Labour force participation in the 1990s

Deborah Sunter and Geoff Bowlby

This decade opened with the longest economic downturn since the 1930s, and a recovery that appeared at first to be almost "jobless." Strong employment gains and improvements to family income in 1994 seemed to signal the end of the "jobless" recovery. However, job growth was again slow in 1995 and for most of 1996. Only since the beginning of 1997 has there been sufficiently strong job creation to nudge up the employment rate and average family incomes.

The labour force participation rate has not followed suit (Chart A). Some view its 1989 peak as the "norm," and attribute the failure of the rate to return to this norm primarily to labour market discouragement in the face of slack demand. This view has been reinforced by comparison with the U.S. participation rate, which dipped slightly during the early 1990s recession in that country, recovered to prerecession levels by 1994, and continued to move higher in subsequent years (Chart B). The failure of the Canadian rate to match that pattern appears to some to be evidence that weak labour demand here is suppressing both the participation rate and the unemployment rate.

However, that assumption warrants closer scrutiny. An examination of the age structure of the decline in participation suggests that various forces have played an important role; in particular, the growing incidence of higher education, and the trend toward earlier retirement. Moreover, available measures of labour market discouragement indicate that this phenomenon, when defined as the shortfall between current and prerecession participation rates, is greatly overestimated (see *Measuring discouragement*).

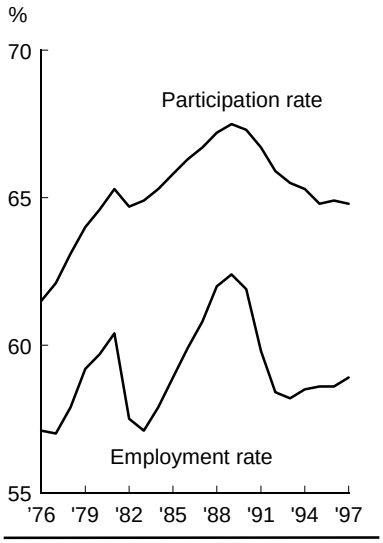
Deborah Sunter and Geoff Bowlby are with the Household Surveys Division. They can be reached at (613) 951-4740 and (613) 951-3325, respectively.

Participation rate and age

Using the 1989 participation rate as a benchmark, some observers argue that over half a million would-be workers have given up looking for work in the belief that no suitable jobs are available. With sustained job growth, they say, this larger group would be drawn back into the labour force, keeping the unemployment rate high, at least in the short term.

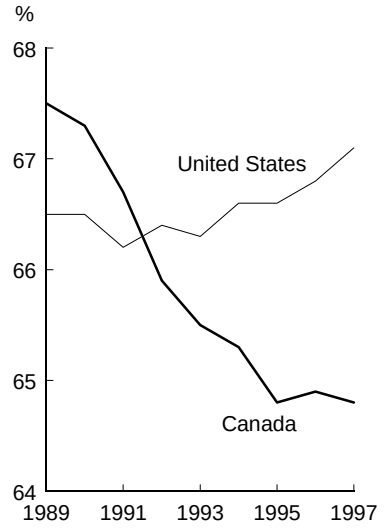
Yet when this comparison with 1989 is made for three broad age groups, fully 90% of the shortfall between the expected and the actual participation rates can be attributed to those aged under 25 or over 54.

Chart A
Labour force activity remains below 1989 peak.



Source: Labour Force Survey

Chart B
U.S. participation now exceeds Canada's.

