

Self-Employment as a Tool for Improving Tennessee's Labor Force Participation Rate

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INTRODUCTION

An actively employed and productive labor force is critical for a healthy, growing economy. While Tennessee has long maintained an unemployment rate well below the national average, the state's labor force participation tells quite a different story. A discouraging number of working-age adults are neither employed nor seeking employment and this number has only grown over the past several years. This dichotomy between strength in employment and weakness in labor force participation is worthy of examination.

This is an important metric, one that is monitored by economists for good reason. Leaving would-be workers on the sideline limits household disposable income as well as the tax base, which reduces state and local tax revenue and thus makes for more difficult business recruitment efforts for economic developers. This is particularly important for workers who are in their peak earning years, as prolonged nonparticipation from prime-age workers can erode marketable skills, reduce future earning potential, and lower long-term productivity and economic mobility.

But Tennessee's trend of a declining labor force is not occurring in a vacuum. Rather, this appears to be a regional issue. In fact, labor force participation rates have been trending downward across the southeast for nearly three decades. Tennessee's low unemployment rate indicates that there aren't many workers who simply can't find work. Some workers may be unable to find employment that matches both their skills and interests, but job opportunities remain abundant. Policymakers and economic developers alike should pay close attention to this labor force participation trend as reversing its decline could be an avenue for finding some fresh workers.

While there are many explanations behind this decline in labor force participation, some of which this report will explore, the chief aim of this report will be to pose small business formation and self-employment as strategies for engaging these nonparticipants. While entrepreneurship is often associated with high-growth, innovative ventures, this analysis focuses more on small business activity as a pathway to draw in workers that otherwise have little interest in traditional employment.

LABOR MARKET IN TENNESSEE

A robust labor force is an essential component of a healthy economy. The labor force consists of the civilian population age 16 or older who are working (employed) or are looking for work (unemployed). Unemployment is largely a non-issue in Tennessee. As of December 2025, Tennessee's monthly unemployment rate checked in at 3.6%, 18% below the nationwide rate of 4.4%. Tennessee's monthly unemployment rate has exceeded the national monthly unemployment rate just once since November 2016, with that instance coming in April 2020, along with the rise of COVID-19.¹ In Tennessee in December 2025, there were over 160,000 total job postings² compared to just over 125,000 unemployed people.³

Participation in the labor force, however, is a different story. Tennessee's labor force is a problem. Tennessee's labor force participation rate in December 2025 was 60.4%, and while this came in as the second highest labor force participation rate in the Southeast⁴, it was only the 38th highest in the nation.⁵ So this is not an issue isolated to just Tennessee. Since the turn of the

