

# Human Capital and Labor Force Participation on the South Georgia Coast

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**H**uman capital is the term economists use to classify the investments people make in their own education and training. Economists use the term because the investments people make in education and training are similar in nature to the investments business firms make in capital equipment. In each case, money is spent up front for a likely but uncertain return in the future.

Human capital is crucial to any economy. An economy with an abundance of human capital possesses a greater capacity to create wealth and well-being than an economy with a dearth of human capital. That is so for two reasons. Workers who have invested in education and training are more productive workers. They are also more likely to be part of the labor force.

## Human Capital on the South Georgia Coast

Compared to the U.S. and Georgia, the South Georgia Coast has a deficiency of human capital. Table 1 below, drawn from the U.S. Census' *American Community Survey, 2008-2012*, shows the percentages of the populations, age 25 and older, of the U.S., Georgia, and the South Georgia Coast that have attained two general levels of education: high school graduation or less and bachelor's degree or more. It also breaks down the South Georgia Coast into its less rural counties (Camden and Glynn) and its more rural counties (Brantley, Charlton, McIntosh, and Wayne) and shows the percentages by educational attainment in the two sub-regions.

**Table 1. Percentage of Population Age 25 and older by Educational Attainment, 2008-2012**

	High school grad or less	Bachelor's degree or more
<b>U.S.</b>	42.5	28.5
<b>Georgia</b>	44.5	27.8
<b>South Georgia Coast</b>	50.2	18.5
<b>Less rural counties</b>	42.5	23.3
<b>More rural counties</b>	63.1	10.4

Source: U.S. Census Bureau , author's calculations

Educational attainment is significantly lower on the South Georgia Coast than in Georgia and the U.S. Only 18.5 percent of the age 25 and older population on the South Georgia Coast has attained a bachelor's degree or more, compared with 27.8 percent in Georgia and 28.5 percent in the U.S. On the lower end, 50.2 percent of the 25 and older population on the South Georgia Coast has been educated through high school or less, compared with 44.5 percent in Georgia and 42.5 percent in the U.S.

Within the South Georgia Coast, the more rural counties have a substantially lower level of educational attainment than the less rural counties. Only 10.4 percent of the 25 and older population in the more rural counties have attained a bachelor’s degree or more, compared with 23.3 percent in the less rural counties, while 63.1 percent of the 25 and older population in the more rural counties has been educated through high school or less, compared with 42.5 percent in the less rural counties.

The shortfall in human capital hurts the economy of the South Georgia Coast in two primary ways. One is that the shortfall makes the region’s labor force less productive. A less productive labor force makes for a less productive economy. Less productive workers also earn less in the labor market. Table 2 below shows average weekly wages in the U.S., Georgia, and the South Georgia Coast in the fourth quarter of 2012.

**Table 2. Average Weekly Wages, Fourth Quarter 2012**

	<b>Average Weekly Wages</b>
<b>U.S.</b>	\$ 1,000
<b>Georgia</b>	\$ 927
<b>South Georgia Coast</b>	\$ 743
<b>Less rural counties</b>	\$ 768
<b>More rural counties</b>	\$ 657

Source: U.S. Bureau of Labor Statistics

Average weekly wages on the South Georgia Coast are 20 percent less than average weekly wages in Georgia and 26 percent less than average weekly wages in the U.S. In the region’s more rural counties, where the human capital shortfall is stark, the difference in wages is even more pronounced.

