

A Barometer of the Economic Recovery in Our State



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EXECUTIVE SUMMARY

WORKERS PLAY A KEYSTONE ROLE IN NORTH CAROLINA'S ECONOMY, as both producers and consumers of goods and services. Improvements in the well-being of workers and their families are requisite for a strong economic recovery. Unfortunately, North Carolina working families lost financial ground and experienced diminished opportunities through the decade of the 2000s due to several economic trends, including a dramatic increase in income inequality and the decline of the manufacturing industry.

The outlook for workers worsened during the Great Recession and its aftermath. North Carolina ranked 6th in the nation for most jobs lost since the start of the Great Recession, and the unemployment rate is still nearly twice pre-recession levels. The lack of employment opportunities has increased economic hardship—North Carolina's poverty rate reached 17.5 percent in 2010, the 12th highest in the nation, and North Carolina had the nation's 12th lowest median household income.

These outcomes are a result of the economic conditions in North Carolina prior to the Great Recession, the severity of the recession's impact on the state, and policymakers' decisions to cut state investments in the tools that could rebuild the economy—an educated workforce, sound infrastructure and healthy communities.

North Carolina has a long way to go in orienting its efforts to improve outcomes for its working families, but greater understanding of what is happening in the economy combined with policies that support workers and their families will help us ensure a better decade for all. This State of Working North Carolina series lays out the broad trends that have characterized North Carolina's economic landscape since 2000 and then turns to an analysis of the state's slow economic recovery. Then the series looks at how these trends have affected North Carolina's working families and how adopting some key policy priorities North Carolina's leaders can chart a better path forward in the next decade

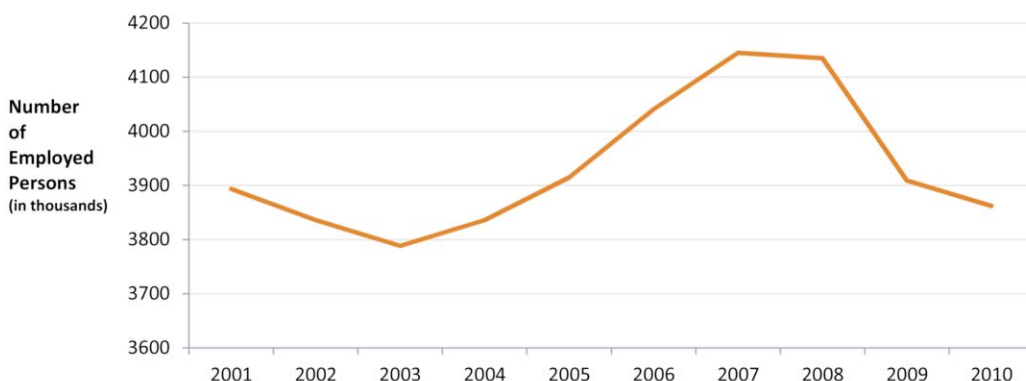


The 2000s: The Lost Decade for North Carolina's Working Families

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DURING THE FIRST DECADE OF THE 21ST CENTURY, North Carolina's working families experienced drastic declines in financial stability and economic opportunity. The 2000s were characterized by book-end recessions, the stagnation of wages for working families, lower employment, and economic hardship that grew over the course of the decade.

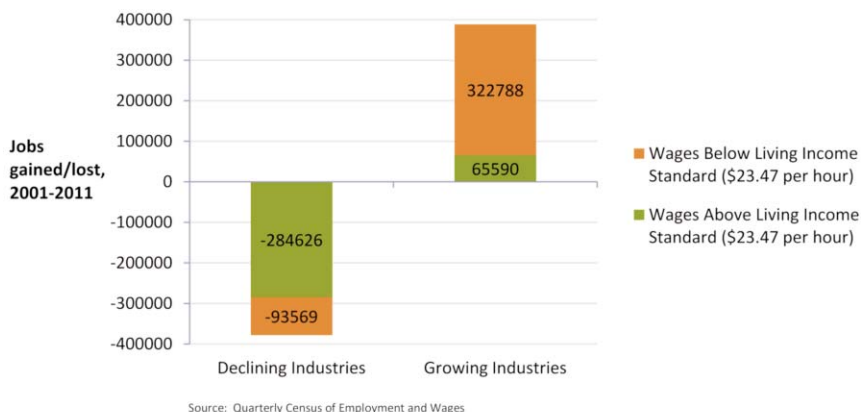
Employment lower in 2010 than at the beginning of the decade



Fewer Jobs at the End of the Decade than at the Beginning

Employment opportunities slowed during the last part of the 2000s, driving increased unemployment and forcing many families to get by on significantly decreased incomes. North

North Carolina loses high-wage jobs, gains low-wage jobs instead



Carolina's working-age population grew by more than 819,000 people over the decade, but by the end of the decade North Carolina had few jobs than at the beginning. There were approximately 356,600 more working-age adults employed in 2001 than in 2010.

