A DECADE BEHIND:
BREAKING OUT OF THE LOW-SKILL TRAP IN THE SOUTHERN ECONOMY

GEORGETOWN UNIVERSITY
Georgetown Public Policy Institute
Center on Education and the Workforce

Executive Summary
July 2012

Anthony P Carnevale
Nicole Smith

TABLE OF CONTENTS

Low-wage/low-skill equilibria

Educational attainment is improving in the South,[1] but many parts of the region are caught in a vicious economic cycle that ensures they will lag behind the nation in creating high-paying jobs and producing workers who can fill them.

The phenomenon is known as a low-wage/low-skill equilibrium[2], which occurs when supply and demand for skilled workers balance at the lower end of the pay and educational achievement scale. This is undesirable because both educators and employers become dependent on an economic and technological pathway that suppresses wages and discourages human capital development. Industry has no incentive to locate in those states, employers have no incentive to create jobs that require anything but low skill and pay, and workers have no reason to attain much beyond a minimum education.

This, of course, is no way to compete in a global economy that increasingly emphasizes competition based on knowledge and skill.

And yet, it is the situation confronting much of the South.

Education demand is improving in the South, but is still a decade behind national averages

Nationally, we project that by 2020, 65 percent of all jobs will require some form of postsecondary education and training. Only three areas of the region will meet or beat the national percentage: Washington, D.C. (76 percent); Virginia (68 percent), and Maryland (66 percent). The remaining 14 states will fall below — and some substantially below — that level.

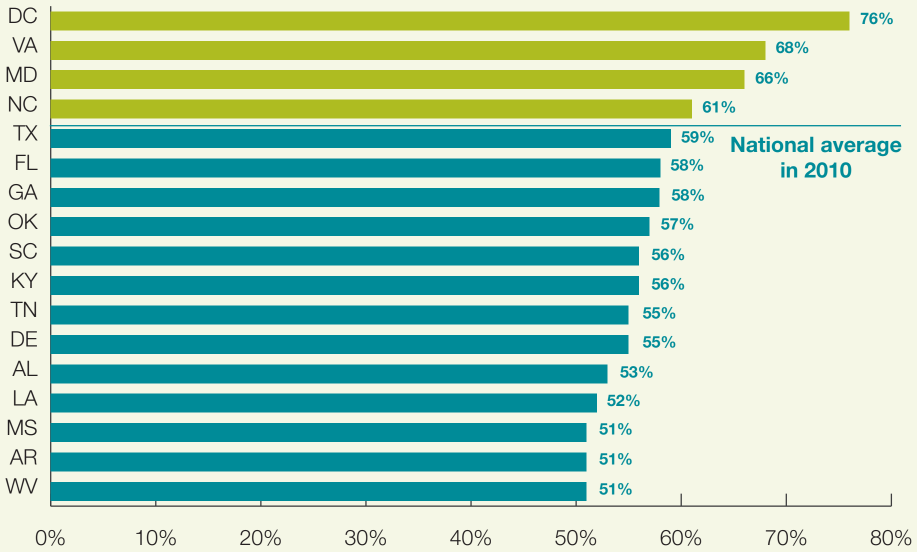
Today, some 59 percent of all jobs nationally require postsecondary education and training, compared to 54 percent for the South. By 2020, 59 percent of jobs for the South will require postsecondary education and training – the same percentage that the nation as a whole reached in 2010. In other words, the South is 10 years behind in terms of educational attainment.

1. The South, as defined by the U. S. Census, consists of 16 states (plus Washington, DC). Thirty-seven percent of the population of the United States is located here, along with 36 percent of the nation's jobs. The South produces 35 percent of the nation's real GDP and is projected to account for a slightly larger share of national employment by 2020, increasing by one percent, to more than 61.5 million jobs.

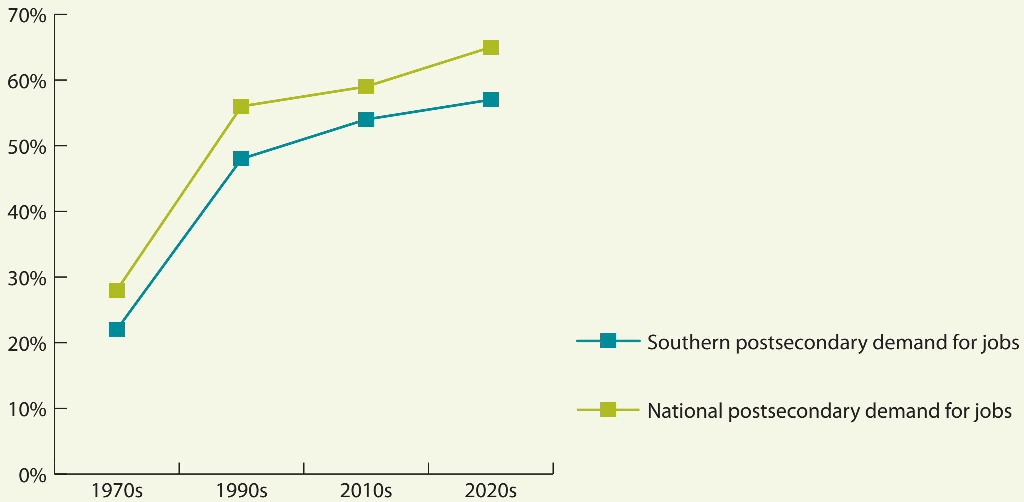
2. Of course low-wage, low-skill equilibria are not unique to the southern states. We find evidence of this phenomenon in many other states, in rural and metropolitan areas.