¹ U.S. Bureau of Labor Statistics

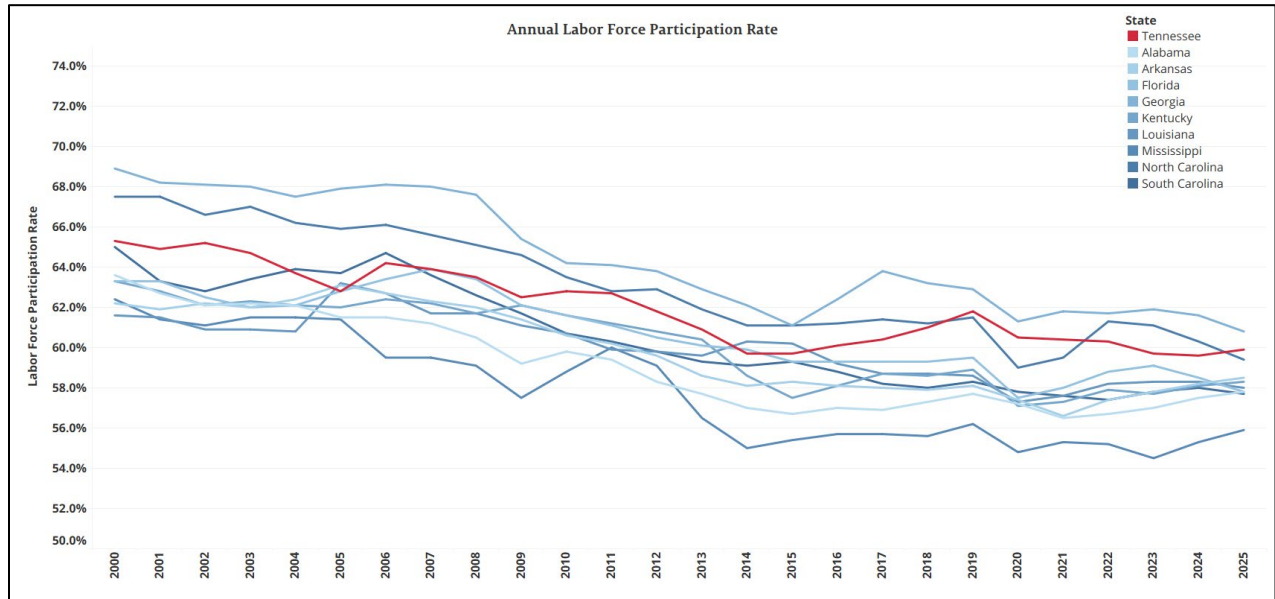
² Lightcast

³ U.S. Bureau of Labor Statistics

⁴ Using the U.S. Bureau of Economic Analysis' 10-state definition of the Southeast: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee.

⁵ U.S. Bureau of Labor Statistics

century, the labor force participation rate in the Southeast has been on a consistent decline, as evidenced by the chart below.



So, Tennessee’s labor force participation rate is strong relative to the rest of its region, but lags behind much of the country. This is an important distinction. While national participation rates have also declined since the turn of the century, southeastern states have experienced a steeper and more persistent drop. There are many explanations for this trend, including population aging and rising childcare costs. The following section will examine some of these reasons for nonparticipation in greater detail.

Population growth has been a regional strength in recent years and particularly in Tennessee, where nearly 64,000 new residents were added between July 1, 2024 and July 1, 2025, marking a 0.88% one-year increase.⁶ However, this increase in net migration has not materialized into an increase in labor force participation. If new residents are retirees, students, or otherwise not entering into the local labor pool, the benefits of inbound migration will not

⁶ Tennessee State Data Center (TNSDC)

show up in the labor force participation data the same way it might show up in other indicators. Rural areas often experience lower labor force participation rates than urban areas due to poorer health, limited job opportunities, lower wages, and insufficient transportation. Thus, this issue should be addressed not only at the state level, but also at the local level, where decision makers seek to maximize opportunities for their friends, families, and neighbors.

In addition to population growth, Tennessee has also seen strong growth in job numbers. Between December 2015 and December 2025, employment nationwide grew 10.8%. Meanwhile, employment in Tennessee grew 15.8% over the same period.⁷ This positive net migration, coupled with strong job numbers, shows that the state's economy is continuing to expand while labor force participation has struggled to keep up.

Prime-age labor force participation (ages 25 to 54) provides additional insight. One recent study found that prime-age labor force participation stands close to a nearly two-decade high.⁸ If the overall labor force participation rate is declining, but the prime-age labor force participation rate tells a different story, this must mean that the decrease in workforce must be happening outside of ages 25 to 54. Any decline in this group would be particularly concerning because these years represent peak economic productivity. When prime-age individuals disengage from the labor market, the long-term economic consequences are heightened, with eroding marketable skills, reduced future earning potential, and lower long-term productivity and economic mobility.

⁷ U.S. Bureau of Labor Statistics

⁸ The Hamilton Project

Tennessee’s labor market thus presents a paradox. While Tennessee is seeing low unemployment, high inbound migration, and steady job creation, a meaningful share of its would-be workers remain outside of the labor force. Understanding who is not participating and why is essential for developing workforce and economic development strategies. Examining underlying forces driving labor force participation can provide some opportunities to identify potential approaches for reversing the state’s declining labor force participation rate.

NONPARTICIPATION EXPLANATIONS

Now with the problem framed up, the question begs – why is this happening? Why is it that individuals who would be welcomed participants in the labor force are neither employed nor actively seeking employment? First, it’s important to know who these people are and who they aren’t. Labor force nonparticipants would include but are not limited to everyone from students, retirees, stay at home parents, and the sick or disabled. Understanding the decline in participation requires distinguishing between these groups and zooming into the factors that influence their decisions.

