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NORTH CAROLINA'S BROKEN ECONOMY:

Hard Work Not Enough to Climb Out of Poverty

BY ALLAN FREYER, *Policy Analyst* and TAZRA MITCHELL, *Policy Analyst*

As the U.S. marks the 50th anniversary of the War on Poverty, many critics point to the persistence of need as evidence that government safety net programs and economic development efforts are ineffective. The opposite is true, however. These strategies have moved millions of Americans out of poverty—but they have been insufficient to deal with an economic transformation that is growing poverty-wage jobs and losing middle-wage ones.

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INTRODUCTION

North Carolina's economy, like the national economy, has undergone a significant transformation from relying on manufacturing to relying on services.¹ As a result, thousands of low-skill jobs that provided a critically important ladder out of poverty and into the middle class for three generations of North Carolinians have disappeared and been replaced with jobs in hospitality, retail sales and other services that pay much less. As a result, the new economy has created thousands of jobs that pay too little to keep full-time workers out of poverty and offer fewer chances to improve their earnings over the course of a lifetime. As a result, household incomes have plummeted over the last decade, and the nation's economic safety net is all that stands between too many families and destitution.

Where poverty persists in North Carolina, it is because the economy failed, not because the War on Poverty failed. And cutting away the safety net, as North Carolina has begun to do, will only make the problem worse by deepening economic hardship and removing what little support remains for helping workers climb out of poverty. Rather than investing in schools, colleges, job training and other policies that can help create good-paying jobs, North Carolina lawmakers have slashed the income taxes that support these cornerstones of a strong economy. At the same time, they have eliminated a vital tax credit for low-income working families and sharply reduced unemployment compensation, threatening to push thousands of hard-pressed North Carolinians further into poverty.

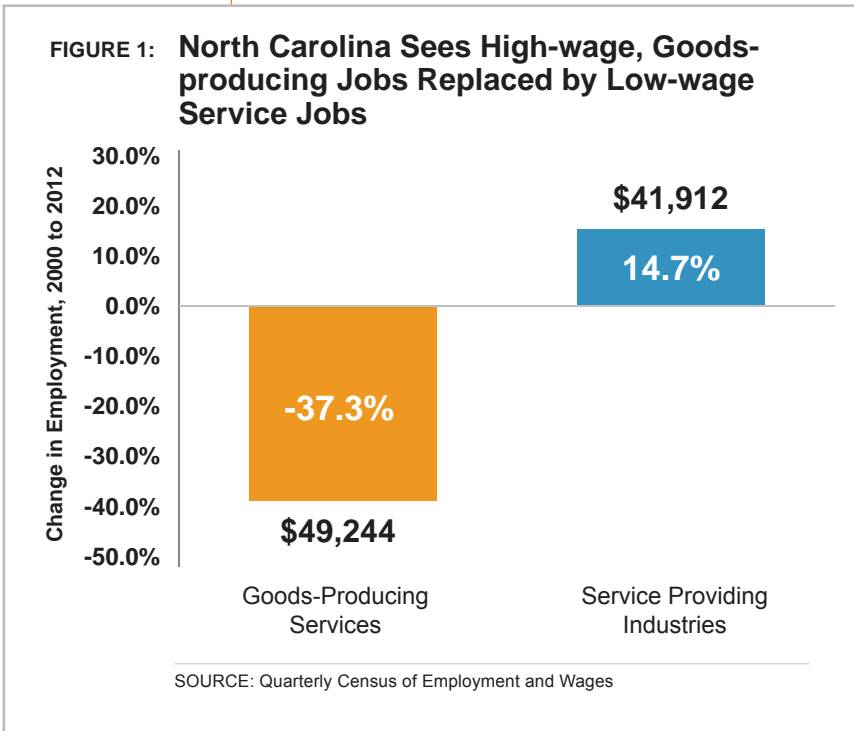
A CHANGING ECONOMY CREATES BOOM IN POVERTY-WAGE JOBS

One of the biggest drivers of poverty in North Carolina is transformation in the state's economy from manufacturing to services and the consequent loss of jobs that required minimal education and paid middle class wages. In their place, workers face exploding employment growth in industries that pay poverty wages and demand little in the way of education, coupled with growing job opportunities in high-wage industries that remain out of reach without significant education and training. In doing so, the state is following a very similar national trend.²

For most of the past 100 years, North Carolina leaned heavily on textile, apparel, and furniture manufacturing, which, along with tobacco growing, provided plentiful jobs for workers across the state.³

These jobs also paved a vital path to the middle class, paying decent wages to workers with less than a high school degree. Unfortunately, many of these industries withered in the face of global trade pressures in the late 1990s and early 2000s. The result has been more than a decade of plant closures and significant job losses—particularly in the state's rural communities.⁴

These changes hit North Carolina disproportionately hard compared to the rest of the nation.⁵ Since 2000, high-wage manufacturing employment in North Carolina fell by almost half, a larger drop than the national average and that of any surrounding state.⁶ Eight of the top 10 industries with the biggest