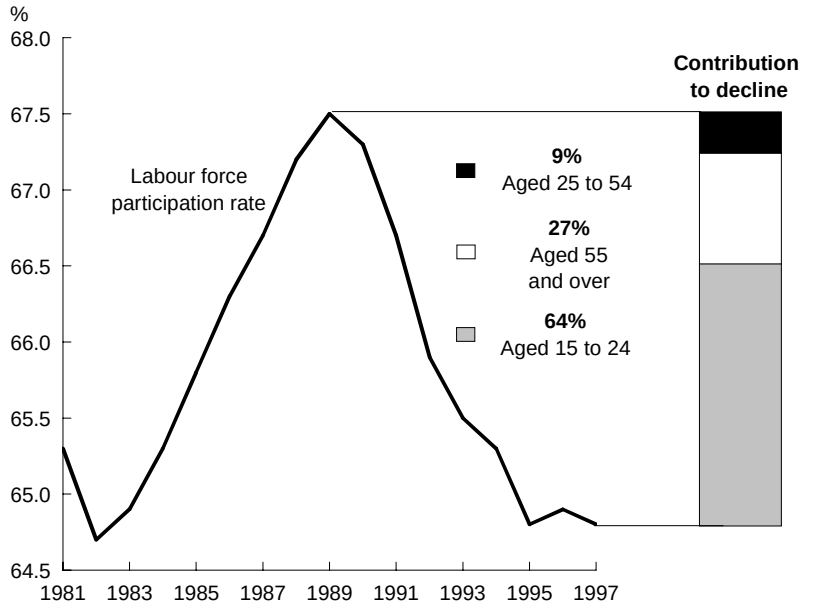


Sources: Canada, Labour Force Survey; United States, Current Population Survey

Between 1989 and 1997, youths (15 to 24) accounted for 64% of the overall shortfall and persons aged 55 or over accounted for a further 27%. The core working-age group of 25 to 54 year-olds explained only 9% (Chart C).

Furthermore, if the United States is used as a benchmark for the "normal" 1997 participation rate for Canada, these same two age groups contributed most to the difference between the two countries. In fact, the rate for 25 to 54 year-olds was only 0.3 percentage points lower in Canada than in the United States (Chart D). Therefore, any explanation of the shortfall in the participation rate, compared with either the 1989 benchmark or the current American figures, must focus on the younger and older age groups.

Chart C
Most of the drop in the overall participation rate reflects falling youth participation.



Source: Labour Force Survey

Youths, school and labour force participation

How much of youths' contribution to the shortfall between 1989 and 1997 is the result of a long-term trend toward more schooling, and how much is the result of relatively poor labour market conditions?

Labour market conditions in the 1990s have been generally difficult for youths. Their employment rate plunged in the early 1990s, reflecting a drop in hiring and a rise in layoffs for those with lower skills and little seniority. Yet six years after recovery began, youth unemployment remained stubbornly high, while their employment and participation rates lingered at or near their recession troughs. Compared with the late 1980s, when they were more active in the labour force than adults, only 61% participated in 1997. Some 66% of adults did so.

Over the same period, full-time school attendance rates rose sharply, from 48% in 1989 to 55% in 1993 and a record 58% in 1997. While the surge in the early 1990s may have reflected some degree of discouragement with labour market conditions, the upward trend is far from new. Full-time rates rose strongly throughout the expansion years of the late 1980s, when the labour market situation for youths was robust.

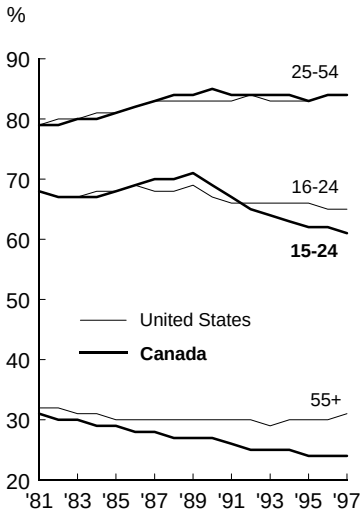
Available data also indicate that school attendance rates for Canadian youths were greater than the comparable 1997 U.S. rates, and have also grown more sharply since 1989. This probably explains some of the difference between the trends in the two countries' youth participation rates (Table 1).

Clearly, youths understand that labour market success is increasingly tied to both initial educational attainment and skills developed through work experience and ongoing training. Young people seeking entry into almost any field of work today require much higher qualifications than their parents did 20 years ago (Crompton, 1995).

Whatever the reason for the upward shift to more schooling, the result is a direct dampening effect on labour force participation, since students are much less likely to be working or looking for work than their non-student counterparts (Table 2).

Over half of the decline in young people's participation between 1989 and 1997 can be attributed to the upswing in school attendance.[1] (Had their attendance rates remained the same as those of 1989, their participation rates would have been much closer to that of adults.) A further 38% is due to a drop in the proportion of full-time students in the labour force. (It is much less common now than a

Chart D
Younger and older workers account for the Canada-U.S. participation gap.



