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Labour Force Participation

The labour force participation rate is an estimate of an economy's active workforce. The U.S. government's labour force participation rate formula is the number of people ages 16 and older who are employed or actively seeking employment, divided by the total non-institutionalized, civilian working-age population.

As of December 2024, the U.S. labour force participation rate was 62.5%, according to the Bureau of Labour Statistics (BLS), which publishes the figures monthly.

- The labour force participation rate indicates the percentage of working-age people who are employed or are actively seeking work.
- In conjunction with the unemployment numbers, it offers some perspective into the state of the economy.
- Social, demographic, and economic trends cause the rate to fluctuate from month to month.
- Global labour force participation has shown a steady decline since 1990.

Understanding the Labour Force Participation Rate

The labour force participation rate is an important metric to use when analyzing employment and unemployment data because it measures the number of people who are actively job-hunting as well as those who are currently employed.

It includes all other people aged 16 or older and compares the proportion of those who are working or seeking work outside the home to those who are neither working nor seeking work outside the home. It omits institutionalized people, such as individuals in prisons, nursing homes, mental health facilities, and members of the military.

The labour force participation rate is considered to be somewhat more reliable than the unemployment rate because it accounts for people who have given up looking for work. The unemployment numbers do not take into account those who have given up looking for work.

Labour Force Participation Rate Formula

The formula for labour force participation is:

$$\frac{(\text{Number Employed} + \text{Number Seeking Work}) \times 100}{\text{Civilian Non-Institutional Population}}$$

This applies to all members of the population at age 16 or older.

Factors That Affect the Participation Rate

Labour force participation is affected by numerous social, economic, and demographic factors. As these factors change, labour force participation goes up or down. These changes can happen quickly or slowly. They might have a short-term impact on labour force participation, or they might create long-term change.

Economic Factors

Short- and long-term economic trends influence the labour force participation rate. In the long run, industrialization and the accumulation of wealth can have an impact.

Industrialization tends to increase participation by creating employment opportunities. High levels of accumulated wealth can reduce participation because wealthier people simply have less need to work for a living.

In the short term, business cycles and unemployment rates influence the participation rate. During an economic recession, the labour force participation rate tends to fall because many laid-off workers become discouraged and give up looking for jobs. Economic policies such as heavy labour market regulation and generous social benefit programs may tend to decrease labour force participation.

Social Factors

Social expectations and changes to those expectations affect who is available to participate in the workforce. As different groups are expected to work or not, the labour force participation rate will go up or down.

For example, if married men are considered responsible for supporting their families, while married women are encouraged to stay home, women will stop working once married or after having children, which lowers the labour force participation rate. If the expectation is that both parents should be able to work, some parents of either gender will opt to stay in the workforce.

Educational expectations impact the labour force participation rate. If more young people learn a trade or a family business as they are growing up and skip college, adults start entering the workforce between the ages of 17 and 19.

In countries or demographic groups where a college degree is regarded as a necessity, more young adults will continue their education after high school. Labour force participation will go down because they won't join the workforce until their early or mid-twenties.

Demographic Factors

Changes in the working-age population from generation to generation influence labour force participation. As large age cohorts reach retirement age, the labour force participation rate can fall.

