



## Enter Late, Exit Early

A country's per-person output can be divided into four factors: the percent of its population that is working age (between the ages of 15 or 16 and 64); the percent of the working age population in the labor force (the labor force participation rate); the percent of its labor force that is employed; and, the productivity of these workers. In both the United States and Europe, the working-age population, relative to the total population, is expected to decline throughout this century. Thus, in order for output (and, hence, income) per person to rise, this decline must be offset by increases in some, or all, of the other three factors.

The importance of the unemployment rate and productivity growth are well-known, but less attention has been given to the labor force participation rate. In 1998, 77.4 percent of the working age population in the United States was in the labor force, compared to 70.8 percent in Germany and 67.4 percent in France. As the table shows, over the past 30 years the participation rate rose sharply in the United States, only slightly in Germany, and it remained nearly constant in France. In all three countries, the percent of working-age women in the labor force increased substantially, while the participation rate for men declined.

Labor force participation rates of prime-age men, those between the ages of 25-54, have varied only slightly across countries and over time. In fact, slightly more French men in this age group were in the labor force, than their German or American counterparts. Men, particularly in Europe, are entering the labor force later and leaving earlier.

In all three countries, there has been a decline in the labor force participation rate of men aged 20-24, but this decline is most notable in France. One reason men in Europe may be delaying their entry into the labor force is the high rates of unemployment among this age group and higher subsidies for education,

which reduce the incentives for students to combine school and work.

The most pronounced change has been the reduction in the participation rates of older men, especially in Europe. The pension system is a primary determinant of labor force participation for older men. For example, the normal retirement age was reduced in France from 65 to 60 during the 1980s, which resulted in a drop in labor force participation for older workers. Moreover, pension systems, particularly in Europe, combine generous pension benefits with a high effective tax on pension-eligible individuals who remain in the workforce.

Although women's labor force participation has risen, there is no indication that women are entering the workforce earlier than men or exiting later. Thus, if the recent trends in the tendency to enter the labor force late and exit early continue, unemployment rates must fall and productivity gains must increase to produce a rise in the income levels per person in both the United States and Europe.

—Patricia S. Pollard

Labor Force Participation Rates (percent)

	France		Germany		U.S.	
	1967	1998	1967	1998	1967	1998
Total	67.6	67.4	69.2	70.8	69.2	77.4
Women	47.8	60.8	47.5	62.6	47.8	70.7
Men	87.7	74.1	93.1	78.7	91.2	84.2
<b>20-24</b>	85.8	52.9	86.2	72	85.4	82.0
<b>25-54</b>	95.8	94.5	96.5	93.2	95.5	91.8
<b>60-64</b>	63.0	15.3	77.7	29.9	76.9	55.4

Source: Organization for Economic Cooperation and Development.