Sources: Canada, Labour Force Survey; United States, Current Population Survey

Table 1
October school attendance * rates

		1989	1997	Percentage-point increase
		%		
16 to 19 years	Canada	73.9	80.9	*7.0*
16 to 19 years	United States	73.6	78.4	*4.8*
20 to 24 years	Canada	28.0	38.9	*10.9*
20 to 24 years	United States	27.0	34.3	*7.3*

Sources: Canada, Labour Force Survey; United States, Current Population Survey
Note: Includes full- and part-time students.
** The U.S. rates, which are based on enrolment, may be overstated.*

decade ago for youths to be working or looking for work if they are studying full time. Between 1989 and 1997, the participation rate of full-time students dropped by 7 percentage points.) Only 11% can be attributed to a decline in participation among non-students or part-time students (Chart E).

Table 2
Youth participation rates

	1980	1989	1993	1997
		%		
Students	36.0	47.3	42.6	40.3
Non-students	85.2	87.2	84.6	85.2

Source: Labour Force Survey
Note: Data are eight-month averages (January to April, September to December).

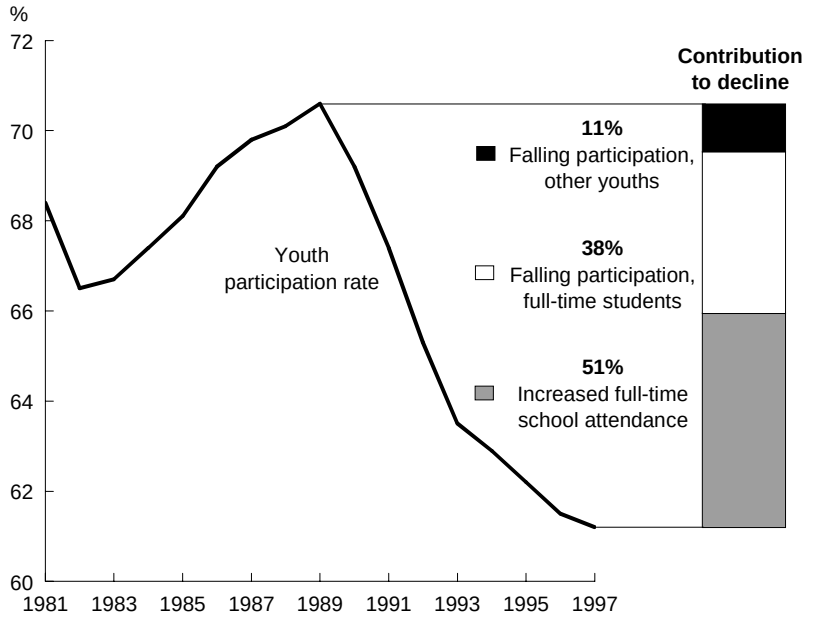
Increased school attendance has also had a dampening effect on youth participation during the summer. Growth in the proportion of youths who are between school years (that is, planning to return to school in September) accounts for about 30% of the overall decline in the youth participation rate from May to August. Almost 60% of the shortfall is accounted for by lower participation of these returning students, probably because summer jobs have been relatively hard to come by in the 1990s. Only 12% of the drop is associated with those who have left school (Chart F).

Provincial variations in school attendance

Factors underlying the drop in the youth participation rate in the 1990s have varied across provinces. For example, in spite of rising participation among full- and part-time students and non-student youths, young people's overall rate in Saskatchewan actually dropped between 1989 and 1997, accounted for entirely by school attendance. A growing number of full-time students drove the rate down (Table 3).

A similar story prevailed in Manitoba, where participation by full-time students barely changed. About 84% of the drop in youth participation in that province can be attributed to higher full-time school attendance. In Newfoundland, the school attendance rate increased by 12 percentage

Chart E
The decline in youth labour force participation reflects mostly a rise in full-time school attendance.