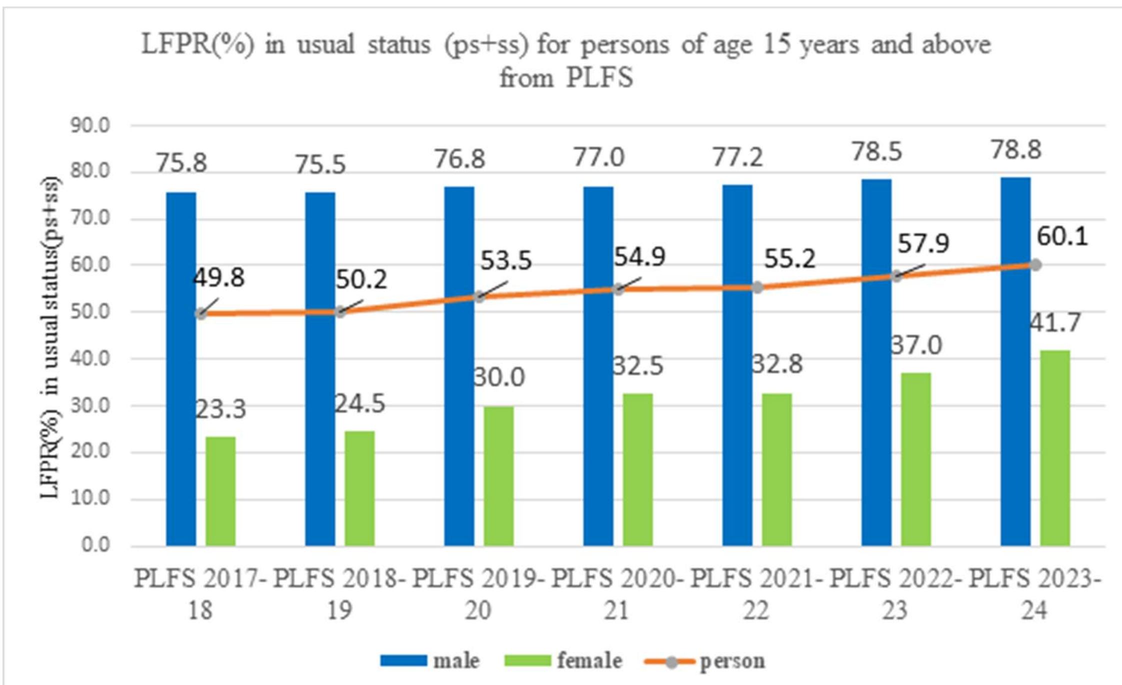
For example, the retirement of a steady stream of baby boomers has reduced labour force participation. Baby boomers are one of the largest demographic blocks in the population. Since generations after the baby boomers are smaller, they will not be replaced by as many active, younger workers when they retire.

labour force participation in India

Recently, the **National Statistical Office (NSO)** released the annual **Periodic Labour Force Survey (PLFS) report 2023-24,** showing the unemployment rate **stagnated at 3.2%** that raises concerns about the inability to **generate enough formal jobs**.

What are the Key Highlights of the PLFS report 2023-24?

- **Stagnant Unemployment Rate:** The **unemployment rate for 2023-24** remained unchanged at **3.2%**, the same as in 2022-23.
    - This marks the **first time** since the inception of the PLFS in **2017-18** that the unemployment rate has **not shown a year-on-year decline**.
- **Labour Force Participation Rate (LFPR):** It showed a **significant increase** in LFPR to **60.1% in 2023-24 from 57.9% in 2022-23** at national level.
    - The **rural LFPR rose to 63.7%**, while the **urban LFPR increased to 52%.** It suggests more people are seeking work in rural areas, possibly due to **reverse migration** or limited urban job opportunities during and after the pandemic.
        - LFPR represents the share of people **either working or seeking work** in the population.
- **Increasing Trend in Worker Population Ratio (WPR):** WPR was **58.2% in** the year 2023-2024. The same for **male and female** was **76.3% and 40.3%** respectively.
    - WPR is defined as the percentage of employed persons in the population.
- **Marginal Improvement in Job Quality:** There was a marginal improvement in job **quality**, with the share of **salaried or regular wage workers** increasing by **0.8** percentage points to **21.7%**.
- **Urban and Rural Divergence:** The unemployment rate in rural areas showed a slight increase, rising to **2.5%** in 2023-24 from **2.4%** in 2022-23.
    - In contrast, the **urban unemployment rate** improved, falling to **5.1%** from **5.4%.**
- **Gender Disparity:** The **unemployment rate** for **women rose to 3.2%** (up from 2.9% in 2022-23), while for **men,** it slightly **decreased to 3.2%** from 3.3%.