Growing Employment in Low-Wage Work

Over the last decade, North Carolina's economy experienced an accelerated transition away from high-wage industries like manufacturing toward low-wage industries like accommodations

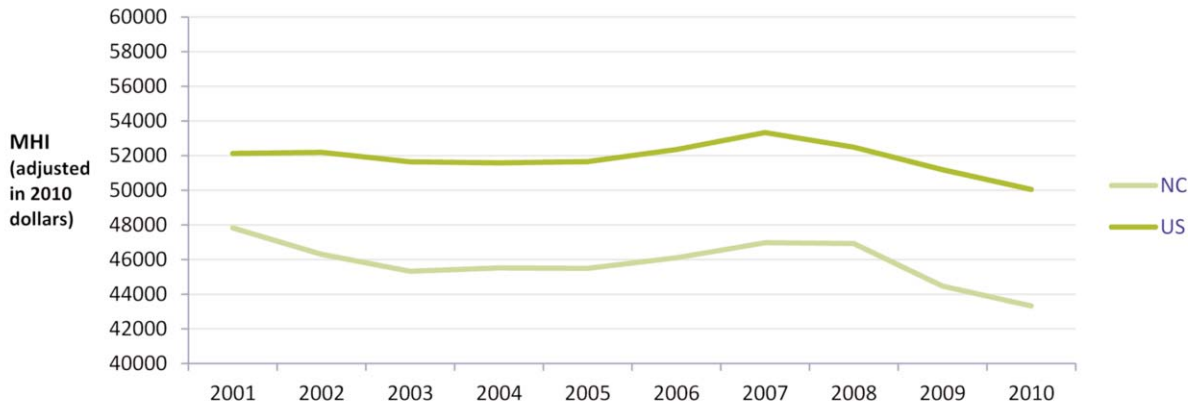
and food services. From 2001 to 2011, the state shed almost 380,000 jobs, almost 75 percent of which were concentrated in industries with average wages above the Living Income Standard, a market-based measure of how much a family must earn in order to meet basic expenses. In 2010, the North Carolina Living Income Standard for a family of four was \$23.47 an hour.

The state's manufacturing sector—which pays an average wage of \$25.30 an hour—shrank by more than 38 percent during the decade, accounting for 72 percent of the state's total job losses. The state's

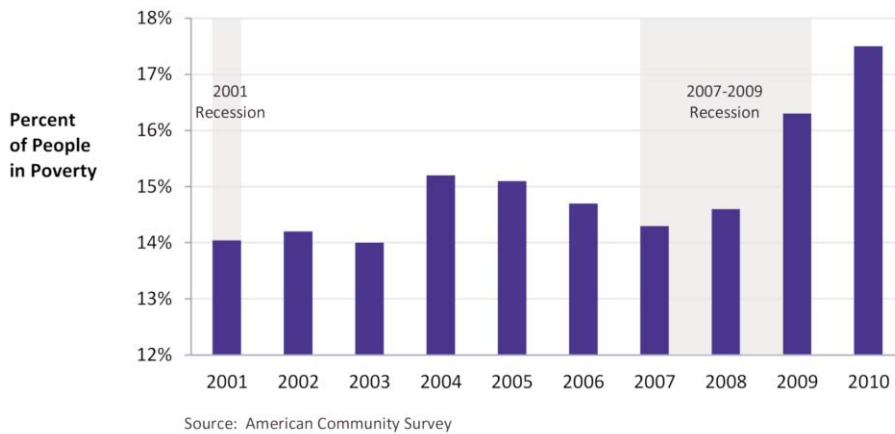
information sector (paying an average wage of \$30.70 an hour) shrank by 4 percent from 2001 to 2011.

North Carolina's job gains during that decade were almost entirely concentrated in low-wage industries. More than 83 percent of the state's job growth occurred in industries paying average wages below the Living Income Standard. For example, the administrative and waste services industry, which pays on average \$14.55 an hour, accounted for 10 percent of the state's job growth, and the accommodations and food services industry, which accounted for 15 percent of the state's job creation, pays just \$7.15 an hour.

A decade with no gains in median household income



Poverty rate climbs over the decade



Middle-Class Living Standards Stalled during the Last Ten Years

As a result in the decline of employment opportunities and the rise of low-wage industries, North Carolina households brought in less income at the end of the decade than they did at the beginning. The state's median household income peaked in 2001 at \$47,823, but by 2010 it had fallen 9.4% to \$43,326, adjusted for inflation. Median household incomes in 2010 fell to levels last seen in

1993—a sign that middle-class living standards were increasingly out of reach for many families.

