Unemployment Insurance and its effect on unemployment levels
- Labor unions and its contribution to unemployment

Labor Force Participation

Participation rate refers to the active labor forced that is either employed or seek employment, in other words the able and willing to work population of a country.

Statistics

The labor force participation rate in the United States was as high as 66 percent in 2008 and dropped to 62 percent in 2017. The decrease in the participation rate is not a significant decrease but still has a major effect on the economy as a productive labor force contributes to the success of an economy.

The reason for this change in participation rate is the aging population of America. Demographics play a major role in the rate of employment and participation rate because the number of people who are capable of working has decreased due to their retirement age. Secondly, the fewer options for employment, high taxes, and the importance of school and further education. More individuals are turning to college degrees and further education instead of doing a full-time job.

On the other hand, high taxes and low disposable incomes are discouraging people from working all day long and not earning enough to meet their living standards. Moreover, there has been an increase in the number of people seeking disability insurance instead of working. There is also a decrease in the number of women participating in the workforce due to household responsibilities and raising their children, as child care costs have increased significantly.

Participation Rate Impact on the Economy

The labor force participation rate is a major concern for economists as a high number of workers means that the economy can produce more and earn more in total. This also decreases the dependency ratio and improves the living standards of families and individuals.

A decrease in the labor force decreases the economic growth rate as the overall gross domestic product decreases. This means that there is no development and a decrease in the standards of living, which can lead the economy towards recession. Additionally, a smaller labor force means that there will be a decrease in the taxes collected and government revenue, which results in a decrease in government expenditure. When the government is not able to generate enough to spend on the country and its development, there is a decrease in economic growth.

Healthcare services, development in infrastructure, improved education facilities, more resources etc., that contribute to higher living standards are compromised due to a decrease in government revenue.

The decline in the participation rate directly affects the employment rate. The unemployment rate will decrease as it accounts for the 'able' and 'willing' workforce which is decreased due to the unwillingness and incapability of these workers. On the other hand, the employment rate of the younger and more capable generation drops due to the decrease in the participation rate.

Unemployment

Unemployment refers to the people who are able and willing to work but can't find employment. Unemployment level refers to the number of population of a country that is not working in a specific period of time, while unemployment rate means the increase or decrease in the unemployment level.

A decrease in employment is caused either by structural reasons, for example, the shutting down of an industry, or by cyclic reasons, such as the decrease in the aggregate demand and recession period, or frictional employment, which refers to the gap a worker experiences when searching for other work or changing between different placements.

Measuring Unemployment

Unemployment can be measured with two methods, i.e., the claimant count measure, which the government uses to calculate the number of unemployment benefits distributed, and the labor force survey, which is more widely used and involves the able and willing workforce who is unemployed during a period of time.

The claimant count measure is used by the government to measure unemployment through the number of unemployment benefits claimed by individuals. This method is affordable and easier for the government; however, it lacks accuracy as not all of the unemployed population has access to the benefits or are aware of their rights.

A labor force survey is a more widely used and effective method to account for the unemployed population using the International Labor Organization's definition of unemployment.

Discouraged Workers

A discouraged worker refers to someone who is of legal age and capable of working but is unwilling to seek employment due to discouragement from long-term unemployment and limited job opportunities. Discouraged workers are not included in the labor force as it involves individuals who wish to work and seek job opportunities. Hence, discouraged workers are not accounted for in the unemployment rate or any type of measurement of unemployment.

In 2008, according to the Bureau of Labor Statistics (2008), there were 381,000 discouraged workers, which increased to 451,000 discouraged workers in 2017. This significant change is due to the recession period in the United States in 2009, which caused major losses of employment opportunities for people. At the same time, the change in demands of the economy has led to an increase in unemployment and discouraged workers who are no longer seeking jobs because of the constant rejections and high competition in the market.

Discouraged Worker's Impact on Unemployment

Since the discouraged worker is no longer willing to work and does not seek employment, they are not included in the active labor force. When calculating the unemployment level and rate, the discouraged worker is not accounted for as it is not a part of the active labor. Hence, discouraged workers do not impact unemployment. However, an increase in the non-active labor force is an alarming situation for the economy because of its effect on economic growth and overall gross domestic product.

Types of Unemployment

Frictional Unemployment

This type of unemployment includes the unemployment that is caused by labor turnover. Workers often quit their jobs for different reasons and search for new ones. The duration spent on looking for jobs while a worker is unemployed is called frictional unemployment. The process of hiring new employees, searching for new jobs, and adjusting to a new working environment is a challenging and time-consuming task, which can cause workers demotivation and loss of skills.

Structural Unemployment

Structural unemployment happens when specific industries face a reduction in demand, bankruptcies, or choose to shut down because of the changes in new markets and government policies. One such example is the U.S. coal mining industry, which is currently going through a decline in the production of coal as it has contributed to global warming. This decline has resulted in the loss of many jobs, and people who've developed skills in the coal industry find themselves unsuitable to work in other industries.

Cyclic Unemployment

The rate of unemployment can be affected by several reasons, including economic factors, which are the demand and supply in the market or the stage the economy is going through, such as recession or boom. When an economy is dealing with a high inflation rate, there are chances that firms will reduce their costs by terminating redundant employees.

Additionally, the recession also increases the unemployment rate as there is low demand for products and services. Firms eliminate their wastages and try to reduce their resources in accordance with the low demand. This type of unemployment is also called cyclic unemployment, which is a primary contributor towards full employment or a high rate of unemployment.

Government Policies to Reduce Unemployment

Government policies, such as the monetary policy that deals with the supply of money, can influence the willingness of workers to work when they have enough money. This, however, increases self-employment and encourages entrepreneurship. Furthermore, government expenditure and the offering of unemployment benefits also reduce the willingness of workers to work hard instead of enjoying their leisure time.

Frictional unemployment can be reduced with the awareness of job opportunities. Workers who leave one job due to different reasons and seek employment somewhere else should be aware of the vacancies in other organizations so that the time wasted in the search for a new job is reduced.

Structural unemployment can be reduced with proper education and training. Workers who are occupationally flexible and have multiple skills are more successful when the industry they work in shuts down.

Moreover, cyclic unemployment can be controlled with macroeconomic policies to increase aggregate demand and reduce the chances of a recession in order to avoid cyclic unemployment, which can be significant for the economy.

Unemployment Insurance

Unemployment insurance is designed to benefit the unemployed population of a country that seeks jobs but fails to find one and provide for their basic needs and fulfill the requirements of their families. This insurance helps individuals survive the time during which they are unemployed and are seeking new and better opportunities.

It is reported that the increase in unemployment and discouraged workers is due to the availability of unemployment benefits and insurance. This provides security and reassurance for the unemployed population, which encourages them to quit their current jobs and patiently wait for another option. Hence, the duration of unemployment increases, causing frictional unemployment.

Labor Unions

Worker's unions are formed as a cooperation between employees who have mutual aims and goals seeking each other's help and support. Labor unions speak for the rights of the employees. It can be alarming for organizations as these unions cause harm to them and have strong negotiations, which can lead to the termination of some employees.

References

Index, C. P. (2008). US Bureau of Labor Statistics. Washington, DC. Retrieved from http://www.bls.gov/home.htm.