South Carolina Task Force on Labor Force Participation

Initial Analysis

South Carolina Department of Employment and Workforce

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Department of Employment and Workforce

Our mission: To promote and support an effective, customer-driven workforce system that facilitates financial stability and economic prosperity for employers, individuals, and communities.

Our vision: To be viewed as an efficient, transparent, customer-friendly partner in providing quality workforce solutions.

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Introduction

There are many ways to measure the prosperity of a state. One commonly used metric is median household income, which can be used to gauge how much a typical individual or family could consume in goods and services. Additionally, the poverty rate, which measures the share of households unable to meet even a basic standard of living, can provide insight on those who are less fortunate. More typically, states are compared using their gross domestic product, which tabulates all economic activity.

No matter what metric of progress is chosen, the prescriptions for economic growth are clear, if not always easy to achieve. The State of South Carolina attracts and retains employers often by providing incentives to ensure the continued economic vitality of its people. Public investments in infrastructure, education, and other capital goods can help generate an environment where employers can prosper and pay good wages to their workers.

Ultimately, however, for any locale to have a robust economic future, there must be a large, skilled workforce to support the wide range of employers necessary to build a diverse commercial base. The scale of even modest changes in the labor force participation (LFP) rate can make a dramatic difference in the state's economy. For example, increasing the South Carolina LFP rate by just one percentage point from its December 2021 level of 57.0 percent would introduce over 42,000 potential employees to the state's workforce, producing dramatic impacts for individuals, businesses, and the state.

According to the American Community Survey, the median South Carolinian earned $32,748 in 2020. If each of these new workers earned a typical salary, a one percentage point increase in labor participation would grow the state's wages by $1.4 billion per year. This, in turn, would generate tax revenue at a local, state, and federal level. Assuming a three percent effective tax rate in South Carolina, an additional $1.4 billion in wages could generate as much as $42 million in additional income taxes as well as tens of millions in sales taxes derived from new consumption. Meanwhile, increased earnings would lift many households out of poverty, decreasing state expenses on means-tested programs like Medicaid and SNAP (i.e., food stamps). Therefore, the continued excellent fiscal condition of our state relies on growing our labor force.

The remainder of this document will review existing data on LFP in South Carolina, including comparisons to the national average and an analysis of participation by race, sex, and age. Existing research from beyond our state will be reviewed briefly, followed by a synopsis of what we know and what insights we hope to develop from the convening of this taskforce.

Current Conditions

Unemployment: The most recent data available are from the December 2021 Local Area Unemployment Statistics, produced by DEW in conjunction with the U.S. Bureau of Labor Statistics (BLS) and released publicly on January 25. South Carolina had a preliminary, seasonally adjusted unemployment rate of 3.5 percent, which is generally reflective of an extremely robust economy. It is estimated that there are only about 85,000 people statewide able and willing to work but could not find a job, the unemployed.

Labor Force: However, only 57.0 percent of the civilian noninstitutional population aged 16 or older reported that they were in the labor force. About 2.4 million South Carolinians are currently working or are seeking work, compared with the estimated 4.2 million who are legally eligible to work (see Exhibit 1). That 57 percent figure is only a fraction of a percentage point above the lowest on record for the state since data began in 1976. It is also well below the comparable national figure of 61.9 percent and is better than only four other states, which raises concerns that the labor market may not be optimally serving the state's employers or its residents.

Exhibit 1: Employment Situation: December 2021 vs. February 2020 (pre-pandemic)

	South Carolina	United States
Eligible Workers	4,221,496 +115,036 vs. Feb. 2020 +2.8% vs. Feb. 2020	262,136,000 +2,542,000 vs. Feb. 2020 +1.0% vs. Feb. 2020
Labor Force	2,405,807 +40,486 vs. Feb. 2020 +1.7% vs. Feb. 2020	162,294,000 -2,289,000 vs. Feb. 2020 -1.8% vs. Feb. 2020
LFP Rate	57.0 percent -0.6 pts vs. Feb. 2020	61.9 percent -1.5 pts vs. Feb. 2020
Employment	2,320,717 +21,376 vs. Feb. 2020 +0.9% vs. Feb. 2020	155,975,000 -2,891,000 vs. Feb. 2020 -1.8% vs. Feb. 2020
Unemployment Rate	3.5 percent +0.7 pts vs. Feb. 2020	3.9 percent +0.4 pts vs. Feb. 2020

Source: Local Area Unemployment Statistics (SC) and Current Population Survey (US), seasonally adjusted

While not everyone who could work can or should be in the labor force (e.g., retirees or caregivers for elderly relatives), there may be a substantial number of South Carolinians who have either dropped out of the labor force but could be convinced to work under the right circumstances or who were never employed due to disability, lack of awareness of job opportunities, limited access to transportation, insufficient skills, or some combination of these and other factors. Identifying strategies to bring as many of these individuals as possible into the labor force is the core mission of this taskforce.