Increased Economic Hardship

For those North Carolinians already near the bottom of the income scale, the economic trends of the 2000s pushed them even further down. The poverty rate in North Carolina increased by 24.1 percent over the course of the decade. That means an additional 517,000 people in North Carolina lived below the federal poverty line, which in 2012 was \$22,314 a year for a family of four.

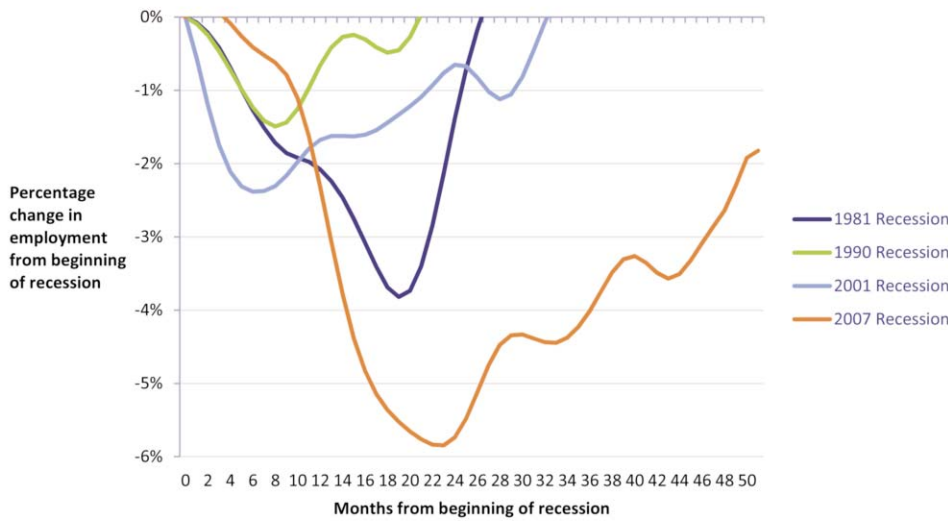


Unemployment and the Jobs Deficit

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NORTH CAROLINA WORKING FAMILIES LOST FINANCIAL GROUND and experienced diminished opportunities through the decade of the 2000s due to several economic trends, including a dramatic increase in income inequality and the decline of the manufacturing industry. The outlook for workers worsened during the Great Recession and its aftermath. North Carolina ranked 6th in the nation for most jobs lost since the start of the Great Recession, and the unemployment rate is still nearly twice pre-recession levels.

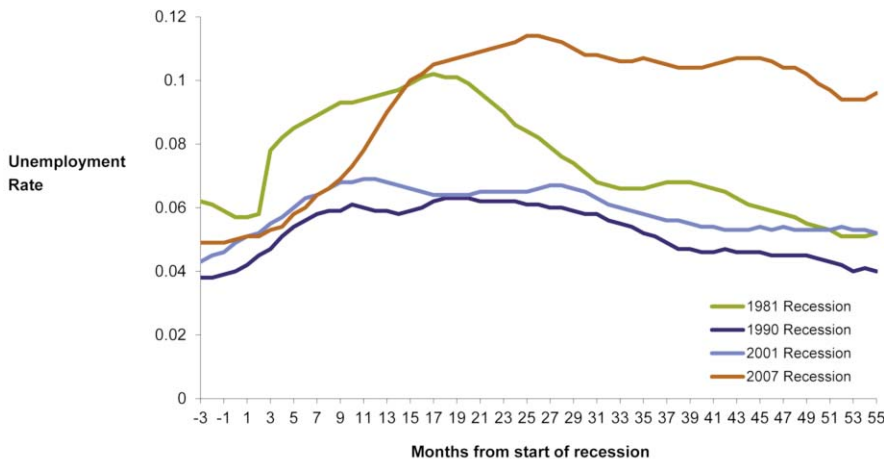
North Carolina's employment levels fell further, have farther to climb out than past recoveries



Jobs lost since start of recession

During the Great Recession, North Carolina's employment rate fell faster and farther than in any recession in the last 30 years. As a result, at its current pace, the state's labor market will take at least twice as long to return to pre-recession employment levels as it did in following previous recessions, leaving larger numbers of workers unemployed for longer periods of time than in the past. By this same point in previous recoveries, the state's job losses had been completely replaced.

Unemployment rate remains higher for longer than previous recessions



Source: Economic Policy Institute, Recession Watch, July 2012.

Stubbornly High Unemployment

Given the depth of North Carolina's job losses during the recession and sluggish job creation during the recovery, it is unsurprising that the unemployment rate has remained stubbornly high in recent years. The current unemployment rate is nearly twice what it was the same number of months after the 1981 (5.2%), 1990 (4.0%), and 2001 (5.2%) recessions.

