**Kentucky’s Labor Market Ranks 49th**

A recent [CNBC report](http://www.cnbc.com/2015/06/24/americas-top-states-for-business.html) found that Kentucky was the 36th most business friendly state in the US. Looking behind the numbers we find that they ranked Kentucky’s labor market second worst in the country. The health of a labor market in their study is a reflection of the education level of the work force, the number of available employees in the state, the retention of college educated workers, output per job, worker training, and whether or not a state was right to work (which Kentucky is not).

**A Massive Loss of Kentucky Employment**

An uneducated look at the employment picture in Kentucky may suggest that the employment situation has improved since 2007. The unemployment rate in June 2015, 5.1%, was lower than it was in June 2007 in Kentucky, 5.3%. What the unemployment picture fails to appreciate is the massive decline in Kentucky’s labor force participation rate.

**Year KY Labor Force Kentucky Kentucky # of Employed # of Adult**

**Participation Employment Unemployment Kentuckians Kentuckians**

**Rate Rate Rate**

June 2007 62.0 58.7 5.3% 1,919,497 3,271,781

June 2015 57.5 54.6 5.1% 1,878,549 3,442,854

Source: [US Bureau of Labor Statistics](http://www.bls.gov/lau/ststdsadata.txt)

Between 2007 and 2015 Kentucky added 171,073 adults to its population while simultaneously having 40,948 fewer adults employed. In other words, Kentucky has 212,021 more jobless adults than it did in 2007. That is greater than 10% of the entire Kentucky labor force. It is a massive two year decline in jobs and it has happened while the US economy has been growing. In 2014, Kentucky’s economy only grew 1% while the US as whole grew at 2.2%.

Between July 2013 and May 2015[, Kentucky’s Medicaid and Chip roles increased faster](http://www.medicaid.gov/medicaid-chip-program-information/program-information/downloads/may-2015-enrollment-report.pdf) than any other state in the country (85.57%). During the exact same time period, Kentucky’s labor force participation rate fell by more than any other state (1.9 percentage points). States that did not expand Medicaid with the Affordable Health Care Act saw an average increase in their labor force participation rate of .04 percentage points during this same time frame. In June 2015, Kentucky had the fourth lowest labor force participation rate (57.5%) of any state in the country, only ahead of West Virginia, Alabama, and Mississippi. That means for every 100 adults in Kentucky, 42.5 do not have so much as a part time job.

In 2013, 14.4% of Kentuckians were over the age of 62 only slightly higher than the national average of 14.1%. That is, the lack of labor force participation in Kentucky cannot be explained away merely by an aging demographic. Apparently, Medicaid expansion has freed members of Kentucky’s low income households from the burden of having to work. In fact, the [Congressional Budget Office was very clear](http://cnsnews.com/news/article/susan-jones/cbo-obamacare-will-reduce-incentives-work-wh-spins-it-choice) that Obamacare would reduce American’s willingness to work. Vice President Joe Biden explicitly stated this as a benefit of Obamacare: that people would have [greater freedom to quit working.](http://www.foxnews.com/politics/2014/02/27/biden-to-women-thanks-to-obamacare-can-quit-working/)

One man’s freedom from work, however, can only be purchased by confiscating another woman’s work product from her. This is the double edged problem with transfer payments. As they increase, you reduce work effort from both the transferee (who has less need to work) and the transferor (who now benefits less from the work they do).

**Kentucky’s Low Skilled Workforce**

A [2013 study by the U.S. Bureau of Labor Statistics found](http://www.bls.gov/careeroutlook/2014/article/education-level-and-jobs.htm) that Kentucky has the largest share of employment of any state in occupations that typically require a high school diploma or equivalent. A full 41.7% of jobs in Kentucky require only a high school degree. On the bright sides, Kentucky’s four year high school graduation rate in 2012/2013 was [82%](http://www.americashealthrankings.org/ALL/Graduation/). That tied it for 22nd highest rate in the country. While Kentucky does a slightly above average job at “graduating” students from high school, it does a much worse job at preparing them for an occupation or equip them for success in higher education.

The [Kentucky Chamber of Commerce recently released a report](http://kychamberbottomline.com/2015/07/28/experts-discuss-workforce-needs-of-kentucky-following-release-of-chamber-report/) on the Kentucky work force. Among other issues, employers in Kentucky complained that few potential workers were able to pass drug tests while other potential employees came to their interviews wearing pajamas. It noted that a major way to improve Kentucky’s work force is to focus on “soft skills” – being professional and being able to communicate in a professional manner with others.

In 2014, Kentucky’s private non-farm workers ranked as having the [fifth lowest hourly wages](http://www.bls.gov/web/laus/tabled6.pdf) of workers in the US. Workers in only four other states (New Mexico, South Dakota, Arkansas, and Mississippi) ranked below Kentucky’s $20.53 an hour wage. On the other hand, for those private non-farm workers in Kentucky that did have a job, they put in the 12th most hours per week among US workers (34.9 hours a week). These low earnings reflect the low education and skill level of the Kentucky labor force. The [2010 Census](http://www.census.gov/compendia/statab/2012/tables/12s0233.pdf) showed that Kentucky ranked fourth lowest in the country in the percentage of its population with a college degree (21%).compared to the national average of 27.9%.

Regarding higher education, Kentucky’s colleges are struggling to graduate incoming freshman despite being in the top 20 states in terms of state funding per college graduate. [In 2013, Kentucky’s four year college graduation rate](http://collegecompletion.chronicle.com/state/#state=ky&sector=public_four) stood at 24.2%, below the national average of 33.6%. Kentucky’s six year graduation rate, 48.9% was also behind the national average of 57.6%. Kentucky has the 13th lowest six year graduation rate in the US, but it ranks 20th in state spending per graduate ($72,975 vs. the national average of $66,436).

Businesses looking to relocate to a state are looking for a high skilled/educated workforce. In order for Kentucky to increase its [fourth lowest](https://www.census.gov/hhes/www/income/data/statemedian/) median household income, more Kentuckians will need to show up for work. In addition, those workers will need to be better educated or equipped with skills in demand by dynamic labor markets. The best place to start is by improving the education of tomorrow’s workers.

Kentucky already ranks in the top half of states in education spending per student/median household income. That is, Kentucky already spends an above average percentage of its income on education. The task, then, is to improve Kentucky’s educational outcome per dollar spent. To start, Kentucky is one of only eight states in the US that [does not allow charter schools](https://www.edreform.com/2013/01/the-last-eight-states-without-charter-school-laws/). Simple, but important school reforms such as allowing charter schools, or allowing more school choice could pay dividends for today’s students and tomorrow’s workers.

Kentucky’s labor force is shrinking. Failure to address worker training and education while increasing entitlement spending will lead to further labor force deterioration. How low can Kentucky’s labor force participation rate go? If Kentucky does not change its course on education and entitlements, it will soon find itself with more nonworking than working adults. Eventually workers will grow tired of having more and more taken from them to support a growing number of jobless adults. Employers will move out of state taking jobs and tax revenue with them making it even harder to educate and employ those who remain. Action is needed now to prevent this downward spiral before its inertia is too difficult to overcome.