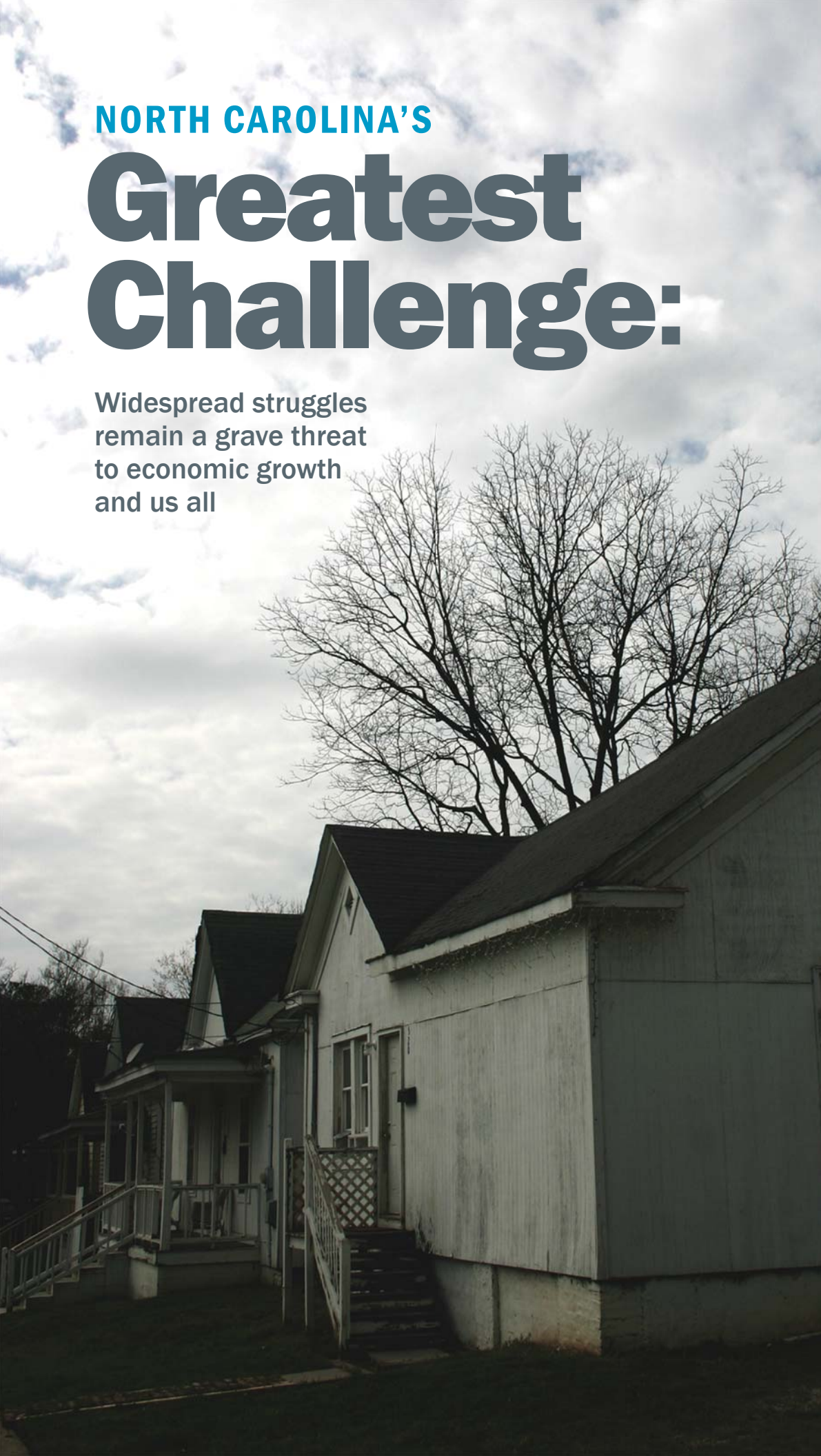


**NORTH CAROLINA'S**

# **Greatest Challenge:**

**Widespread struggles  
remain a grave threat  
to economic growth  
and us all**



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## Introduction

North Carolina's economy isn't working for everyone, and for some it's downright broken. Many families wake up to financial insecurity every morning as the shortage of jobs paying family-supporting wages persists, household income idles in neutral, and the gap between the wealthy and everyone else widens. The ability of families and individuals to get ahead as well as the resilience and growth of North Carolina's economy are hindered as a result.

From the mountains to the coast, poverty-level incomes are a harsh reality for more than 1.7 million North Carolinians who find affording the basics such as rent, food, and utilities to be a daily challenge. In 2013, poverty in North Carolina—which for a family of four means living on less than \$24,000 per year—was the most widespread it had been since before the turn of the century. The depth of economic hardship in the state is closely tied to race, gender, and age, as well as where one lives. This pattern of economic exclusion is nothing new in the Old North State and keeps us from achieving a better future.