LFP Trends

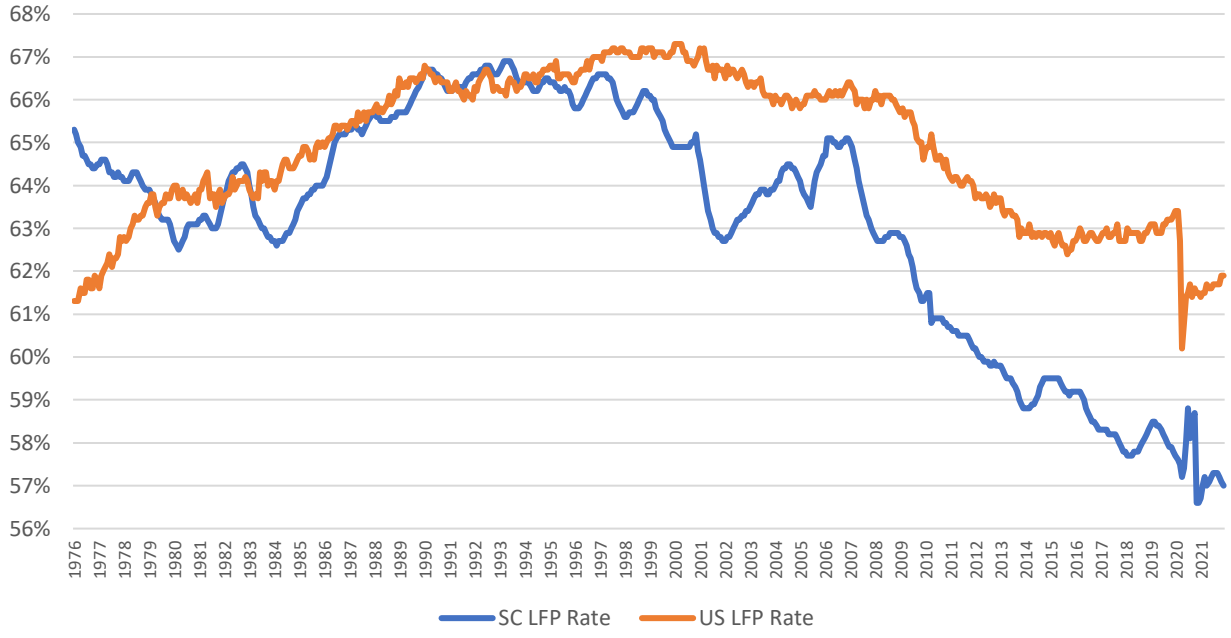
SC vs. US: Exhibit 2 compares the LFP rate for South Carolina to that of the United States as a whole for the entire 45 years for which data are available. As discussed previously, our state is 4.9 percentage points behind the national average today. This has not always been the case, however. At the beginning of the time series in the late 1970s, South Carolina had a higher LFP rate than the nation. Through the 1980s and early 1990s, our state's LFP rate generally tracked the national rate.

Mid-1990s: In the mid-1990s, however, the two lines began to diverge. There was a substantial drop in South Carolina LFP relative to the nation before and during the 2001 recession, then a partial recovery, then another decline before and during the 2007-2009 recession. In the years since, South Carolina's LFP rate has generally remained a few percentage points below the figure for the United States.

2020: There were substantial swings in both figures in 2020 during the early days of the COVID-19 pandemic, but because data collection was challenging and economic conditions were extremely unusual, it is advisable to ignore the month-to-month moves and focus on the February 2020 vs. December 2021 comparisons as provided earlier.

45 Years: From January 1976 through December 2021, South Carolina's LFP rate declined from 65.3 percent to 57.0 percent, a drop of 8.3 percentage points, while the national figure went up 0.6 percentage points. Further, South Carolina's LFP rate has declined more than any state except Nevada (-10.6 points) and Hawaii (-9.8 points), notably both states with robust tourism industries like South Carolina.