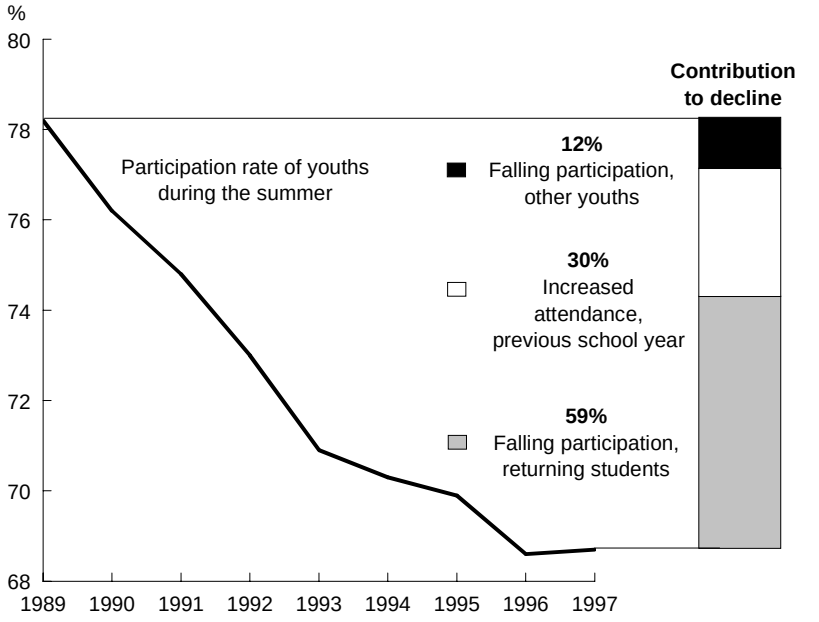
Source: Labour Force Survey

Table 3
Factors of decline in youth participation rates by province

	1997 rates			Change from 1989			Contribution to decline		
		Labour force participation			Labour force participation			Labour force participation	
	Full-time school attendance	Full-time students	Part-time and non-students	Full-time school attendance	Full-time students	Part-time and non-students	Full-time school attendance	Full-time students	Part-time and non-students
		%			percentage points			%	
Canada	**58.2**	**37.7**	**85.1**	***10.5***	***-6.8***	***-2.3***	**51**	**38**	**11**
Newfoundland	61.1	15.1	68.6	*12.0*	*-0.7*	*-2.4*	82	5	14
Prince Edward Island *	53.6	34.3	90.2	*5.8*	*-2.8*	*7.0*	...	...	...
Nova Scotia	57.8	35.2	83.1	*8.3*	*-3.7*	*-1.2*	61	31	9
New Brunswick	53.6	27.4	78.7	*6.5*	*-1.9*	*-2.0*	63	18	19
Quebec	60.6	31.4	83.1	*14.1*	*-5.7*	*-2.2*	63	28	9
Ontario	61.5	42.4	86.0	*10.9*	*-9.6*	*-4.0*	38	47	15
Manitoba	50.4	47.2	88.0	*5.5*	*-0.4*	*-0.5*	84	8	10
Saskatchewan	53.0	38.8	86.8	*6.4*	*0.6*	*1.5*	100	-	-
Alberta *	52.0	42.4	89.6	*7.1*	*-1.7*	*1.9*	...	...	...
British Columbia	53.4	36.1	85.1	*10.1*	*-11.2*	*-5.0*	36	43	20

Source: Labour Force Survey
Note: Data are eight-month averages (January to April, September to December).
* *In these two provinces the participation rate for some groups of youths rose while that for others fell. This produces non-meaningful results.*

Chart F
Summer jobs have been relatively hard to find in the 1990s.



Source: Labour Force Survey

points between 1989 and 1997, accounting for 82% of the decline in labour force participation by young people. In Quebec, school attendance rates rose by 14 percentage points, the source of almost two-thirds of the drop in youth participation.

By contrast, large drops in the participation rates of full-time students contributed most to the overall decline in youth participation in both Ontario and British Columbia (11 and 10 percentage points, respectively).

Effect of earlier retirement

Persons aged 55 and over have been the second greatest contributor to the overall decline in the labour force participation rate in the 1990s. This group was also the source of the greatest difference between U.S. and Canadian rates in 1997, a gap that opened in the mid-1980s and has widened since.

Measuring discouragement

The Labour Force Survey measures discouragement directly through a series of explicit questions. Respondents to the survey who are not currently employed and are not looking for work are asked:

"Did you want a job last week? What was the main reason you did not look for work last week? Could you have worked in the last week if a suitable job had been offered?"

The following table presents a breakdown of the Canadian working-age population (15 and over) by labour force status, and then further subdivides those not in the labour force according to their responses.

Working-age population, 1997

	'000
Population 15+	**23,687**
Employed	**13,941**
Unemployed	**1,414**
Not in the labour force	**8,333**
Not able to work	654
May be able to work	7,678
Wanted a job if suitable work had been offered	458
Non-economic reasons for not looking	**269**
Illness	48
Personal/family reasons	64
School	93
No reason/other	64
Economic reasons for not looking	**188**
Discouraged, believed no work available	108
Waiting for recall	56
Waiting for replies	24

Those who wanted a job, and were available for work but did not look because they believed no suitable work was available are classified, in accordance with international standards, as **discouraged**. While not included in the official estimates of the labour force and unemployment, they are closely monitored, since they represent potential labour supply and provide a barometer of labour market conditions. Similarly, those who wanted a job and were available, but did not look because they were waiting for replies or recall from employers, while not discouraged, are also on the margins of the labour force and are not active for economic reasons (Jones and Riddell, forthcoming).