The Jobs Deficit

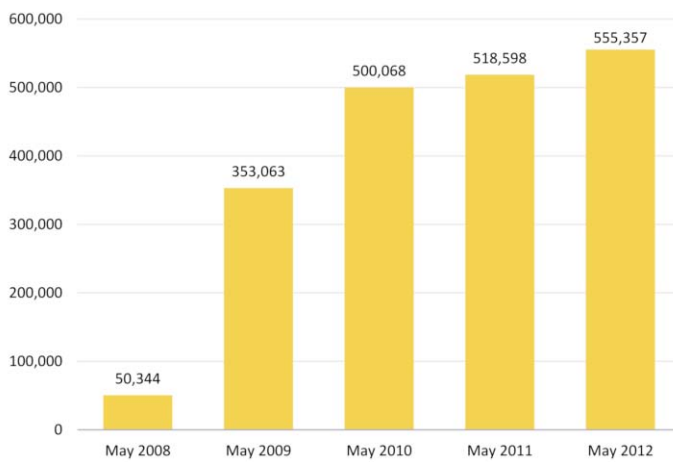
Unfortunately, even this persistently high unemployment rate masks the true depth of the employment challenge in North Carolina. Far more troubling is the rising jobs deficit—the number of jobs the state needs to create to replace those lost to the 2007-2009 economic downturn and keep up with population growth. The state’s jobs deficit grew to 546,000 in July, up from 530,600 at the beginning of the year and up almost 500,000 over the past five years—a 1000% increase in the number of jobs the state needed to fill this shortfall in 2008, when the nation was in the middle of the recession. The bulk of this jobs deficit

has been generated in the years since the recession formally ended in June 2009, despite three years of economic growth. National economic growth is not translating into significant job-creation gains in North Carolina’s labor market.

Because of the lack of jobs, many North Carolina workers who would otherwise seek full-time employment are forced to engage in part-time work. The underemployment rate measures these people along with the unemployed. While the standard unemployment rate in 2011 stood at 10.5 percent, underemployment was nearly twice as high at 17.9 percent.

North Carolina's jobs deficit continues to grow

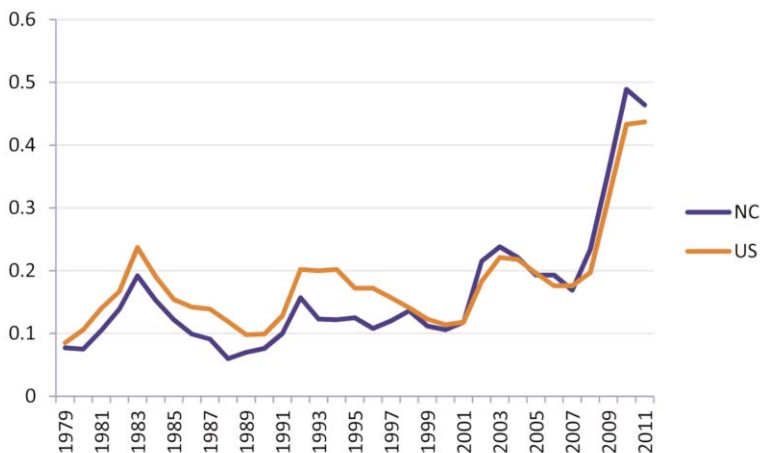
Jobs needed to return to pre-recession employment levels and keep up with population growth



Source: Economic Policy Institute, Job Watch

North Carolina's share of long-term unemployed vs. the national rate

Share of Unemployed Out of Work for 6 Months or More



Long-Term Unemployment

Of all North Carolinians who experienced unemployment in 2011, 46.4 percent were unemployed for 26 weeks or longer. Over the decade, the issue of long-term unemployment has become more pronounced, again driven by the failure of the state’s economy to deliver employment opportunities for the working-age population. Since 2000, North Carolina’s share of long-term unemployed exceeded the national rate most years.



Growing Wage Inequality

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OVER THE PAST 30 YEARS, North Carolina has experienced growing wage inequality, with high-wage earners enjoying income gains while middle- and low-income families saw their wages stagnate or fall. The growth in income inequality has serious implications for all North Carolinians. More unequal societies are more likely to have low levels of economic mobility and enjoy shorter the periods of growth. In contrast, research has found that cutting income inequality in half can double the length of an economic expansion.