Exhibit 2: South Carolina and United States LFP Rates, 1976-2021



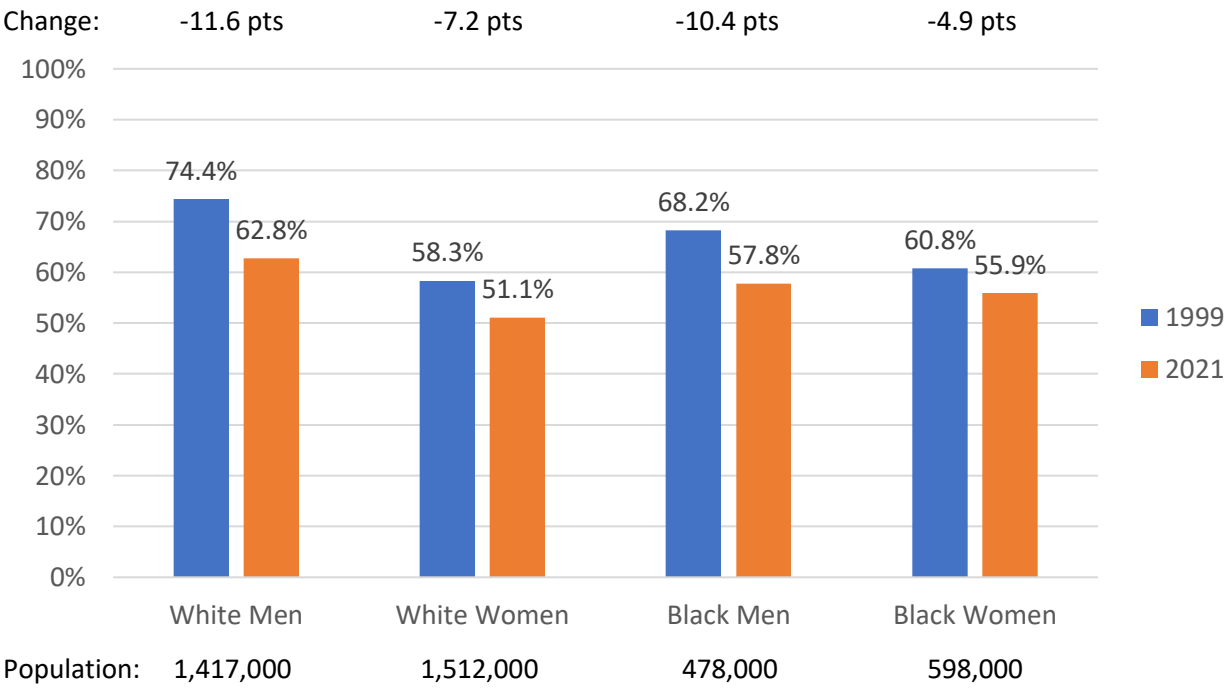
Source: Local Area Unemployment Statistics (SC) and Current Population Survey (US), seasonally adjusted

LFP by Demographics

Source: From the BLS, there are some data available that speak to who is or is not participating in the labor force in South Carolina. This comes from Expanded State Employment Status Demographic Data, which report labor force conditions by sex, race, and age. These figures are available from 1999 and allow for some broad analysis of the role these factors play in LFP; preliminary 2021 data were released on January 28.

Race and sex: Exhibit 3 compares LFP rates at the beginning and end of the time series by race and sex. Clearly, LFP rates fell among all four groups. However, there are some clear differences. Among both Black and White residents, LFP rates declined more precipitously in men than women; for both men and women, LFP rates fell more for White residents than Black residents. Overall, while White men continue to have the highest LFP rate, this is far less the case than it was in 1999, and the gender gap among Black South Carolinians has nearly disappeared. The graph also indicates the rough number of individuals in each group in 2021.