If the shortfall between the "expected" and the actual participation rates in 1997 were the result of hidden unemployment, the estimate of those not active in the labour force for economic reasons should be over half a million. However, on average, only 188,000 persons were not in the labour force for economic reasons, and within this group, just 108,000 were discouraged workers.

The relative magnitude of discouragement can be looked at in two ways. Expressing discouragement as a percentage of the labour force reflects the potential effect of the discouraged on unemployment figures. On the other hand, using those not in the labour force as the denominator identifies the population at risk, since only this group can be considered as discouraged.

Expressed as a percentage of the labour force, discouragement is relatively low, at 0.7%. It is most prevalent for those aged 55 and over, and lowest for core-aged workers (25 to 54). This pattern also holds when the measure is broadened to include all those on the margins of the labour force because of economic reasons.

When the non-labour force (that is, the number of people not classified as employed or unemployed) is used as the denominator, the pattern changes. Since most 25 to 54 year-old men and many women in this age group have few alternatives to participating in the labour force, those who are not active are more likely to be discouraged or marginally attached in some way than are older and younger groups.

Education greatly influences the discouraged-to-labour force ratio. At 3.1%, it is over six times greater for persons with no more than a Grade 8 education than for those with a postsecondary certificate or diploma (0.4%) or university degree (0.2%).

In relative terms, labour market discouragement tends to be greater in areas with chronically high unemployment rates, most notably Newfoundland. Rates are also above the national average in the other Atlantic provinces and Quebec, and below average in Ontario and the western provinces.

Discouraged workers by province, 1997

	Total	As % of labour force	As % of non-labour force
	'000	%	
Canada	**108**	**0.7**	**1.3**
Nfld.	21	8.9	9.9
P.E.I.	1	0.8	1.7
N.S.	6	1.3	2.0
N.B.	6	1.5	2.3
Que.	31	0.9	1.4
Ont.	26	0.4	0.9
Man.	2	0.4	0.8
Sask.	3	0.5	1.0
Alta.	3	0.2	0.6
B.C.	9	0.5	0.8

Marginal labour force attachment, 1997

		Not in the labour force for economic reasons *			
		Total as % of		Discouraged as % of	
		Labour force	Non-labour force	Labour force	Non-labour force
		%			
15+	**Both sexes**	**1.2**	**2.3**	**0.7**	**1.3**
15-24	Men	1.5	2.6	0.9	1.5
	Women	1.3	1.8	0.8	1.1
25-54	Men	1.0	10.6	0.5	4.9
	Women	1.1	3.7	0.7	2.3
55+	Men	1.9	0.9	1.2	0.6
	Women	2.3	0.5	1.7	0.3

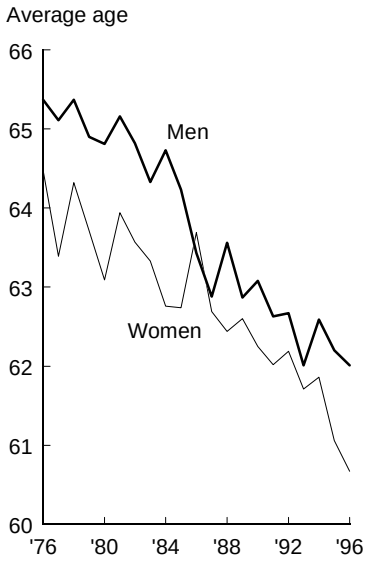
* *Includes discouraged, and those waiting for replies or recall.*

The labour force participation rate of men aged 55 to 64 has been on a long-term decline, falling from 77% in 1976 to 59% in 1995. (In 1996 and 1997, the rate actually edged up slightly for the first time in over 20 years.) In contrast to older men, older women have been increasingly likely to participate in the labour force: their participation rates have risen from 32% in 1976 to 36% in 1997.

The decline in men's participation in the 1970s and 1980s reflected the growing numbers who were retiring earlier, perhaps taking advantage of early retirement incentives (see *Retirement*). In the 1990s, the average age at retirement has continued to fall, although at a slower pace (Gower, 1997) (Chart G).