The gap between high- and low-wage earners has grown over the past three decades



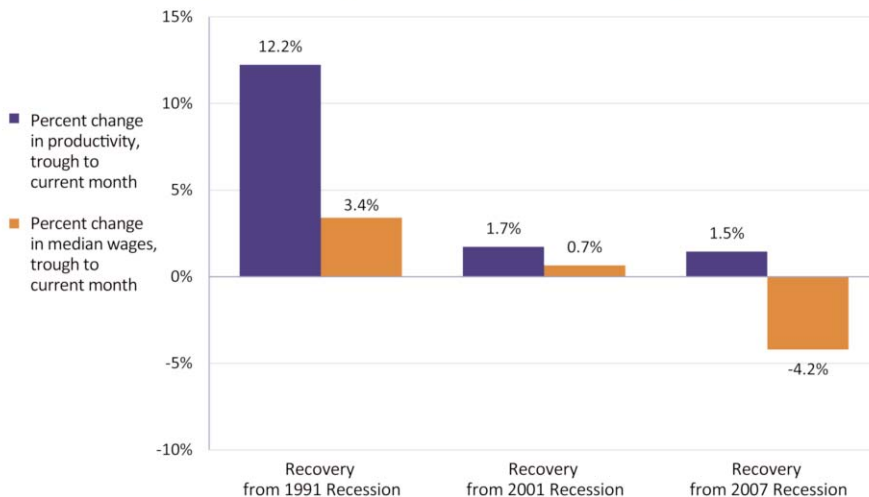
Source: Economic Policy Institute analysis of Current Population Survey data, adjusted in 2011 dollars

Stagnating Wages for All But Those at the Top

Hourly wages for those in the bottom 20 percent of the income distribution have remained flat, while those in the top 20 percent have seen their wages grow. The result is a growing gap between high- and low-wage earners. In 1981, the gap between the top 20 percent and bottom 20 percent was \$10.44 per hour, but by 2011 the gap had grown to \$15.85.

Those at the bottom and middle of the income distribution in North Carolina saw their wages decline over the past decade, in contrast to the trend in the 1990s where all groups—but especially the median and low-income households—saw wage improvements.

North Carolina workers' wages failing to keep pace with productivity gains during current recovery



Source: BEA Regional GDP and Personal Income. Real GDP in millions of chained 2005

Disconnect between Productivity and Wages

A prevalent trend during the current economic recovery threatens to further increase income inequality over the next decade: North Carolina workers are working harder but are not seeing increased benefits from their increased labor.



Growing Wage Inequality

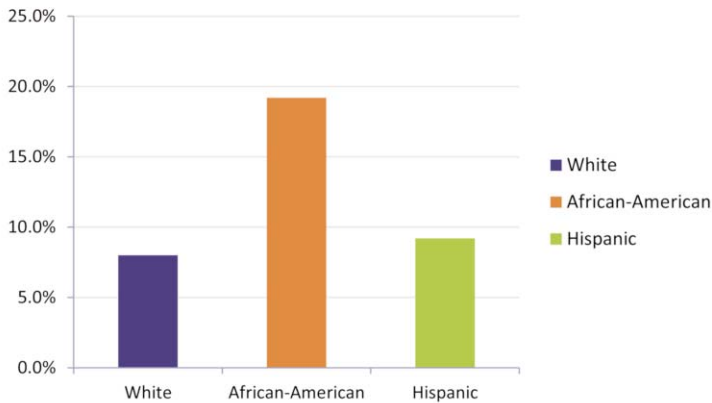
Productivity, the amount of goods produced by each worker, is a key measure of economic growth. As a worker improves his efficiency, he increases the economic output of his employer while reducing his employer's costs and expanding its profits. In past business cycles (including the recoveries from the recessions of 1981, 1990, and 2001), employers passed these savings along to workers in the form of higher wages. Unfortunately, the reality of the current recovery is different than the past: despite increasing productivity by 1.5 percent since the end of the Great Recession, North Carolina's workers have seen their wages fall by 4 percent and employment fail to return to pre-recession levels.



Labor Force Demographics

September 2012

Unemployment has hit African-Americans harder than other groups because of trends in industry and geographic employment



Source: Economic Policy Institute analysis of Current Population Survey data

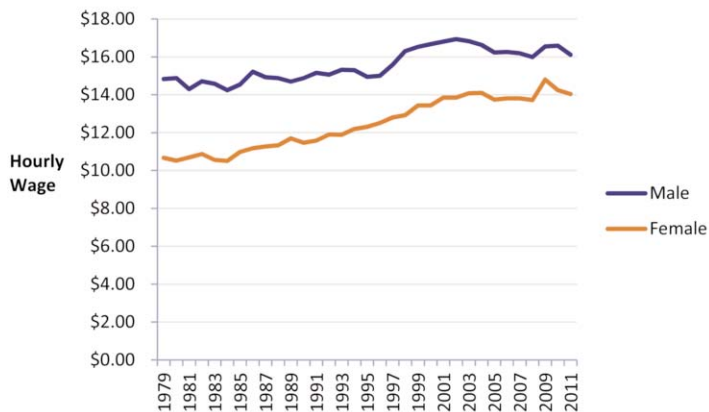
NORTH CAROLINA'S LABOR MARKET is becoming more diverse, more balanced along gender lines, and more educated. These trends have the potential to improve the competitiveness of the state globally as it draws upon the experiences and perspectives of workers.

But it will also be important that North Carolina pay particular attention to the impact of broader economic trends on specific workers.