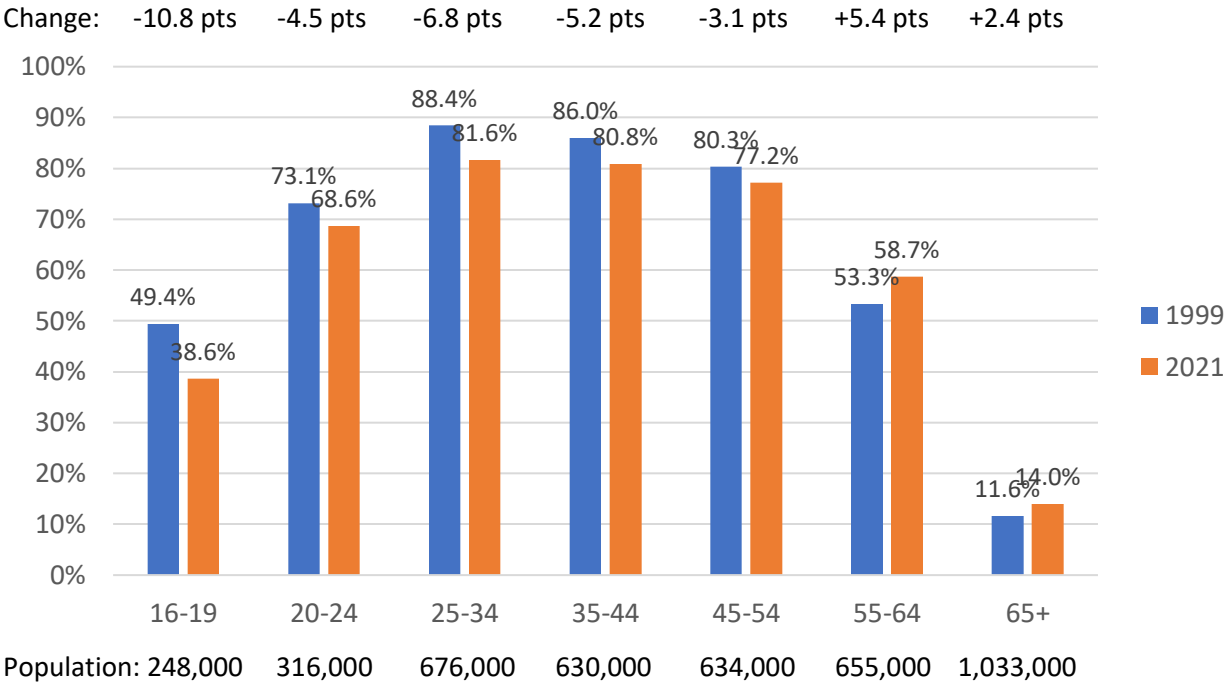
Exhibit 3: South Carolina LFP Rates by Race and Sex, 1999 vs. 2021



Source: Local Area Unemployment Statistics - Expanded State Employment Status Demographic Data

Age: Similarly, it is possible to assess LFP rates by age range. BLS reports labor force conditions for persons aged 16-19, 20-24, 25-34, 35-44, 45-54, 55-64, and 65 or older. Again, these figures are presented for 1999 and 2021 (see Exhibit 4). Overall, LFP rates declined for those younger than 55 and increased for those 55 or older. The most acute decline was among teenagers; only 38.6 percent of those aged 16-19 in 2021 were actively working or looking for work, compared with 49.4 percent in 1999, a drop of 10.8 percentage points. Declines in other brackets were in the mid-single digits. Meanwhile, LFP increased by 5.4 percentage points for those 55-64 and 2.4 points for those 65 or older.