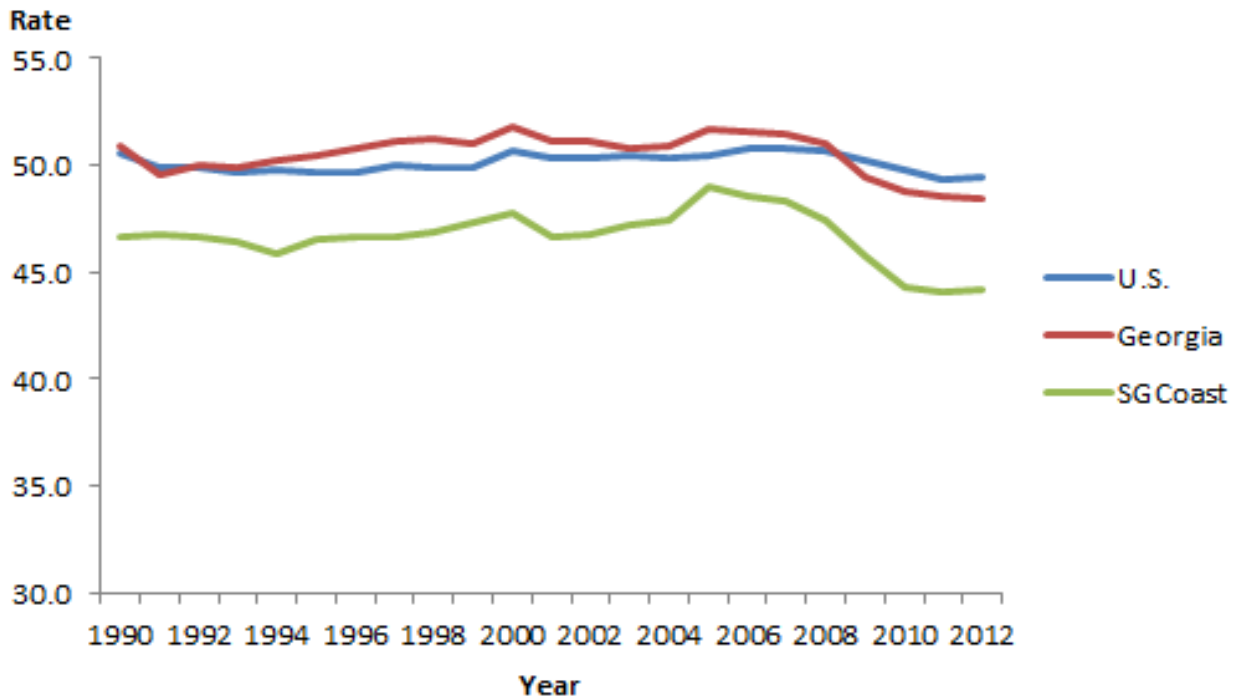
A less obvious and often overlooked way that the human capital shortfall hurts the economy of the South Georgia Coast is that it reduces the size of the region’s labor force.

### **Labor Force Participation on the South Georgia Coast**

An important measure of the degree that an economy draws labor to the production of wealth is the labor force participation rate. The labor force participation rate can be measured as either (i) the percentage of an economy’s total population that is in the labor force or, (ii) more commonly, the percentage of the economy’s population age 16 and older that is in the labor force. [Recall: an economy’s labor force is the sum of the number of people employed and the number of people unemployed, the unemployed being people who are not working but are looking for work. People who are not working and not looking for work are not considered part of the labor force.]

Figure 1 on the following page shows the paths of annual labor force participation rates for the U.S., Georgia, and the South Georgia Coast since 1990. [Because annual figures of the population 16 years and older for the South Georgia Coast going back to 1990 are not available, the measure of the labor force participation rate used in this study is the percentage of the economy’s *total* population in the labor force.] Three features of the paths stand out.

**Figure 1. Labor Force Participation Rates, 1990-2012**



Source: Calculated from U.S. Census Bureau, U.S. Bureau of Labor Statistics, and Georgia Department of Labor data

One feature that stands out is the low labor force participation rate on the South Georgia Coast compared to the U.S. and Georgia. Between 1990 and 2012, the average annual labor force participation rate in the U.S. was 50.1 percent; in Georgia the average annual rate was 50.5 percent. On the South Georgia Coast, the average annual labor force participation rate was 46.7 percent, 3.4 percentage points less than the rate in the nation and 3.8 percentage points less than the rate in the state. The most recent difference is even larger: in 2012, the labor force participation rate in the U.S. was 49.4 percent; in Georgia, 48.4 percent; and on the South Georgia Coast, 44.2 percent.

The second feature in Figure 1 that stands out is the greater volatility in labor force participation in our local economy than in the nation and the state. Between 1990 and 2012, labor force participation in the U.S. and Georgia was quite stable: in the nation, labor force participation ranged from a high of 50.8 percent in 2006 and 2007 to a low of 49.3 percent in 2011; in Georgia, labor force participation ranged from a high of 51.7 percent in 2005 to a low of 48.4 percent in 2012. On the South Georgia Coast, force participation ranged from a high of 49.0 percent in 2005 to a low of 44.1 percent in 2011.

The third feature of the labor force participation paths that stands out is the decrease in labor force participation in all three economies since the onset of the recession in late 2007. Since 2007, the labor force participation rate has dropped by 1.4 percentage points in the U.S., 3.1 percentage points in Georgia, and 4.1 percentage points on the South Georgia Coast.