In 2010, the national average for postsecondary attainment was 59%. 14 southern states will still not have met this old target by 2020.

Proportion of jobs that will require some level of postsecondary education and training (beyond high school) in 2020.



OVER TIME, THE DEMAND FOR POSTSECONDARY TALENT CONTINUES TO GROW, BUT THE GAP BETWEEN THE REGION AND THE NATION REMAINS



These numbers paint a portrait of a region that already lags the rest of the nation in opportunity for its residents, and will only fall further behind as the decade wears on.

Breaking out of a low-skill equilibrium is no small feat. States can escape the quandary by producing more workers with postsecondary education and training; modernizing existing industries; and attracting new ones.

Brain drain is a real problem for low-education southern states

Unless these steps are carefully coordinated, they can result in a set of new problems:
- If a state emphasizes education without an accompanying emphasis on creating or attracting high-paying and high-skill jobs, the result can be a brain drain that siphons away those new highly trained workers.
- If a state concentrates on attracting high-skill employers without emphasizing education or training programs to produce qualified workers, those new jobs will go to out-of-state applicants, leaving current residents stranded in low-paying positions.

Both of these patterns can be found in the South.

The drain of postsecondary talent in many southern states has grown particularly worrisome. At the height of the recession, Alabama, Mississippi and West Virginia all lost young college graduates.

However, surveys have shown that the migration of young educated adults (those with a bachelor's degree or better) away from low-opportunity states was already well underway before the recession. Alabama, Louisiana, Mississippi, Oklahoma and West Virginia were all affected. The brain drain in West Virginia and Louisiana extends to mature adults, as well.[3]

This trend can easily perpetuate itself. In states with comparatively few high-skill jobs, for instance, legislators see low demand for educated workers — and little reason to invest in higher education or postsecondary training. That approach is flawed, however. Without a trained workforce, industry has little reason to locate or expand in a given state, virtually guaranteeing slowed economic growth.

Over the long term, slow and consistent increases in postsecondary attainment can address the problem by attracting high-value-added industries to a state.

But in the short term, available jobs determine the demand for postsecondary talent. So, increasing postsecondary attainment without increasing the number of jobs that require such talent will simply further the drain of educated workers into states where college-level jobs are available. Where brain drain occurs, individual state residents will benefit from investments in higher

3. The recent BP oil spill and the previous Hurricane Rita/Hurricane Katrina disasters are also known correlates.

education, but the state economy will not. In these cases, a state fulfills its responsibility to prepare its young people for a skill-based economy, but the community never reaps the full benefit.

In cases where states succeed at economic development but don't invest in education, the opposite occurs. Educated workers flow in from other states to take good jobs away from less-educated residents. In these cases, successful economic development doesn't translate into opportunity for state residents.

The industrial makeup of many Southern states has been a major reason why the region has traditionally trailed the rest of the country in educational attainment — especially postsecondary attainment.

With notable exceptions, the employment profile of Southern states features low-wage, low-skill industries and occupations. Slow growing or declining industries, such as those involving natural resources and old-line manufacturing, are common. So too are highly cyclical industries, such as construction, housing, government and retail.

Industry profile of the South still features old-line manufacturing, construction and natural resources

Employment in many southern states is more concentrated than the national norm in manufacturing, utilities and transportation. Long-term job growth in these areas continues to be compromised by an emphasis on increasing productivity output with relatively fewer workers. In addition, many southern states rely disproportionately on construction and housing, industries that were hit especially hard by the recent financial collapse.

This legacy, and a relatively slow rate of economic diversification, makes the region especially vulnerable in cyclical downturns. The South tends to lose more jobs, has fewer options for replacing them, and so faces a steeper road to recovery.

That does not mean the South will not create jobs. It will — in fact, we project the number of jobs in the South will grow by 20 percent from 2010 to 2020, compared to 17 percent for the nation as a whole. The issue is what kinds of jobs will be created; they will tend to be lower-skilled, lower-pay positions that follow the industrial profiles of the various states.

For example, the natural resources sector employs less than 1 percent of the national workforce, but remains strong in the South. The region is home to more than 41 percent (nearly one million) of the jobs in coal mining and natural gas and petroleum extraction. Due to strong demand for domestic energy, analysts expect these areas to be the fastest job creators in the South over the coming decade. By 2020 there should be an additional 600,000 to 800,000 jobs in natural resources, mining and extraction.

In contrast, other subsets of natural resources (agriculture, forestry, fishing and hunting) are likely to lose jobs through 2020. This trend was observed in the last decade, as well, because agriculture continues to boost productivity by substituting technology for workers.