Exhibit 4: South Carolina LFP Rates by Age Range, 1999 vs. 2021

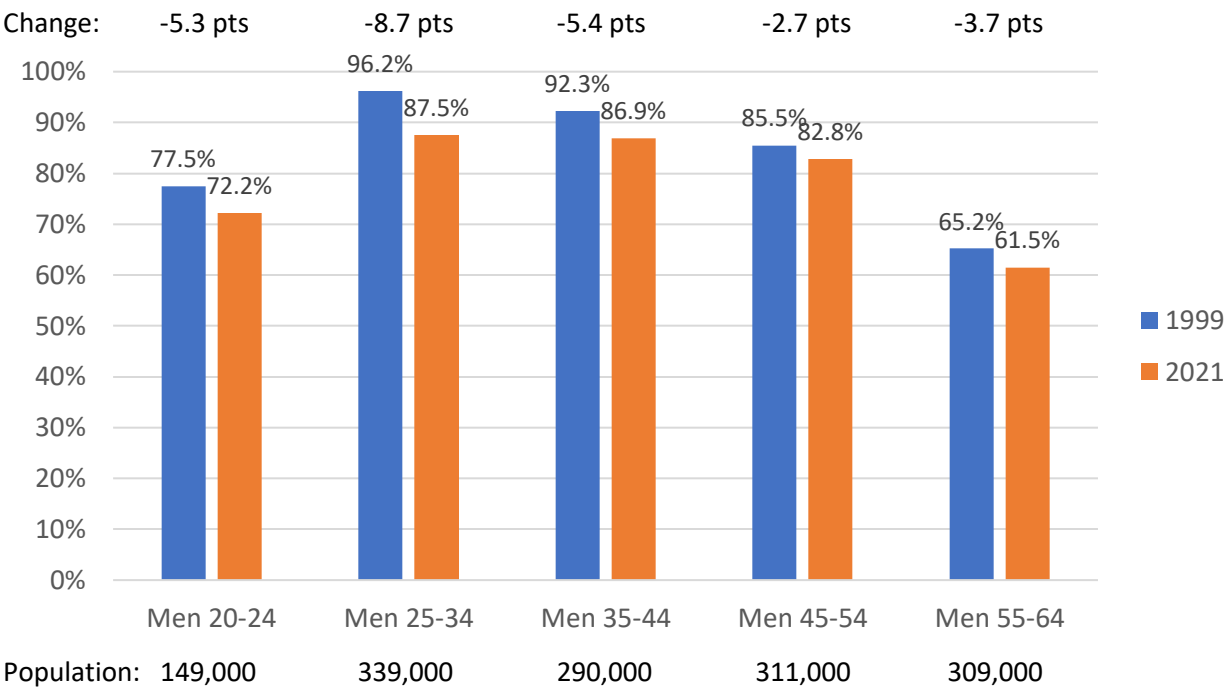


Source: Local Area Unemployment Statistics - Expanded State Employment Status Demographic Data

Age and sex: Notably, there are divergent patterns between men and women across these age ranges. BLS consistently provides data for five brackets for each sex (see Exhibits 5 and 6); there is not sufficient sample size to do this for persons 16-19 or older than 64. Among men, there are declines in LFP rates for each age range between 1999 and 2021, but the scale of this varies substantially. The largest drop was among men aged 25 to 34 (-8.7 percentage points), with LFP rates among the 20-24 and 35-44 groups just over five points and smaller declines observed in men aged 45-54 and 55-64.

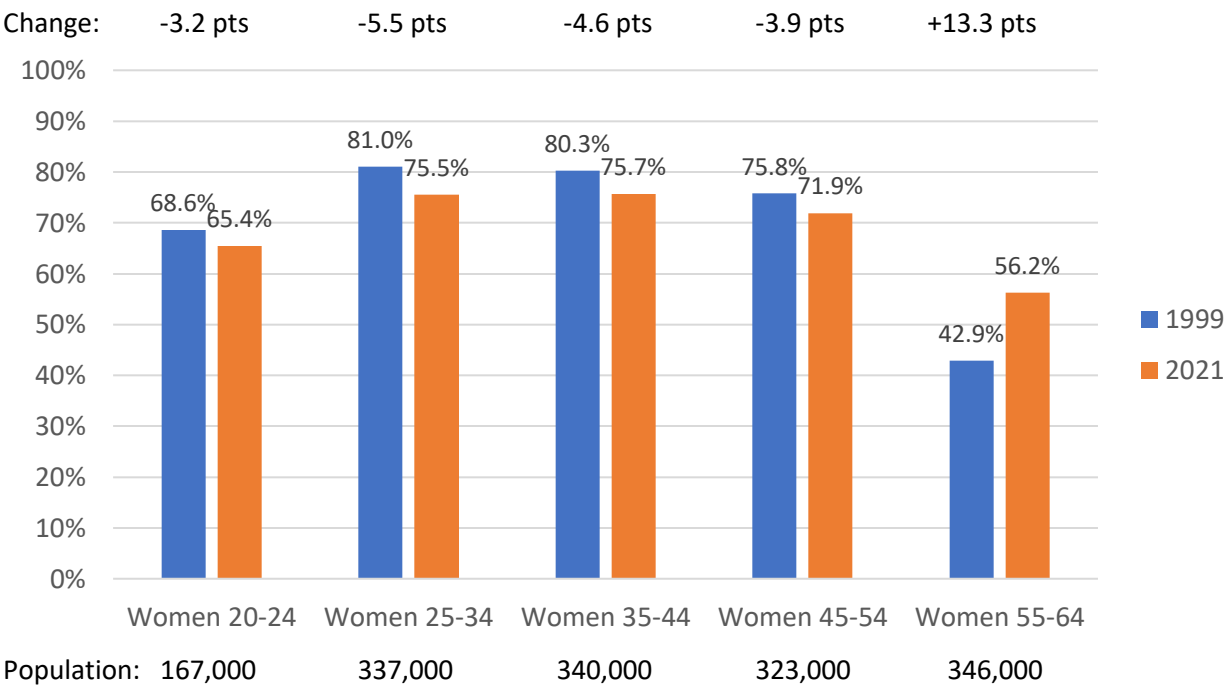
Among women, there were modest declines in participation observed among those aged 20-54, with the 25-34 age range again seeing the largest decrease, but LFP rates increased substantially for women aged 55-64 between 1999 and 2021. This is likely because, when women who were in that age group in 1999 first reached adulthood, career options for women were more limited, while this was less true for the same group in 2021.