However, the continued decline in participation among older men has led to concern that this group may now face a greater risk of involuntary job loss than younger workers – in a labour market that increasingly values postsecondary education, technological skill and flexibility.

Chart G
People are retiring younger.



Source: Labour Force Survey

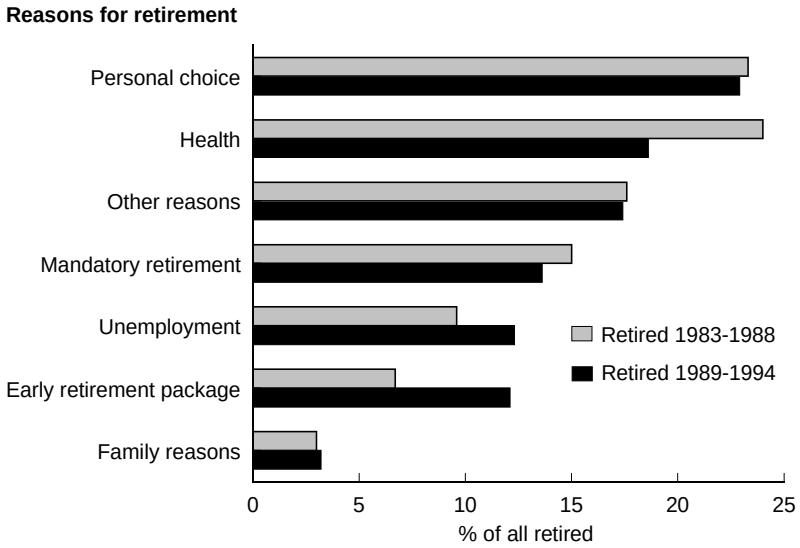
So, how much of this decline is due to voluntary retirement, and how much is a reflection of discouragement following involuntary job loss? The data suggest that both factors have contributed.

Between the late 1970s and early 1990s, the risk of permanent layoff changed very little for the overall working population (Picot, Lin and Pyper, 1997). But the risk actually increased slightly for older workers over this period. While least likely to experience an involuntary job loss in the late 1970s, older workers were more likely to be permanently laid off in the 1980s, and slightly more at risk than workers aged 35 to 54 by 1994. However, the increase has not been strong: the permanent layoff rate for older men rose from 6.9% in 1978 to 8.6% in 1994. For women, the increase was even smaller, from 3.9% to 4.5%.

Retirement

Reasons for retirement are complex and diverse, so the continued drop in the average age of retirement is not solely the result of forced exits from the labour force. In fact, the reasons for retirement, as measured by Statistics Canada's General Social Survey, changed only marginally between the expansion years of the 1980s and the recession-dominated years of the early 1990s. While the proportion of persons who retired because of early retirement incentives almost doubled, from 7% to 12%, the proportion reporting unemployment as their main reason for retirement rose only slightly, from 10% to 12%. Personal choice and health remained the leading reasons in the early 1990s.

Incentives may have spurred early retirement in the 1990s.



Source: General Social Survey, 1994

While the risk of layoff has risen only slightly, some groups of older workers have been especially vulnerable: those with relatively low levels of education, and those in the higher unemployment areas of the Atlantic provinces and Quebec. Once laid off, older workers, especially those who lack postsecondary qualifications, have had a much harder time finding a replacement job than younger adults (Statistics Canada, 1998).

Job loss has affected older workers in different ways. For example, a considerable proportion who lost jobs in the 1990s were government workers, many of whom may have been eligible for early retirement packages that provided a bridge to their normal retirement benefits. Those who experienced job loss without such compensation have been at a disadvantage, at least until old enough to receive C/QPP benefits. In the interim, they have most likely faced serious barriers to re-employment.

Conclusion

The failure of the labour force participation rate to match or exceed 1989 levels has sparked a great deal of interest and debate. Many observers attribute the shortfall between the current participation rate and that of 1989 as an indicator of the extent of labour market discouragement. However, an examination of the age structure of the decline suggests that other structural forces such as education and early retirement have played an important role. These findings are further supported by the direct measure of discouragement from the LFS, which, at 108,000 in 1997, is a great deal lower than an estimate based on the difference between the current and pre-recession participation rates. □

Note

1 Another study (Jennings, 1998) reached a similar conclusion.

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