

Testimony of
Dr. Jay C. Shambaugh
Director, The Hamilton Project
Senior Fellow in Economic Studies The Brookings Institution
and
Professor of Economics, The George Washington University
on the subject of
“Connecting More People to Work”

November 20, 2019

Mr. Chairman, Madame Vice Chair, Members of the Joint Economic Committee, thank you for inviting me to discuss this important topic today. Getting more people into the labor market and into jobs is a central part of generating broadly shared growth and raising living standards.

The United States—which used to be a world leader in labor force participation for both men and women—now substantially lags many other advanced economies.

Although the overall U.S. labor force participation rate has been stable since approximately 2015, it had been on a downward trend beginning in the year 2000. Much, but not all, of that decline is attributable to the aging of the population as more adults are retirement age. Looking across age groups: younger adults are participating less than in the last century, largely because more of them are in school;¹ adults over 55 are participating at higher rates than in the late 1990s;² participation for those aged 25–54 has been rebounding since 2015, but is still below its 1999 peak.³ There is room in the labor market for participation to rise.

Economists often focus on those of “prime” working age, between 25 and 54, as they are usually neither in school nor retired in large numbers. Prime-age men have seen a persistent downward trend in participation over the last half century, largely due to declining rates among men with less education. Research has shown that this group has seen a decline in demand for their labor, and prime-age men with less than a high school education actually make \$3.40 less an hour (adjusted for inflation) than they did in 1980.⁴

Reducing gaps in labor force participation

In my work with The Hamilton Project, we have argued that a great deal can be learned about how to lift participation from looking at the gaps across groups and the specific barriers some face. For example, while prime-age men with a bachelor’s degree or more participate at a rate of 94 percent, those with a

¹ Bauer, Lauren, Emily Moss, Ryan Nunn, and Jay Shambaugh, [2019](#), “Employment, Education and the Time Use of American Youth.”

² Bureau of Labor Statistics 2019. For more details on labor force participation trends of older workers, see Bauer, Lauren, Patrick Liu, and Jay Shambaugh, [2019](#), “Is the Continued Rise of Older Americans in the Workforce Necessary for Future Growth?”

³ Bureau of Labor Statistics, 2019.

⁴ Author’s calculations using Current Population Survey Outgoing Rotation Group data for 1980 and 2018. Data adjusted for inflation using the CPI-U-RS.

high school degree only participate at 86 percent, and those with less than a high school education participate at just 80 percent.⁵ For those with less education, taking steps to increase training and education along with other steps to lift wages could improve their labor market outcomes and directly lift participation.⁶

Low-wage U.S. labor markets are unstable, and the data show that low-wage workers are more likely to have irregular schedules and to cycle in and out of the labor force. Relying on a one-month snapshot can overestimate how many are truly out of the labor force as opposed to struggling to stay in it. In fact, of those out of the labor force in a given month who are not disabled, students, retirees, or caregivers, at least 76 percent are actually in the labor force at some point in the next 16 months.⁷ Improving worker pay, schedules, bargaining power, and worker rights in these jobs to make them more stable could help.⁸

Women represent the largest pool of untapped labor in today's labor market. U.S. women used to lead the world in participation rates; today they are in the middle of the pack of advanced economies. Of the 22 million prime-age individuals out of the labor force, almost 11 million list "taking care of family member" as the reason they are not in the labor force—and 90 percent of those individuals are women.⁹

While some are home by choice, 35 percent of women who say they want a job but are not working list family responsibilities as the barrier.¹⁰ Evidence shows that better availability of childcare (and eldercare)—in particular for lower income households—would allow more who want to work to be in the labor force and that well-designed parental leave policies could keep more women attached to the labor force after having children.¹¹

There are also massive gaps in labor force participation across places. In top-ranked counties, 88 percent of prime-age adults are in the labor force compared to 70 percent in bottom-ranked counties.¹² This gap dwarfs the drop in overall participation from 1999 to 2014. Place-based policies that try to spur labor demand in struggling regions could lift national participation. They are also important in their own right as a way to provide better economic opportunity and outcomes to a wider swath of Americans.¹³

⁵ Nunn, Ryan, Jana Parsons, and Jay Shambaugh, [2019](#), "Labor Force Nonparticipation: Trends, Causes, and Policy Solutions."

⁶ See Hoynes, Hilary, Jesse Rothstein, and Krista Ruffini, [2017](#), "Making Work Pay Better Through an Expanded Earned Income Tax Credit"; and Holzer, Harry, [2011](#), "Raising Job Quality and Skills for American Workers: Creating More-Effective Education and Workforce Development Systems in the States."

⁷ Author's calculations based on the Current Population Survey, 2018–19. Refers to the prime-age civilian population.

⁸ Shambaugh, Jay, and Ryan Nunn, eds, [2018](#), *Revitalizing Wage Growth: Policies to Get American Workers a Raise*.