Exhibit 5: South Carolina LFP Rates Among Men by Age Range, 1999 vs. 2021



Source: Local Area Unemployment Statistics - Expanded State Employment Status Demographic Data

Exhibit 6: South Carolina LFP Rates Among Women by Age Range, 1999 vs. 2021



Source: Local Area Unemployment Statistics - Expanded State Employment Status Demographic Data

Prior Research: Ohio

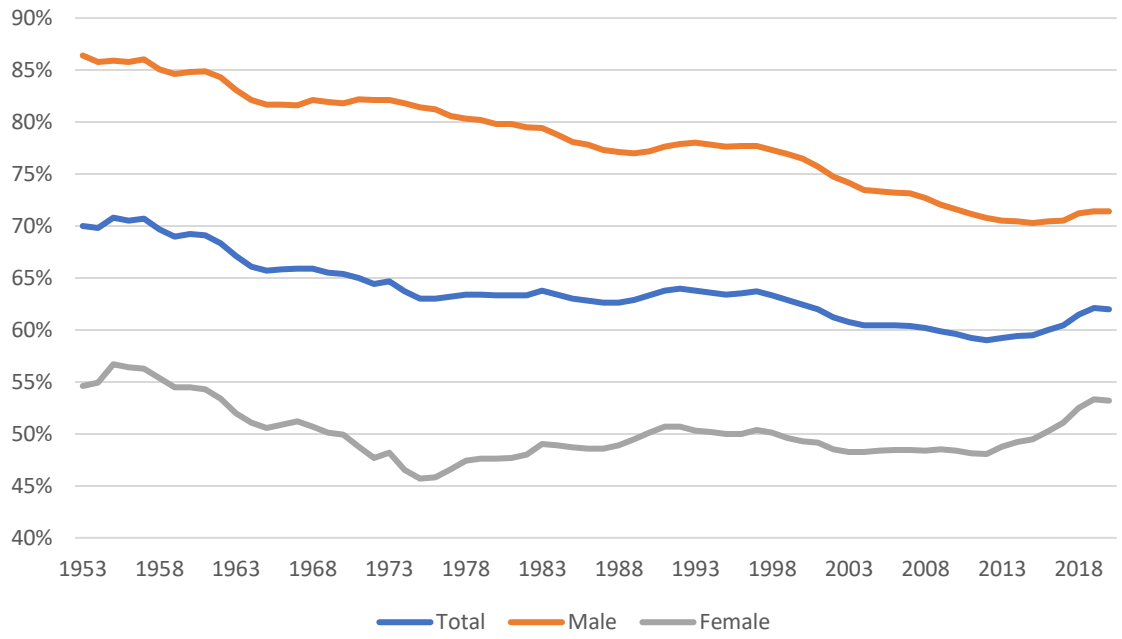
In February 2020, the Ohio Bureau of Labor Market Information published a report entitled "Ohio Labor Force Nonparticipants: An Asset for Increasing Participation?" This analysis essentially sought to answer very similar questions to those before this taskforce. Their findings are summarized below.