### Why is the South Georgia Coast's Labor Force Participation Rate Low?

One might expect that the age distribution of the population would explain our region's low labor force participation rate. The South Georgia Coast is known for being an attractive place to retire; other factors equal, the greater the concentration of retirees, the lower the region's labor force participation rate. But the age distribution of the population does not explain the region's low labor force participation rate. Table 3 below, drawn from the U.S. Census' *American Community Survey, 2007-2011*, shows the percentages of the populations of the U.S., Georgia, and the South Georgia Coast by age group.

**Table 3. Percentage of Population by Age Group, 2007-2011**

	65 years and older	Less than 18 years	18-64 years
<b>U.S.</b>	12.9	24.2	62.9
<b>Georgia</b>	10.5	25.8	63.7
<b>South Georgia Coast</b>	12.9	24.9	62.2

Source: U.S. Census Bureau , author's calculations

As Table 3 indicates, the percentage of the population aged 65 and older is the same on the South Georgia Coast as it is in the U.S. — 12.9 percent. Other Census data indicate that the percentage of the population 65 years and older of the South Georgia Coast and the U.S. are quite similar over the years 1990 to 2007, as well. The population of Georgia tends to be younger than the populations of the South Georgia Coast and the U.S., but only marginally so. Certainly there is nothing in the age distribution of the three populations that would cause the labor force participation rate on the South Georgia Coast to be on average 3.4 and 3.8 percentage points less than the labor force participation rates of Georgia and the U.S. over the past 23 years.

If the age distribution of our local population doesn't explain our low labor force participation rate, what does? Though several factors may be at work, the most crucial is human capital. The correlation between human capital and labor force participation is positive and very strong. Table 4 below shows labor force participation rates for the U.S. population, age 25 and older, for three levels of educational attainment.

**Table 4. U.S. Labor Force Participation Rates by Educational Attainment, 2012**

<b>Educational attainment</b>	<b>Labor force participation rate</b>
Less than high school diploma	45.5
High school graduation, no college	59.5
Bachelor's degree and higher	75.9