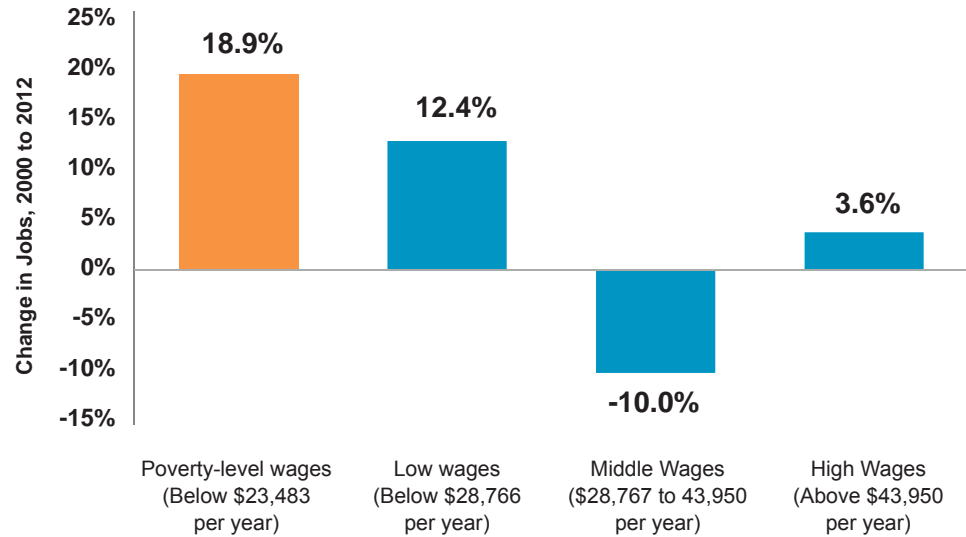
job losses over this period were in manufacturing. And all but three of these vanishing industries paid more than the state's median wage earnings of \$31,900 per year.⁷

Many of these middle class jobs were replaced by jobs in the service sector, which pays much less on average (see Figure 1). Between 2000 and 2012, employment in manufacturing and other goods-producing industries—which paid on average more than \$49,000 per year—fell by more than 37 percent. At the same time, the number of jobs in service-providing industries like retail, leisure and hospitality, and real estate grew by almost 15 percent—and paid less than \$42,000 a year, well below the state average wage.

The squeeze on North Carolina's middle class is growing. Most of the state's job growth has been at the lowest or highest rungs of the income ladder, with very little in between. In particular, North Carolina has seen an explosion in wages that don't pay enough to lift working people out of poverty.

As seen in Figure 2, the number of poverty-wage jobs—those paying less than \$23,484 per year and requiring little education—exploded from 2000 to 2012, growing by 19 percent.⁸ At the same time, high-wage jobs—those paying more than \$43,950 and requiring significant education—grew by 3 percent. The number of middle-class, middle-wage jobs—those paying between \$28,787 and \$43,950 per year—shrank by 10 percent.⁹

FIGURE 2: Poverty Wage Jobs Explode in North Carolina



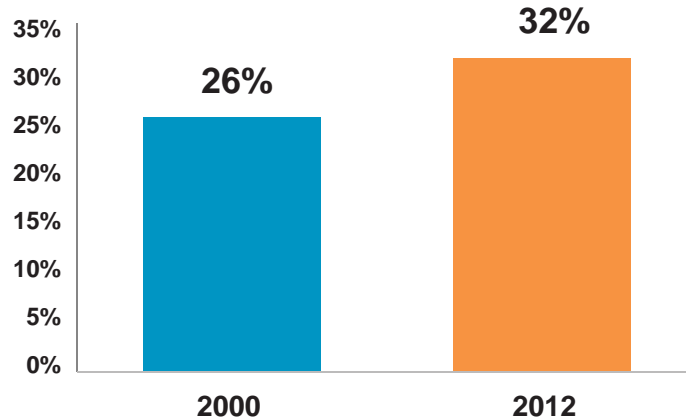
SOURCE: Quarterly Census of Employment and Wages

The fastest-growing industry in the state—Leisure and Hospitality—pays the second-lowest wage, just \$14,350 per year. This rapid growth in low-wage jobs is clearly a major contributor to declining incomes and an increase in poverty in North Carolina. In fact, median household incomes in the state have fallen by more than \$9,500 since 2000, wiping out most the gains made in the state since the early 1990s.¹⁰

**HARD WORK IS
NO PROTECTION
FROM ECONOMIC
HARDSHIP**

Given the trend in employment and wages, full-time work isn't enough anymore to allow many Tarheel families to meet their most basic household needs, let alone give

FIGURE 3: The Share of North Carolina Workers Earning Poverty-Level Wages is Growing Rapidly