- Recessions often lead to temporary declines in the LFP rate because of the lack of jobs; the rates typically rise during the subsequent recovery. However, after the Great Recession, the LFP rate continued to decline well into the recovery. In 2008, the first Baby Boomers turned 62 and became eligible for Social Security retirement benefits. Because this generation accounts for a large share of the labor force, their retirements will keep the rate low for years.
- Younger adults (ages 16-24) have lower LFP rates than those aged 25 or older. Many people in these age groups are in school and have yet to enter the labor force or only enter the labor force during the summer. Increasing participation in some age groups may be difficult. It may be better in the long term if younger workers enter the labor market with more education, but in the short term it means fewer workers participating in the labor market.
- Individuals aged 55 or older could be a prime target for increasing labor force participation. People in this group are leaving the labor force more slowly than they used to. Some may continue to work because they're healthy and can work longer. Convincing workers to delay retirement could provide a "longevity dividend" for employers.
- The largest pool of individuals outside the labor force is those with a high school diploma or equivalent. The smallest pool is those with a bachelor's degree or higher. Nationally, LFP has declined for those with less than a high school diploma and high school graduates, and it has increased for those with a bachelor's degree or higher. Although this could be caused, in part, by worker age, it could reflect a greater demand for more highly educated workers.
- Research suggests that declining demand for workers with lower education levels may be a major factor in declining LFP among men. Wages, an indicator of labor demand, had been declining or stagnant for workers with less than a bachelor's degree and increasing for workers with a bachelor's degree or higher. Foreign trade and technology are thought to be a part of the reason for declining demand for less educated workers, especially in manufacturing.
- A significant number of nonparticipants report having a disability. Among those aged 18 to 64, persons with disabilities accounted for 31.2 percent of nonparticipants. Opioid use is associated with lower LFP rates. A study by the Federal Reserve Bank of Cleveland estimated that prescription opioids accounted for 44 percent of the decline in male LFP nationally from 2001 to 2015.
- Counties with fewer jobs per adult tend to have lower LFP rates. The difficulty of finding work in counties with higher levels of job competition may keep some people out of the labor force.
- While it is impractical or even undesirable to provide every adult with a bachelor's degree, it might be possible to assist workers with increasing their education levels or obtaining training desired by employers. Rehabilitation and assistance with workplace accommodations might increase participation among individuals with disabilities. Combatting opioid and other substance use disorders may have an indirect effect of increasing LFP. Finally, increasing the number of private industry jobs in areas with high job competition also would increase LFP.

Case Study: Japan

Outside the United States, Japan has made strides in increasing its LFP rate, particularly among women, in recent years, arresting a multi-decade decline (see Exhibit 7). A 2017 report from the Brookings Institution, "Lessons from the Rise of Women's Labor Force Participation in Japan," details the reasons behind this. Findings are summarized below.

Exhibit 7: Japan LFP Rates by Sex, 1953-2020



Source: International Labour Organization Data Explorer

- Reforms in 1992 and 1995 expanded paid parental leave to both parents to one year. In 1999, limits on women's labor market engagement, including hours of work and the ability to work in occupations deemed dangerous were removed. Other changes included removing restrictions and allowing any industry to hire temporary workers, increasing opportunities for women to join and remain in the workforce.
- In 2014, reforms pursued by Prime Minister Abe provided for two thirds of a worker's earnings to be replaced during the first six months of paid leave and increased government daycare capacity by 219,000 spots. Research suggests that women are considerably less likely to leave the labor force when childcare facilities are more readily available.
- Abe adopted other policies that may help support the ongoing improvement in women's LFP, including lower tax rates for married women, better compensated family leave, enhanced childcare availability, and targets for women's representation in business leadership.
- The availability of options like part-time work and paid parental leave appear to facilitate labor force participation in many cases by making it easier for women to balance employment with non-work obligations. However, American working women are more likely to have full-time employment than their Japanese counterparts. Additionally, the gap between men's and women's earnings is smaller in the United States (18 percent) than in Japan (26 percent).

Takeaways

From the literature reviewed in this analysis, as well as additional material (see Further Reading section), there are several factors that contribute to a state's LFP rate. First, in the short run, until the COVID-19 pandemic ends, there will continue to be disruptions attributable to the virus. Among these are impacts to education and childcare that may keep some parents out of the workforce, as well as limitations on persons with medical conditions that make them particularly vulnerable to serious illness from COVID-19.

In the long run, there are several major factors that affect LFP. These include the aging of the population, caregiving requirements, disability status, discouragement over job prospects, increasing enrollment in postsecondary education, and previous incarceration. Each of these factors will have some adverse impact on LFP. It is particularly worth noting the impact of age; even if LFP rates for individual age groups increase, the overall rate can decline as workers move into older age groups with lower participation rates.