For example, unemployment has not affected all groups in the state the same. African-Americans have an unemployment rate more than twice that of whites and nearly 1.5 times as high as the level for Latinos. Driving this disproportionate experience of unemployment is the concentration of workers of color in industries impacted by the Great Recession and in public-sector jobs, which have been cut significantly during the recovery. In addition, communities of color are concentrated in geographic areas with low job opportunities and changing regional industries.

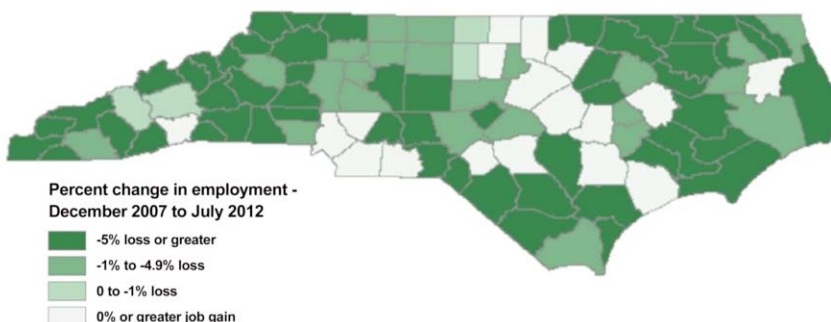
Moreover, trends in the women's wages post-2000 suggest a disturbing trend. Women's median wages actually increased from 1979 to 2000, slightly narrowing the gender wage gap, but women's progress has stalled since the end of the recession. The challenge is to ensure that women's wages grow not at the expense of men's but at a faster pace to close this wage gap. The best way to do that is through policy.

Female workers have not experienced wage growth sufficient to close the gender wage gap



Source: Economic Policy Institute analysis of Current Population Survey data, adjusted to 2011 dollars

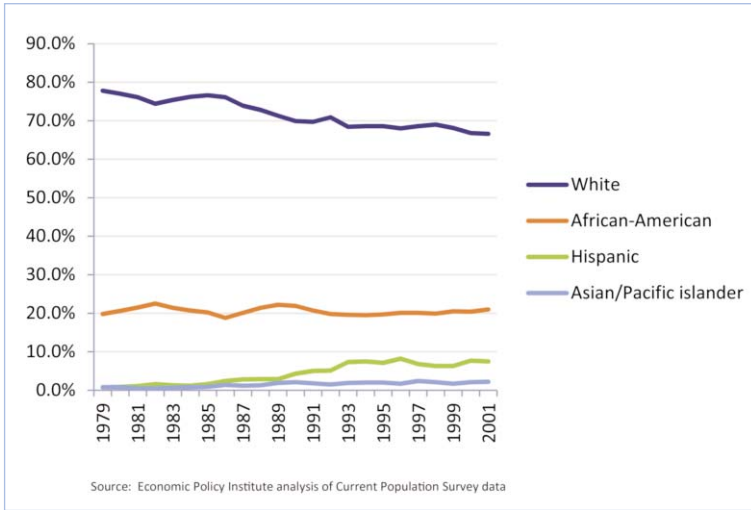
Job loss concentrated in rural counties and eastern and western counties since the start of the Great Recession



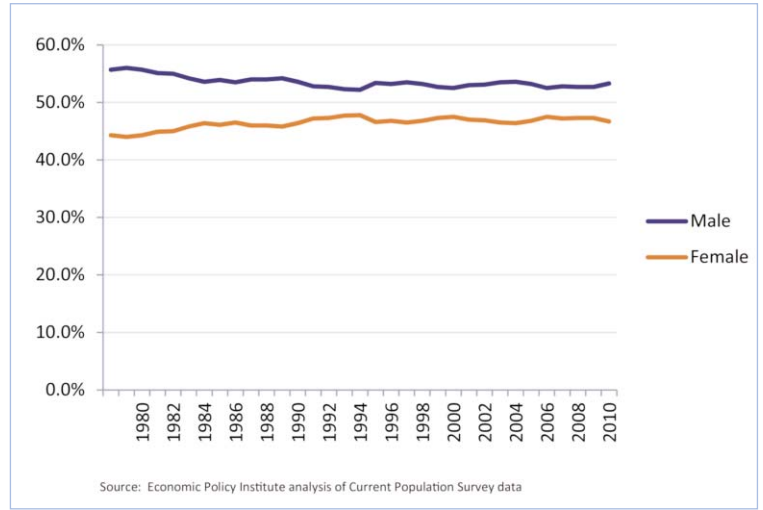
Finally, communities across the state have not been impacted equally by the Great Recession and economic trends. In fact, many communities in eastern and western North Carolina, where many of the state's manufacturing jobs were located before the economic shifts of the last several decades, and many rural communities throughout the state have been hardest hit.

