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JOBS RECOVERY IS LEAVING OLDER WORKERS BEHIND

One reason for the drop in unemployment is a wave of people 55 and older leaving the labor force, which is bad news for the economy.

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Employment growth has slowed over the past few months as the winter spike in Covid-19 led to new restrictions and more people unable to go to their jobs because they're sick or quarantining. But one important group of workers has seen progress stall out since August: those over the age of 55.

A labor market recovery can't be inclusive if it doesn't include older workers. A failure to draw them back in will mean reduced potential for the economy and the possibility that inflation becomes a concern earlier than expected.

The stall for older workers is because many are leaving the labor force, which helps explain why the overall unemployment rate is improving more quickly than the headline gains in employment would suggest. By now we know that when we get a jobs report like we did Friday, with employment growth of just 49,000 while the unemployment rate fell to 6.3 percent from 6.7 percent, it's a function of people leaving the labor force. That's not something we want to see when we're worried about labor-market scarring. Even more concerning is the extent to which these labor force exits are occurring among older workers, who may have a harder time finding employment later on.

The decline in labor force participation among older workers is new, and something that didn't happen during the 2008 financial crisis. Between the end of 2007 and the end of 2009, labor force participation for workers over the age of 55 increased by 1 percent. Since the pandemic began, participation for that same age group has fallen by 2 percent – in other words, the number of people working over the age of 55 is down by two million today versus where it would be at a pre-pandemic labor force participation rate.

Another way to see this age tiering in action is to look at changes in employment level by age over the past several months. Since August, we've added back 2.7 million jobs for workers under the age of 55. For workers over the age of 55? Just 28,000.

There are lots of reasons why older workers may have left the labor force over the past year. Maybe they were concerned for their health given the age profile of who's most at risk from Covid-19. Maybe they were thinking about retiring soon anyway, and the pandemic accelerated those plans, or they took a buyout from their company. Maybe ageism factored into the layoff decision-making of some employers. Maybe they dropped out to act as caretakers for aging relatives or for grandchildren, with schools being closed in many communities.

Some of these workers may be content to stay retired after the pandemic winds down; This could be another form of the pandemic accelerating trends that were already underway, with the large Baby Boomer generation set to retire in the years to come. But it's unlikely that anywhere close to all two million of these people who were in the labor force a year ago want to remain in their current situation. And it's probably easier for some of these workers to come back than others – a hospitality worker on furlough versus a Boeing engineer who took a buyout, for instance.

Without these workers coming back, the labor market – and overall economy – may hit a speed bump sooner than expected. Part of the rationale for a $1.9 trillion fiscal relief bill now, followed by a large infrastructure bill later in the year, is that inflation is low and spare capacity in the economy is high, so we can do all this spending without worrying about economic overheating. If we've permanently lost two million workers, labor market constraints might kick in earlier than we think.

One opportunity for addressing this dynamic might be in the infrastructure bill Democrats are expected to introduce later this year when the pandemic is less pressing (and when the congressional calendar will allow them to pass another budgetary bill using the reconciliation process, which would require only 50 votes in the Senate to pass). By then we should have a better feel for the dynamics of labor force participation for older workers in the recovery, and where shortfalls remain.

An administration whose slogan is "Build Back Better" and that's focused on an inclusive economy can't leave behind older workers who have been displaced by the pandemic. That could mean the government provides financial incentives for hiring older workers or funding for programs that retrain those looking to change fields.

The alternative is lost output, the potential for inflation to rear its head earlier than expected, and resentment at yet another economic cycle that left behind a swath of vulnerable workers.