SOURCE: Economic Policy Institute's analysis of U.S. Census Bureau data, 2000 and 2012.

them economic security. More than 3 in 10 workers in North Carolina earned wages at or below the official poverty line in 2012, up 23 percent since 2000 (see Figure 3). This is the 9th-worst ranking in the nation.¹¹

**SAFETY NET HELPS
KEEP POVERTY
IN CHECK**

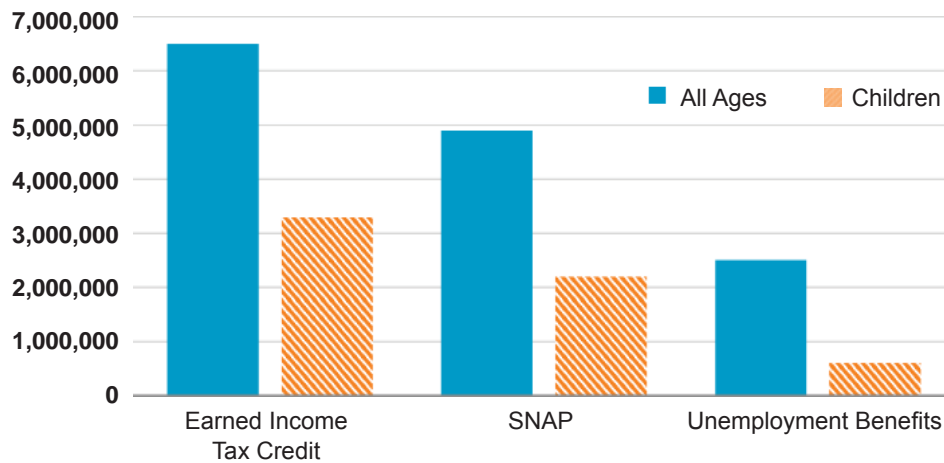
The economy's failure to provide adequate jobs for working North Carolinians is increasing demand on the state's safety net. While the state's poverty rate jumped by more than one-third since 2000, it would have been much higher if services weren't available to help struggling families make ends meet.¹² These services cut poverty nearly in half nationally and help hundreds of thousands of North Carolinians.¹³

Three features of the safety net substantially reduce poverty among adults and children, as illustrated in the figure below. The federal Earned Income Tax Credit, which goes to families that work but earn low wages, lifted 6.5 million Americans out of poverty in 2012. The Supplemental Nutrition Assistance Program (SNAP) lifted 4.9 million people out of poverty by helping struggling families put enough food on their tables. And, if not for unemployment insurance, an additional 2.5 million Americans would live in poverty.¹⁴

These programs can provide long-term benefits, particularly to children, who grow up healthier and better educated as a result of the income boost provided to their families.¹⁵

At the state-level, the safety net also delivers a powerful anti-poverty effect. Estimates show that 298,000 additional North Carolinians

FIGURE 4: Safety Net Programs Lift Millions Out of Poverty



SOURCE: Center on Budget and Policy Priorities' analysis of Census Bureau data, 2012.

would live in poverty without the federal EITC, nearly 200,000 more North Carolinians would live in poverty if not for SNAP, and another 50,000 would live in poverty without unemployment insurance benefits.¹⁶

Unfortunately, these programs are facing deep cuts or elimination just as the need for them is growing. Last year, Tarheel lawmakers eliminated the state Earned Income Tax Credit and drastically cut unemployment insurance. Federal lawmakers allowed emergency benefits to expire for the long-term unemployed and cut \$8.6 billion from SNAP over the next decade. Scaling back these programs will only increase economic hardship for families and children as parents face difficult tradeoffs between paying for food and other essential needs like rent, utilities, and child care.

**POLICIES THAT
SUPPORT AN
ECONOMY THAT
WORKS FOR ALL**

In this world of booming poverty-wage industries, the traditional American prescription for climbing into the middle class—a quality job that pays a living wage—is becoming a thing of the past. Low-skill workers are finding themselves locked into low-wage and poverty-wage occupations with little opportunity to climb the ladder. One way policymakers can start turning this around is to create “career pathway programs” to provide workers with progressively more skill-intensive job training that allows them to escape poverty and earn higher wages over the course of their career. But these programs only go so

far. Policymakers must also seek to raise wages and ensure broadly shared prosperity. As a result, it is critical to maintain a robust safety net to keep working-poor families from falling even further behind.

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- 8 The Census Bureau defines a poverty wage as anything less than \$11.29 an hour, or \$23,483 per year. This analysis uses this definition.
- 9 The National Employment Law Project defines a middle wage job has paying between \$13.84 and \$21.13 per hour, or between 28,787 and 43,950 per year. This analysis uses this definition as well, so that anything paying below this minimum threshold is considered a "low-wage" job and anything paying above maximum is considered a "high-wage" job. See footnote 7 for reference.
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- 11 Economic Policy Institute's analysis of Current Population Survey, 2000 and 2012.
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