THE CHANGING FACE OF NORTH CAROLINA'S LABOR MARKET

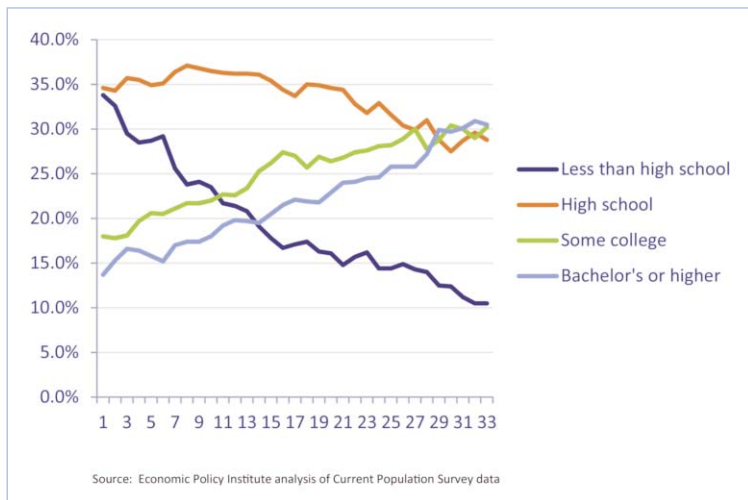
The state's labor force is getting more diverse.



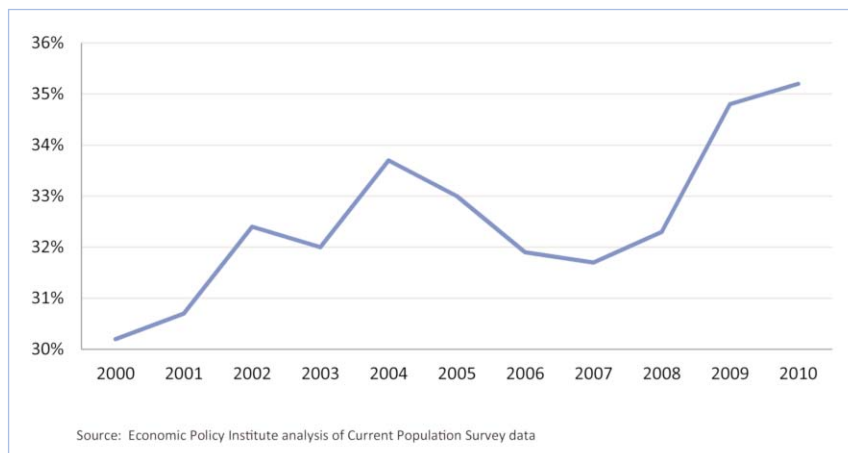
Women's participation in the labor market has increased.



The state's labor force has increased its educational attainment.



The proportion of working families in the state who are low-income has increased.





Policies to Support Workers and a Strong Recovery

September 2012

WISE PUBLIC POLICIES AND SOUND INVESTMENTS that support workers will strengthen North Carolina's economic recovery. During the last century, public investments played a critical role in promoting broadly shared prosperity, raising the incomes of all workers across the economic spectrum, and ensuring that an increasing number of Americans could join the middle class and share in the nation's unprecedented economic growth.

In the face of our current economic challenges, North Carolina and the nation need policymakers to recommit to these historic promises, to promote public investments that support workers, and in so doing, to support economic growth that benefits all.

In order to achieve these goals, policymakers must focus on three key policy areas.

Job Creation

Given the significant jobs deficit, North Carolina policymakers must focus on creating jobs in the immediate term as well as creating the long-term conditions that facilitate the expansion of employment opportunities. But more than that, they must ensure these jobs are good, quality jobs that can support families.

- **Minimize cuts to public-sector employment** – Government layoffs only increase the number people out of work. Public-sector layoffs also hurt private-sector job growth because unemployed government workers no longer have paychecks to spend at local businesses, which in turn have less revenue to support their own payrolls. This requires taking a balanced approach to the state's budget challenges and minimizing cuts to public-sector employment.
- **Implement wage-subsidy programs** – Until consumer demand rebounds from the downturn, wage subsidies to employers who hire new workers can encourage businesses to add jobs. These wage-subsidy programs must incentivize the hiring of people facing long-term unemployment in order to give them the chance to get back to work, and these programs must require businesses to meet minimum standards of pay and labor conditions.
- **Ensure economic development dollars are well-spent** – The state's investment in economic development through business incentives or subsidies must generate returns for workers and communities alike. This means tightening the standards for subsidy programs to ensure that businesses receiving subsidies meet job-creation targets, provide family-sustaining wages, and face consequences if they fail to meet these provisions.
- **Establish work-sharing programs** – Ahead of the next recession, North Carolina should enact a work-sharing program that would allow employers to reduce workers' hours rather than lay them off. This would provide workers with the chance to stay up to date on their skills and maintain a significant share of their incomes, while employers would get a workforce they can quickly bring back online when demand returns.
- **Build career pathways in high-growth industries** – To ensure that North Carolina workers can get good-paying jobs in high-growth industries, the state should increase access to the industry-relevant credentials and training that will make workers competitive and support industry expansion. Career pathways, bridge programs and overall sectoral approaches—along with the state's continued investments in schools, research and development, and infrastructure—will support the growth of industry in the state.

