

The Fairy Tale of Economic Recovery. The Decline in the US Labor Force Participation Rate is Not Due to Demographic Factors

Yellen's bi-yearly Q&A with the US Congress

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The propaganda from the Obama Administration is that the decline in the labor force participation rate from a high of about 67 % to a low of about 63 % is due to baby boomers retiring in mass. The Federal Reserve is continuing this lie. On more than one occasion during Yellen's bi-yearly Q&A with congress, she was asked about the decline in the labor force participation rate to which she replied that the decline was mainly due to demographic factors. Although this answer is vague, it is clear enough that it is similar to if not the same as the answer supplied by the White House.

How the Fed can continue this lie even though its own data refutes it is beyond comprehension. That none of the senators and congressman confronted the lie shows their culpability or their ignorance and is compatible with both. The reason we are being deceived is that the actual data and the explanation of the decline it most strongly supports are inconsistent with the fairy tale of economic recovery.

The Fed divides the labor force into four general groups: 16-19 year olds, 20-24 year olds, 25-54 year olds, and 55 and over. How is the decline in the participation rate divided between these groups? Participation amongst 16-19 year olds has declined about 10 % over the last eight years. Participation amongst 20-24 year olds has declined about 5 % over the last eight years. The participation amongst 25-54 year olds has declined about 2.5 % in the last eight years. Contrary to these groups, the participation of people 55 and over has actually increased by about 1.5 %.

(Source: <http://research.stlouisfed.org/fred2/categories/32443>)

Thus, we can see that the Fed's own data refutes its chairman's explanation of the decline. These data do not support a theory that the decline is due to an aging population. If it were not for those 55 and over, the decline would, in reality, be worse than it is, not better, because participation of every other general group is in decline. One might think that most of the decline is due to people who are uneducated. It is important to keep in mind that, although the decline is greater in the 16-19 and 20-24 groups than in the 25-54 group, these groups are small in comparison and so have less of an impact on the total participation rate. Moreover, in addition to the general groups mentioned, the Fed keeps data on more specific groups. If we look at the Fed's data for those 25 and over who have a bachelor's degree or higher, the decline in eight years is even worse than that of the 25-54 group at about 4 %.

(Source: <http://research.stlouisfed.org/fred2/series/LNU01327662>)

So, what explanation of the decline do the data most strongly support? The answer is that the data most strongly supports the view that the decline is due to serious employment problems in the United States and policies that hurt savers. Low interest rates force those 55 and over to go back to work. As high-skill jobs require training and investment by employers, companies will not employ grandpas, whom they think will soon retire, in high-skill jobs, and so they are forced to work the low-skill jobs of 16-24 year olds. 25-54 year olds compete for more high-skill jobs than exist. Most of the jobs that have been created since the great recession are low-skill service jobs

(Source: <http://www.nelp.org/page/content/lowwagerecovery2014>).

Some in this 25-54 group, being unwilling to work a low-skill job as a bartender, drop out of the labor force (we see this in the bachelor degree or higher, 25 and over data), but many, like the grandpas, are forced to take low-skill jobs. This forces 16-24 year olds to compete with those with more education and experience for low-skill jobs. Unable to compete, they drop out of the labor force.

It is absolutely stunning that the above explanation of the decline in the labor force participation rate, which is strongly supported by the data, goes unmentioned by those in power. Many congressman and senators may just be too ignorant to realize that Yellen's explanation is inconsistent with the Fed's data. The chairman of the Fed, though, is not plausibly ignorant of the Fed's own data. Yellen lies.

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