- **Increase in Self-Employment and Unpaid Work:** The share of people engaged in self-employment, including unpaid household work and small businesses, increased to **58.4%** from **57.3%** in 2022-23.
    - Self-employment includes both **entrepreneurial ventures and precarious informal work**, making it a mixed indicator of job quality.
- **Challenges in Creating Decent Jobs:** The inability of the economy to generate enough **decent jobs** is pushing more people into **self-employment**, often in the informal sector or unpaid family roles.
    - The share of **wage employment** remains significantly lower than in the pre-pandemic period, highlighting the difficulty in creating formal and secure jobs.
- 

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- What are Key Facts About the PLFS Report?
- **About:** It is conducted by the NSO under the **Ministry of Statistics and Programme Implementation (MoSPI)** to measure the employment and unemployment situation in India.
    - It was developed to address the limitations of earlier labour force surveys conducted by the **National Sample Survey Office (NSSO)**.
- **Two Primary Objectives of PLFS:** It was designed with **two major objectives** for measuring employment and unemployment:
    - **First Objective**: To measure the **dynamics of labour force participation and employment status** at short intervals (every three months) for **urban areas** using the **Current Weekly Status (CWS)** approach.

  - **Second Objective**: To measure **labour force estimates** for both **rural and urban areas** using the **Usual Status** and **CWS** parameters.

- **Innovations in Sampling Design and Data Collection:** The PLFS introduced **changes in the sampling design** and the **structure of the schedule of inquiry** compared to the previous quinquennial surveys conducted by the NSSO.
  - The PLFS also included **additional data,** such as the **number of hours worked**, which was not collected in the earlier **quinquennial** rounds of the NSSO.

Why India Struggles to Generate Enough Formal Jobs?

- **Increasing Informalisation in Employment:** The rise in employment in **agriculture, and construction** is tied to increased informalisation.
  - As these are generally **unprotected by labour laws**, with no access to social security, or job security.
- **Technological Advancements:** The introduction of **AI and IoT** threatens job prospects for even **skilled workers**, further complicating the employment scenario. There is growing concern that **automation and digitisation** will reduce labour demand.
  - Examples, such as layoffs in IT firms shows **automation** can reduce job opportunities, even for skilled workers.
- **Growing Jobseekers:** The **increase in educated job seekers**, particularly those with graduate degrees, raises concerns about the **availability of suitable jobs**, as the demand for such employment appears to be **shrinking.**
- **Policy Missteps:** Policy like **demonetization in 2016** and the poorly implemented **Goods and Services Tax (GST) in 2017** have adversely affected **MSMEs,** leading to a further decline in job creation which employs most of **India's workforce.**
- **Stagnant Service Sector:** The output share of sectors like **transport, storage, communication, and financial services** remained steady but their employment share dropped from **6% to 5%, with financial services falling below 1%.**
- **Skill Mismatch:** Despite the government's focus on skilling, the share of workers in skilled jobs fell from **18% in 2018-19 to 14% in 2022-23**.
  - This, along with **widening inequality** and a **declining worker-to-population ratio** highlights the growing unemployment challenges.
- **Sectoral Diversification:** Investments in **manufacturing, renewable energy, and technological innovation** can create jobs with greater productivity and higher wages.
- **Strengthening MSMEs:** Micro, Small, and Medium Enterprises (MSMEs) need **targeted financial support**, tax relief, and a **streamlined regulatory environment** to help them recover and expand their employment capacity.

- **Human-Centric Tech Adaptation:** Emphasis should be placed on encouraging innovation in sectors that have **high labour absorption capacity,** such as renewable energy, healthcare, and sustainable manufacturing**,** which are less likely to be fully automated.
- **Industry-Aligned Skill Development:** The government's skilling initiatives should be aligned with **current and future industry needs** and include training in **emerging fields** such as **green jobs, AI ethics, cybersecurity, and data analytics.**
- **High-Potential Service Sectors:** The focus should also be on encouraging the growth of **new-age services** like **e-commerce, logistics**, and **online education**, which have the potential to generate employment for a variety of skill levels.