Overall, then, we project that natural resources jobs will actually decrease by 1 percent between 2010 and 2020..

Government is the South's number-one job provider, though one of the least productive, out of 20 large industry groupings we identified for the purposes of this study. From 2010 to 2020, employment in this sector is projected to grow by 16 percent — from 7 million to 8.1 million jobs[4].

Retail trade is the region's second-largest industry, projected to increase 13 percent between 2010 and 2020. This industry is highly cyclical though, and rises and falls with consumer wealth and access to credit.

Third in size is the healthcare services industry, which will employ close to seven million people in 2020. This industry will continue to grow both in the short and long term, spurred mainly by the nation's aging population and the southern migration by senior citizens. Five of the top 10 retirement destinations are in the South, with Florida and Texas topping the list.

Table one offers a state-by-state snapshot of projected education demand in the South through 2020. Here, states such as Maryland and Virginia stand out from their neighbors as areas that have transitioned to the high knowledge economy of the 21st century. A cursory glance at the rest of the chart clearly shows where the region lags behind.

4. Only the education and healthcare sectors are less productive than government.

TABLE 1: JOB OPENINGS AND STATE PROFILES

The SOUTH:	States	Job openings (2010-2020)		Characteristics
ATLANTIC STATES	Delaware	HSL: 66,600	PS: 82,700	Polarized economy, Finance-driven.
	District of Columbia	HSL: 176,700	PS: 19,700	Commuter-based, not all government.
	Georgia	HSL: 654,900	PS: 886,100	Diversified economy, trade-based magnet state.
	Maryland	HSL:325,400	PS:634,700	High education, Services-based.
	North Carolina	HSL: 590,500	PS: 932,800	Polarized economy, changing demography.
	South Carolina	HSL: 310,500	PS: 392,100	Polarized economy, government jobs.
	Virginia	HSL: 447,100	PS: 942,700	High education, Tech-based
	West Virginia	HSL: 120,400	PS: 125,000	Strong mining, population loss
	Florida	HSL: 1.7 million	PS: 1.23 million	Housing collapse, healthcare concerns.
EASTERN STATES	Alabama	HSL: 341,500	PS: 378,400	Low education, brain drain.
	Kentucky	HSL: 283,700	PS: 365,500	Manufacturing, low education
	Mississippi	HSL: 210,000	PS: 220,900	Low education, skilled brain drain.
	Tennessee	HSL: 548,200	PS: 443,400	Natural resources growth, transitioning to high-tech.
WESTERN STATES	Arkansas	HSL: 211,500	PS: 222,400	Natural resources, growth in high-tech.
	Louisiana	HSL: 347,600	PS: 381,100	Lasting Katrina syndrome, low education.
	Oklahoma	HSL: 264,500	PS: 344,400	Natural resources, transitioning to high tech.
	Texas	HSL: 1.9 million	PS: 2.6 million	Diversified economy, job creation.

Job openings include vacancies that arise when workers retire or permanently leave the workforce and newly created jobs that are available to the labor pool.

Nationally, manufacturing is the seventh-largest employer (out of 20), but it provides a disproportionate number of jobs in the South. Durables, textiles and small appliances dominate the region's manufacturing sector, in contrast to the Midwest, where the automobile industry reigns.

Although manufacturing employment has declined continuously since its heyday in the late 1970s, this will change over the next decade, both nationally and in the South. The reversal is due to recovery from steep job losses in 2008 and 2009, some independent net job growth, and a spate of baby boom retirements.

Postsecondary education and training for the workforce is key to creating or attracting high-paying and high-skill jobs

Still, there are caveats here for the South. The projected growth in manufacturing will concentrate in industries that are knowledge-based and capital-intensive. So, while manufacturing opportunities will grow, the new jobs will require more postsecondary education and training than before.

Our projections are based on detailed analysis of the industrial and occupational profiles of each state, juxtaposed with national forecasts of macroeconomic variables such as GDP growth, inflation, unemployment, and labor force participation.

Finally, while we find that jobs will, indeed, return to the South as the national recovery progresses, we also find that the region has much work to do if it is to catch up to the of the country in providing opportunity for its residents.

And there can be little doubt that education will be one of its most critical tools going forward. Without it, there is little hope of the South ever escaping its low-skill trap.

The full report — *A Decade Behind: Breaking Out of the Low-Skill Trap in the Southern Economy* — offers valuable companion data, including a detailed state-by-state breakdown of job projections by industry and occupation for the region.

A Decade Behind: Breaking Out of the Low-Skill Trap in the Southern Economy
is comprised of a full report and an executive summary.
Each can be accessed at http://cew.georgetown.edu/south

GEORGETOWN UNIVERSITY

Georgetown Public
Policy Institute

Center on Education and the Workforce

3300 Whitehaven Street NW, Suite 5000
Washington, D.C. 20007
cew.georgetown.edu

® ALLIED PRINTING TRADES UNION LABEL COUNCIL WASHINGTON 13