Support for the Unemployed

The experience of long-term unemployment has a host of negative effects on families and the broader community. North Carolina's leaders need to strengthen the state's unemployment insurance system and look for innovative ways to support people facing long-term unemployment who are no longer eligible to receive benefits because of the duration of their unemployment.

- **Strengthen the Unemployment Insurance System** – An effective unemployment insurance system puts employer contributions in reserve during good economic times so that adequate funds are available to meet the demand for benefits during downturns, when workers lose their jobs through no fault of their own. Adopting such a forward-financing approach will ensure that the modest benefits provided by unemployment insurance will be available to help unemployed workers keep their families afloat and will make their job searches possible.
- **Support unemployed in job search and retraining** – North Carolina policymakers must look to innovative models that help people facing long-term unemployment connect to job-training opportunities that result in a credential or degree. To do this, it is critical that these jobless workers have the financial and case-management support to pursue these degrees and identify job-search opportunities that are a match to their skills. Enhancing the delivery of job-search services at JobLink centers and supporting the connection of this work to labor-market analysis will help achieve better employment outcomes for unemployed workers.
- **Connect people facing long-term unemployment to critical supports** – Long-term unemployment has the potential to lead to financial ruin, especially when workers who have been out of work for months are no longer eligible for the modest support of unemployment insurance. State policymakers should enhance cooperation across agencies and programs to establish referrals and efficient application processes that connect long-term unemployed workers to supports like the Supplemental Nutrition Assistance Program and housing subsidies.

Wage Standards and Work Supports

During the economic recovery, North Carolina has seen an increase in the number of low-wage jobs and a decline in occupations that pay a living wage. At the same time the prices of basic goods continue to increase. This means more North Carolinians are working for lower wages and cannot meet the most basic of needs of housing, food, childcare and transportation.

Creating and maintaining jobs that pay a living wage and providing supports that ensure job stability will promote shared economic prosperity and fuel much-needed economic growth for North Carolina.

- **Increase the Minimum Wage** –North Carolina's minimum wage of \$7.25 an hour translates to approximately \$15,000 per year for a full-time worker – roughly one-third of what it actually takes for a family of three to make ends meet in North Carolina.
- **Provide Adequate Work Supports** – Affordable, quality childcare is non-negotiable for working parents, but quality childcare remains unaffordable for many North Carolina's families. Increasing state investments in child-care subsidies can help parents earning low wages keep their jobs and better support their families. In addition, expanding Medicaid to low-income adults, as called for in the federal health reform law, would provide hundreds of thousands of currently uninsured adults with health care and create a healthier workforce.
- **Expand Access to Paid Leave** – All workers need to be able to rely on pay and job protections when caregiving responsibilities arise, when long- or short-term illnesses strike, or when welcoming a new child to the family. However, almost half of the state's private-sector workforce lacks access to paid sick days. A law enabling workers to earn paid leave would



provide much-needed support for working families and help workers avoid financial ruin brought on by illness or injury.

- **Increase Protections against Wage Theft** – Wage theft includes unpaid wages, minimum-wage violations, non-payment of overtime, denial of earned vacation time, and misappropriation of tips. Every year, North Carolina workers lose out on millions of dollars of pay that is improperly withheld from them by their employers. While North Carolina has laws on the books to ensure that workers are paid for all hours worked and to provide workers with access to basic wage protections, state leaders must ensure these laws are enforced and that all workers can access these protections.

Sound Fiscal Policy to Create Communities of Opportunity

It is critical that state investments support access to good jobs, affordable transportation options, small-business development, and quality schools throughout North Carolina. Policymakers need to consider how to ensure that state investments create greater equity of access and opportunity in communities across the state.

Some communities were hit harder than others by the Great Recession and the prior economic transformation in North Carolina. Policymakers have tools available to them that prioritize economically distressed areas. These include funds for low-wealth school districts and economic development dollars for Tier 1 counties.

But to truly create communities of opportunity in North Carolina, state policymakers must focus on the needs of low-income people with an eye on where they live and work. This vision requires policymakers to work across multiple policy silos in order to achieve integrated development. For example, increasing public transit options does not help low-income people if housing around bus stops or light-rail stops is unaffordable. The state can level the playing field through policies such as neighborhood incentives that support affordable housing and first-source or community benefit agreements that ensure residents in struggling areas see increased employment opportunities when businesses receiving taxpayer-funded subsidies move in. Such policies are fundamental to building an inclusive economy and communities of opportunity.

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