

Obesity and labor market outcomes

Since the mid-1970s, unemployment rates among U.S. workers have been slowly trending downward, and the overall health of the population has been improving, as measured by declining mortality rates. Over the same period, the labor force participation rate for men aged 25 to 54—the proportion of that population either working or actively seeking work—declined slightly.

There also has been a well-documented rise in obesity and related health problems over the last 30 years, as well as an expansion of the Social Security Disability Insurance (SSDI) program. In a recent article in the Federal Reserve Bank of Chicago's *Economic Perspectives* (first quarter, 2008), economists Kristin F. Butcher and Kyung H. Park examine the relationship between obesity, disability, and labor market outcomes. In particular, they ask, What role has increased obesity played in the decline in labor force participation among men aged 25 to 54 over the last 30 years?

Butcher and Park analyze the issue from both a “supply-side” and a “demand-side” perspective. On the supply side, obesity might affect a person's ability to work—due to poor health, perhaps, or low self-esteem. On the demand side, employers might be reluctant to hire obese people, fearing that they will be less productive than other workers or that health care costs for obese workers will be greater than for other workers.

The authors attempt to distinguish “the changes that occurred in health and employment because of the increase in the fraction of the population that is obese from the changes that are due to changes in the differences in outcomes between obese and nonobese individuals.” But their

analysis finds little evidence for the dominance of either supply-side factors or demand-side factors.

Butcher and Park's main finding is that the *characteristics* of men aged 25 to 54—their age, race, and ethnicity, as well as their obesity levels—have changed over time. These changes explain “around 40 percent” of the decline in labor force participation rates during the period, with about 10 percentage points attributable to increased obesity. The authors thus conclude that “the obesity epidemic may be playing an important role in changing labor market outcomes.”

Inflation and inflation expectations

In the late 1970s, prices for consumer goods excluding food and energy—often called “core inflation”—increased substantially, while prices for crude oil increased more than 300 percent. During the same period, long-term inflation expectations rose sharply as well. But since 2001, even as crude oil prices have increased some 400 percent, core inflation and inflation expectations have been relatively stable. This change has led some researchers to investigate the relationship between long-term expectations about inflation and the actual behavior of inflation. In a recent issue of the Federal Reserve Bank of Kansas City's *Economic Review* (first quarter, 2008), economists Todd E. Clark and Taisuke Nakata examine the issue using a number of statistical models.

In particular, the authors analyze the *influence* of long-term inflation expectations on inflation, as well as the *anchoring* of inflation and expectations. If influence has risen over the last several decades, there should be a correlation between expectations and the actual behavior of inflation during

that period. If inflation and expectations have become more anchored over time, they will be less sensitive to news about the economy—for example, the public expects the Federal Reserve to act to control inflation in the face of indications that it is rising. Clark and Nakata find “modest evidence” that the influence of expectations on actual inflation has increased since the late 1970s and that inflation and expectations have become somewhat better anchored. In other words, expectations about inflation have somewhat more influence on inflation than they did 20 or 30 years ago, and when the inflation rate increases sharply, it tends to return to baseline more quickly than in the past.

The authors also assess the role of economic shocks—sudden, unexpected changes to inflation, to inflation expectations, and to other macroeconomic variables. Such changes are usually caused by external factors, such as the oil price shocks of the late 1970s. If shocks to inflation have become smaller over time, the differential between core inflation and long-term expectations—which the authors call “detrended inflation”—would tend to decrease. Clark and Nakata use the regression errors in their model as a measure of sudden changes (shocks) in inflation. They find that the “increased stability of inflation and expectations in recent years is largely due to smaller shocks to the economy.” □

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