An aging population along with more workers retiring is perhaps the most popular explanation for the declining labor force participation. According to the Bureau of Labor Statistics, from 1999 to 2022, nearly 75% of the total increase in nonparticipation was attributed to retirement.⁹ The 2026 Economic Report to the Governor finds that the coronavirus pandemic magnified this trend with many individuals opting to retire early.¹⁰ The Center for Retirement Research at Boston College also agrees that baby boomers are pushing down overall participation since older people have lower labor force participation rates than younger adults.¹¹

⁹ U.S. Bureau of Labor Statistics

¹⁰ 2026 Economic Report to the Governor

¹¹ Center for Retirement Research at Boston College

While retirement of the aging population remains one of the primary drivers in this labor force equation, it is certainly not the only factor at play. Caregiving demands and health are also two explanations worthy of evaluation.

Caregiving responsibilities offer another explanation for why many potential workers are opting out of the labor force. Adults caring for young children, elderly parents, or family members with disabilities often exit the labor force when the cost of child, elderly, or disability care exceeds, or even approaches earnings. Low-income parents may exit the labor force following the birth of a child if foregone earnings are near the cost of childcare. Tennessee has historically been a state offering a low cost of living, in fact C2ER's 2025 Annual Average Cost of Living Index rated Tennessee as tied for the 8th lowest cost of living in the nation.¹² However, in their *State of Working Tennessee (2025)*, Think Tennessee found that the cost of center-based childcare, or care provided in licensed facilities outside of the home, exceeded \$9,600 in Tennessee for 2024, up 27.3% from 2019. In the same report, Think Tennessee also points to a nationwide poll which showed that 72% of working-age adults not engaged in the labor force reported that personal health or family caregiving responsibilities kept them from rejoining the workforce.¹³ Child care costs are rising much faster than wages and it's an easy choice for many former workers.

The role that health plays in the workforce problem is often understated. In analyzing why Tennessee and the rest of the southeast has struggled with labor force participation relative to the rest of the nation, one can't help but notice how this regional weakness coincides with higher rates of chronic health conditions seen throughout the southeast.¹⁴ Workers who face

¹² C2ER, Cost of Living Index (2025 Annual Average)

¹³ Think Tennessee (2025)

¹⁴ U.S. Centers for Disease Control and Prevention (2024)

physical and mental health challenges will often encounter barriers to traditional employment. In studying this same topic, Krueger finds that around half of all men who are not in the labor force and are of prime-age (25 to 54) have a health condition that is a barrier to working. Additionally, 47% of prime-age men not currently engaged in the labor force take some sort of pain medication on any given day, with 19% taking prescription pain medication, 17% taking over the counter pain medication, and 11% taking both. Finally, he goes on to show that labor force participation has fallen more in counties where more opioids are prescribed.¹⁵ This study was from 2017, but the opioid problem in the southeast has only gotten worse since then.

The factors that contribute to the declining labor force participation in Tennessee, the southeast, and the nation are dynamic and interconnected. While there are many underlying structural and cultural issues that contribute to nonparticipation, an aging workforce, marked by increased retirement, along with caregiving responsibilities and health limitations, are three of the primary causes contributing to this issue. With the scope of the dilemma now more fully understood, this analysis will next identify one practical solution that can strengthen workforce engagement and expand economic opportunity.

¹⁵ Krueger (2017)

NONPARTICIPATION SOLUTIONS

A declining labor force is problematic for a number of reasons. Spending, and thus state and local revenues, are stifled when households have lower disposable income. Business recruitment is made more difficult as companies and consultants weigh labor market indicators in the site selection process.

This is not a new problem, and there are plenty of ways to go about addressing this issue. Traditional workforce development strategies remain essential. This is not about going away from traditional workforce and economic development but rather supplementing these approaches with additional ideas. On-the-job training, apprenticeships, and other traditional workforce programming are essential investments that can help reduce barriers to employment. However, these solutions were developed and largely deployed with full-time, traditional employment as the point of reference.

In order to reverse labor force nonparticipation in Tennessee, we must look beyond these existing workforce and economic development models. The forces identified in the previous section: workforce aging, caregiving, and health, suggest that participation challenges are not solely the result of a cyclical labor market. Rather, they reflect the reality of a modern worker who is willing to forgo labor force participation for the sake of family obligations, personal desires, or simple financial tradeoffs that make traditional employment less desirable. Addressing this issue must extend beyond simply connecting workers to existing job openings and upskilling workers who can't find a place to grow. Communities must think of ways to expand which Tennesseans can participate in economic activity and to what extent. Policy and strategy must focus on bringing people in off the sidelines.