⁹ Author's calculations based on the 2018 Current Population Survey.

¹⁰ Nunn, Ryan, Jana Parsons, and Jay Shambaugh, [2019](#), "Labor Force Nonparticipation: Trends, Causes, and Policy Solutions."

¹¹ See Ruhm, Christopher J., [2017](#), "A National Paid Parental Leave Policy for the United States"; Maestas, Nicole, [2017](#), "Expanding Access to Earned Sick Leave to Support Caregiving"; and Cascio, Elizabeth U, [2017](#), "Public Investments in Child Care."

¹² This contrasts the top 20 percent of counties (ranked by participation rates) with the bottom 20 percent of counties. Author's calculations based on 2013–17 American Community Survey.

¹³ Shambaugh, Jay, and Ryan Nunn, eds. [2018](#), *Place-Based Policies for Shared Economic Growth*.

There are also huge barriers to labor force participation of the formerly incarcerated. Removing those barriers and reducing the punitiveness of the criminal justice system is imperative.¹⁴ African American men have lower rates of participation, likely due in part to disproportionate incarceration rates as well as what studies show to be considerable discrimination in labor markets.¹⁵ Combatting these barriers is important.

Finally, the second largest group out of the labor force—after caregivers—are those listing health or disability as a barrier. This includes physical health, mental health, and addiction. We need better healthcare and treatment to keep people in the labor market.

It is important to note that it is poor health, not the safety net, that is a major barrier to work. Not all of those listing health or disability as a reason for being out of the labor force receive disability payments,¹⁶ and reported health measures for this group show sharply worse health relative to the overall population.¹⁷

Furthermore, there is no evidence that increasing work requirements in SNAP or introducing them in Medicaid lifts labor force participation meaningfully. Reforms to the disability system making it easier for those with health limitations to work could help;¹⁸ however, this would still not address the combined barriers this population faces of chronic health challenges coupled with low market wages.

Creating jobs is also crucial. A strong economy can raise wages, force employers to cast a wider net to find workers, and draw people into the labor market. Conversely, economic downturns damage labor force participation and should be minimized by making more use of automatic fiscal stabilizers.¹⁹

¹⁴ Piehl, Anne Morrison, [2016](#), “Putting Time Limits on the Punitiveness of the Criminal Justice System.”

¹⁵ Schanzenbach, Diane Whitmore et al., [2016](#), “Twelve Facts about Incarceration and Prisoner Reentry.” Regarding discrimination, see Bertrand and Mullainathan ([2004](#)) and Goldin and Rouse ([2000](#)) among many others.

¹⁶ Of those prime-age individuals citing poor health as the reason they did not work in the prior year, 64 percent actually receive disability income based on author’s calculations using data from the 2018 Current Population Survey Annual Social and Economic Supplement. Disability income includes income from Disability Insurance; workers compensation; veterans benefits; disability related income from Social Security or Supplemental Security Income; and disability benefits from a company, union, state or local government, U.S. railroad retirement, or private accident or disability insurance. This is an underestimate due to the known problem of the CPS undercounting receipt of disability income. Joint Economic Committee Republican Staff ([2018](#)) states that 75 percent of those listing disability as a reason for nonparticipation received SSDI or SSI based on a different data set.

¹⁷ See Joint Economic Committee Republican Staff ([2018](#)) who report lower overall reported mental and physical health for this group, Bauer and Shambaugh ([2018](#)) who show that SNAP recipients who are labor force nonparticipants due to health are highly likely to have disabilities and take daily prescription medication, and Coile and Duggan ([2019](#)) who show worsening health status for prime-age men from 2000 to today—especially for those with less education—consistent with rising numbers of individuals out of the labor force due to health.

Schanzenbach et al. ([2016](#)) shows deteriorating health for 25–49 year-olds and sharply lower health for those with low incomes.

¹⁸ See Autor, David, and Mark Duggan, [2010](#), “Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System”; and Liebman, Jeffrey B., and Jack A. Smalligan, [2013](#), “An Evidence-Based Path to Disability Insurance Reform.”

¹⁹ Boushey, Heather, Ryan Nunn, and Jay Shambaugh, eds, [2019](#), *Recession Ready: Fiscal Policies to Stabilize the American Economy*.

Americans are trying to work, but they often face major barriers. Ninety-four percent of prime-age adults out of the labor force are either disabled, taking care of relatives, students, or retired.²⁰ It is removing barriers and maintaining strong labor markets that should be a policy focus.

I look forward to any questions.

²⁰ Author's calculations based on the Current Population Survey basic monthly files for 2018. Reasons for not in the labor force categorization are based on IPUMS employment status (EMPSTAT), activity while not in the labor force (NILFACT), and reasons not looking for work (WNLOOK) variables.