There have been serious efforts, particularly during the pandemic, to gain additional insight into why individuals may choose not to work. The Household Pulse Survey, an experimental product developed by the U.S. Census Bureau in 2020, asks a random sample of Americans to indicate why they chose not to be employed at the time of the survey. The results for South Carolina from the most recent survey period (December 29, 2021, through January 10, 2022) are presented in Exhibit 8.

Exhibit 8: Reason for Not Working at Time of Survey, South Carolina Adults

Total	1,829,653	100%
I did not want to be employed at this time	61,448	3.4%
I was caring for someone or sick myself with coronavirus symptoms	103,905	5.7%
I was caring for children not in school or daycare	99,992	5.5%
I was caring for an elderly person	22,472	1.2%
I was concerned about getting or spreading the coronavirus	20,898	1.1%
I was sick (not coronavirus related) or disabled	170,177	9.3%
I am retired	808,026	44.2%
I was laid off or furloughed due to coronavirus pandemic	32,932	1.8%
My employer closed temporarily due to the coronavirus pandemic	2,086	0.1%
My employer went out of business due to the coronavirus pandemic	19,017	1.0%
I did not have transportation to work	13,325	0.7%
Other reason	389,843	21.3%
Did not report reason	85,533	4.7%

Source: U.S. Census Bureau Household Pulse Survey, Week 41

The most cited reason for not working at the time of the survey is that the respondent was retired (44.2 percent). However, 26 percent of respondents fall under "other reason" or "did not report reason," neither of which provides any insight on why the individual did not work, though this may in part be due to the study period including New Year's Day. The third most common reason for not working was non-COVID sickness or disability (9.3 percent), with caring for someone with COVID symptoms (5.7 percent) or caring for a child not in school or childcare (5.5 percent) also representing relatively common reasons.

Next Steps

While this briefing provides an overview of the distribution and general causes of non-participation in the labor force in South Carolina, there are many questions for the taskforce to consider.

1. How will increasing the LFP rate impact the economic vitality of the state?

   While this review briefly touched on this question, it is worth evaluating in far more detail the potential impacts in terms of payrolls, fiscal impact, etc. that LFP growth could produce for the state and its people.

2. How is South Carolina different from other states with higher participation rates?

   As noted, our state's LFP rate is among the lowest in the country, but this was not always the case. It is true that many states with higher LFP rates are very different in climate, culture, and demographics (Nebraska, South Dakota, North Dakota, Colorado, and Utah are the top five), but neighboring Georgia is more in line with the national average at 61.5 percent. What is driving this differential, both historically and in the present?

3. Is there additional research from other states or countries that can inform South Carolina policy?

   A review of the Ohio report indicates that the question of LFP and its policy implications is one that other states have evaluated. Are there other documents of this sort? Further, have any jurisdictions adopted policies that are explicitly or implicitly designed to increase their LFP rate, and if so, were they effective? What datasets can be brought to bear on these questions? Is South Carolina's LFP rate lower after accounting for demographic and migration trends unique to our state?

4. How do we identify the characteristics of those not in the labor force to better understand how they can join the workforce or return to work?

   Much of this document evaluated the demographic components of LFP, largely because the data were already available. There are other elements discussed herein that drive individuals' LFP decision making, including but not limited to educational attainment, geographic location, a lack of sufficient work skills, and physical or other barriers to entry. How can the State of South Carolina identify these individuals and make it easier for them to address or remove these restrictions on LFP and increase our workforce?

5. What policies or strategies can be put in place to increase our state's LFP rate or halt the continued decline in the face of demographic changes?

   Considering all the above, what evidence-based policies can reasonably be put in place by the State of South Carolina to address the challenges posed by falling LFP? What would be the costs and benefits of these efforts? What changes would be needed in state law to facilitate such policies, if any? How might any such strategies affect the state, economically or otherwise? Is it possible to better quantify all the factors that impact the LFP rate and their relative influence on the trends in the state's rate?

In the months ahead, this taskforce will deliberate on these questions and many others to assist the Governor and other policymakers in developing an approach that will ensure that South Carolina is truly leveraging the breadth and depth of all its residents' talents in service of building an ever more vibrant economy for the people of South Carolina.

Further Reading

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