New business creation and self-employment offer alternative pathways into the labor force that directly address many of these constraints. Self-employment and small business creation allow individuals to design work arrangements that align with their personal circumstances. Flexible scheduling, remote operations, part-time work, and even bringing a dependent to work can lower the opportunity cost of participation for those who cannot commit to traditional employment. Research from Worker Voices shows that an increasing amount of workers are prioritizing autonomy and flexibility in employment.¹⁶

The wild successes of some business moguls have led to the misguided perspective that business ownership might only be associated with high-growth startups or venture-backed innovation. However, when viewed as a tool for engaging labor force nonparticipants, business creation often works best when it is small-scale and hyper local. Home-based businesses, gig-economy jobs, sole proprietorships, independent contracting, and microenterprises play an important role in the economy of rural America, and Tennessee is no exception. According to the Small Business Administration, over 741,000 businesses (99.5%) in Tennessee are small businesses and those small businesses employ 1.2 million Tennesseans (41.5% of Tennessee employees).¹⁷ These ventures may not generate job creation immediately, but they do convert nonparticipants into workers. Even modest business activity increases household income, expands the tax base, and strengthens local economic resilience. Additionally, many of these small business owners are tied directly to the local community, making an immediate impact in the forms of placemaking and quality of life and place.

¹⁶ Miller et al. (2023)

¹⁷ Tennessee 2025 Small Business Profile

It is important to note the difference between small business and entrepreneurial activities. Entrepreneurship often accepts a high degree of risk, with a vision of rapid growth, innovation, and disruption. Small businesses ownership, however, does not necessarily involve innovation or a desire to disrupt. Small businesses tend to be more local, often desiring to grow their business within their community and provide stable income rather than scale rapidly.

Small businesses play a large role in job creation, especially in rural, small towns. By supporting small business formation and entrepreneurial activity, Tennessee can not only address labor force nonparticipation, but also spur long-term growth. Economic developers should prioritize building ecosystems that ensure adequate access to capital, mentorship, office and manufacturing space, and targeted technical assistance for entrepreneurs and small business owners alike. If the support system is in place, the risks associated with starting a business can be less daunting and self-employment can be seen as a viable option for individuals currently on the sidelines.

Of course, caution should be used here. Business ownership and self-employment carries with it risk that traditional employment simply does not. According to LendingTree, over 21% of businesses fail in the first year, over 48% fail after five years, and over 65% fail after ten years.¹⁸ However, the risk appetite may be much greater for a worker currently not engaged in the workforce compared to a worker whose family relies on their income. Thus, small business creation and entrepreneurship should not replace traditional workforce and economic development strategies, but rather complement them. The goal is not to force all nonparticipants into entrepreneurship or business ownership, but rather to create additional pathways. By

¹⁸ LendingTree (2025)

expanding options, we increase the likelihood that nonparticipants can find a form of employment that works for them.

Ultimately, increasing labor force participation means meeting workers where they are. Traditional workforce development strategies remain foundational, but they must be complemented by approaches that recognize the structural realities facing today's workers. Innovation, policy, and strategy must reflect the changing nature of work. If non-participants cite flexibility, autonomy, and personal constraints as barriers to employment, then strategies that empower individuals to structure work around those constraints should be prioritized. Self-employment provides all of these possibilities along with uncapped earnings potential. Communities would be wise to build out support systems and align programming to give potential small business owners and entrepreneurs everything they need to bring themselves into the labor force.

CONCLUSION

Tennessee's labor market presents a paradox. The state enjoys low unemployment and steady job growth, yet a substantial share of working-age residents remain outside the labor force. This disconnect suggests that the challenge facing Tennessee is not simply a lack of available jobs, but rather the accessibility and structure of work in traditional employment. An aging workforce, nonparticipants responsible for caregiving, and poor health have led to a reduction in workforce participation that traditional employment alone may not be sufficient to solve.

Addressing labor force nonparticipation requires a comprehensive and flexible approach. Investments in traditional workforce development and economic development solutions are important components of any community's long-term strategy. However, they operate within a conventional employment framework that does not fully account for the constraints facing today's nonparticipants.

Small business formation and entrepreneurship offer another pathway for Tennesseans to engage with the economy. By enabling individuals to structure work around caregiving responsibilities, health needs, or other limitations, self-employment lowers the threshold for participation. For the shop owner on a local town square, stepping away for a doctor's appointment merely requires a "be back at 2" note on the door. Encouraging this form of participation can convert nonparticipants into participants, taxpayers, and employers of other nonparticipants.

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