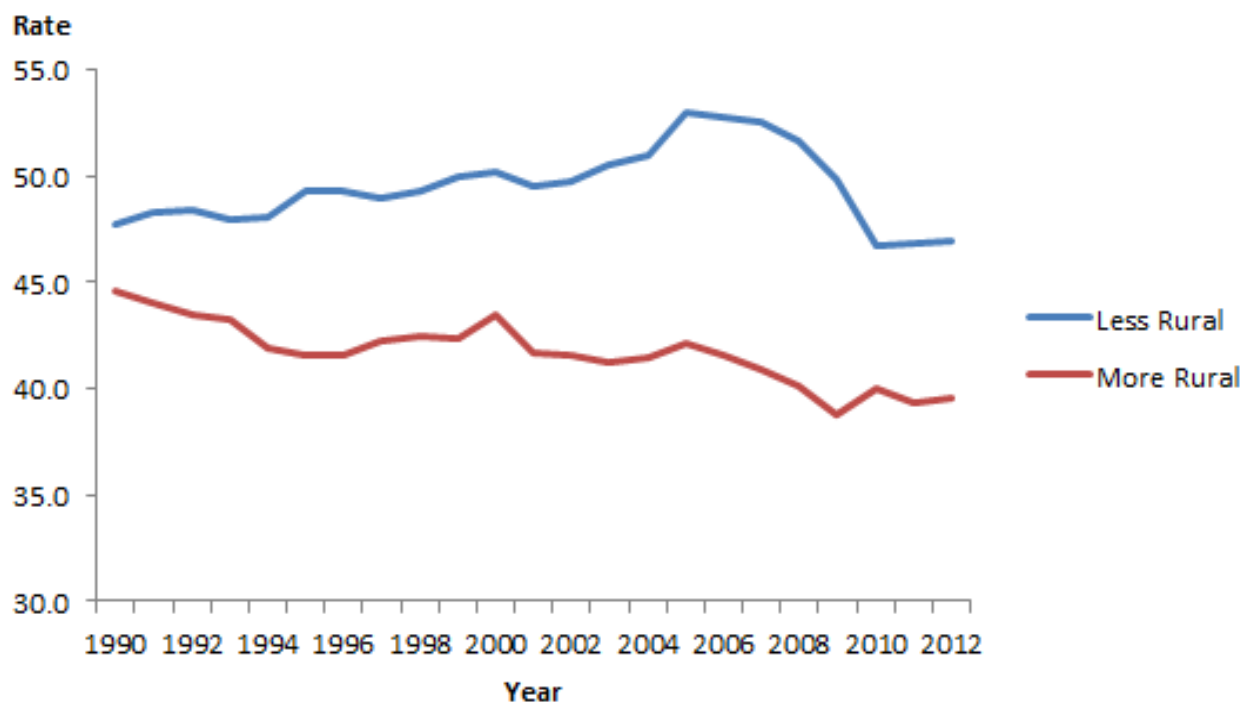
Source: U.S. Bureau of Labor Statistics

The positive correlation between educational attainment and labor force participation is straightforward. More educated workers have more employment opportunities and earn higher wages than less educated workers. Education is also an investment in human capital that generates its return through labor force participation. The greater return to labor force participation and the greater return on investment in education from extended labor force participation make it more likely that adults with more education will be in the labor force than adults with less education.

Given the strong, positive relationship between educational attainment and labor force participation, the shortfall in human capital is thus the most likely explanation for the South Georgia Coast's low labor force participation rate. The explanation is bolstered by comparing labor force participation rates of the less rural and more rural counties within the South Georgia Coast. Recall from Table 1 that educational attainment is significantly greater in the less rural counties than the more rural counties of the South Georgia Coast. If human capital is truly the primary driver of labor force participation, then the less rural counties should have a greater labor force participation rate than the more rural counties. And that, indeed, is just what the data show.

Figure 2 below on the following page shows the paths of the labor force participation rates for the less rural and more rural regions of the South Georgia Coast from 1990 to 2012.

**Figure 2. South Georgia Coast Labor Force Participation Rates, 1990-2012**



Source: Calculated from U.S. Census Bureau, U.S. Bureau of Labor Statistics, and Georgia Department of Labor data

The less rural counties of the South Georgia Coast have significantly higher rates of labor force participation than the more rural counties. Between 1990 and 2012, the labor force participation rate in the less rural counties averaged 49.5 percent; in the more rural counties, the labor force participation rate averaged 41.7 percent. The most recent labor force participation rates, the rates for 2012, are 46.9 percent in the less rural counties and 39.6 percent in the more rural counties of the South Georgia Coast.

### **Why is the South Georgia Coast's Labor Force Participation Rate Volatile, and Why the Decrease in Labor Force Participation after 2007?**

As we saw earlier in Figure 1, the South Georgia Coast's labor force participation rate is not only lower than Georgia's and the nation's, it's also more volatile. We also saw that the labor force participation rates of all three regions have fallen since 2007, but the South Georgia Coast's has fallen more than the Georgia's and nation's. Why?

Human capital differences, again, is the most likely explanation. Among the ranks of people not in the labor force are workers who are marginally attached to the labor force. Marginally attached workers are defined by the U.S. Bureau of Labor Statistics as workers who want a job and have looked for a job sometime during the past year but not in the past 4 weeks (which is why they are counted as not in the labor force rather than unemployed). Marginally attached workers tend to be just what their classification implies: workers who are relatively less attached to the labor force. In general, marginally attached workers are less employable than other workers and quicker to leave the labor force should they lose their jobs.

Marginally attached workers tend to have low levels of human capital investment. U.S. Bureau of Labor Statistics data indicate that about 70 to 75 percent of marginally attached workers have graduated from high school or less, while less than 10 percent have attained a bachelor's degree or more.

These data suggest that the South Georgia Coast has a greater concentration of marginally attached workers than do the U.S. and Georgia. A greater concentration of marginally attached workers would tend to make the South Georgia Coast's labor force participation rate more sensitive to structural changes in the economy and more sensitive to the business cycle. The region's lower level of human capital thus explains not only its lower labor force participation rate, but the greater volatility in its labor force participation rate and the sharper decline in its labor force participation rate after the recession began at the end of 2007.

### **Implications for the South Georgia Coast**

The South Georgia Coast's shortfall of human capital is restraining its ability to grow and develop. Not only does the shortfall make its labor force less productive, the shortfall makes its labor force smaller by reducing its labor force participation rate. Less productive economies also tend to be less creative and less entrepreneurial.

Fortunately, human capital shortfalls can be eliminated. The most effective way to eliminate a human capital shortfall is to develop a culture that values education and critical and creative thinking, and that recognizes the bounty that human capital brings to life. The South Georgia Coast can develop such a culture. But it has work to do.

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