## Key Findings

- ▶ **Poverty in North Carolina either climbed or stayed steady from 2007 to 2013 despite the economic recovery.** The state's poverty rate was 17.9 percent in 2013.
- ▶ **North Carolina has higher rates of poverty, deep poverty, and child poverty than the majority of states.** The state's poverty rate was the 11th highest in the nation in 2013, and its deep poverty rate and child poverty rate were 12th highest.
- ▶ **Race and gender play significant roles in poverty.** Communities of color, women, and children are more likely to face economic hardships than whites, men, and older adults, respectively.
- ▶ **Poverty's reach varies considerably across the state, revealing a stark rural-urban divide.** Out of the state's 100 counties in 2013, the 45 highest county-level poverty rates were all in rural counties—up from 31 in 2012.
- ▶ **More North Carolinians live in high-poverty areas.** Urban and suburban areas are contending with the growing concentration of poverty. In fact, the state's metropolitan areas experienced some of the biggest jumps in the country for the number of people who are poor and living in high-poverty areas.
- ▶ **North Carolina's off-kilter economy and policymakers' decisions are keeping poverty high.** Wages are idling in neutral, middle-class living standards are increasingly out of reach, and economic gains are bypassing everyone except those at the top. Unfortunately, North Carolina's leaders are enacting policies that compound these economic and labor-market disparities and make it more difficult for working families to get ahead.
- ▶ **Work and income supports reduce the number of North Carolinians living in poverty by half and boost economic mobility.** These supports lifted 1.5 million North Carolinians—including 340,000 children—out of poverty each year, on average, from 2009 to 2013. They also enabled workers and families to succeed, contributing to a stronger and more inclusive economy.

The good news is that North Carolina has the tools to address these problems, and we know what works. Making sure that parents can put food on the table; have access to supports like affordable, quality child care to help them work and their children learn; and earn wages they can live on are part of building an economy that works for all.

Building a recovery from the Great Recession that can deliver broadly shared prosperity should be a priority for lawmakers. At the very least they should refrain from chipping away at work and income supports. Unfortunately, in the last few years both state and federal lawmakers have cut back on these supports, making it harder for people who live paycheck to paycheck.

## Economic Growth Is Not Being Shared in North Carolina

Despite a rebounding economy, poverty in North Carolina climbed or stayed steady from 2007 to 2013 (see Figure 1).<sup>1</sup> The Great Recession, which lasted from December 2007 to June 2009, was the worst economic downturn since the Great Depression in the 1930s, plunging many families into poverty. The state's annual unemployment rate

remained above 10 percent in 2010 and 2011, keeping poverty on the rise in the early part of the official economic recovery.<sup>2</sup> The benefits of the recovery and economic growth have been increasingly concentrated among high-income households rather than middle- and low-income North Carolinians.

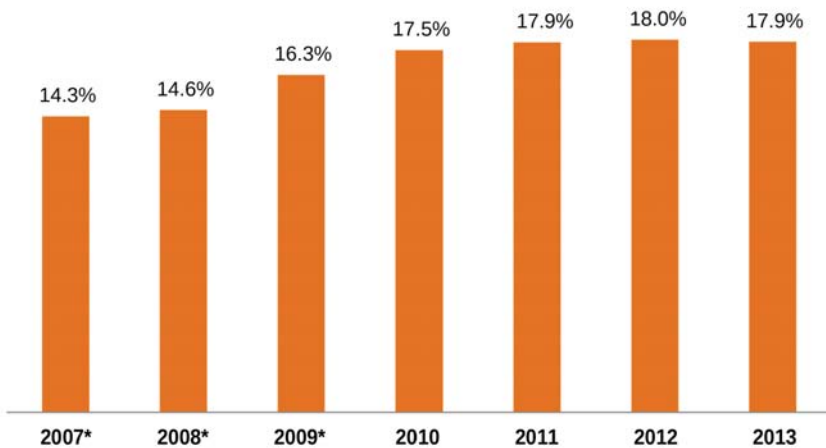
This represents a sharp break from what normally happens after a recession. In the past, economic growth that followed downturns delivered lower poverty rates. This was the case during the economic recoveries of the 1960s, 1970s, and 1980s—in all cases, the United States experienced declines in poverty within two years of the recession ending.<sup>3</sup> The

recoveries from the recessions of 2001 and 2007 broke this pattern, with poverty rates failing to fall. In fact, North Carolina never made it back to pre-recession levels of poverty following the 2001 recession before the 2007 downturn began.<sup>4</sup>

Poverty and economic hardship are expected to remain high for years to come. Poverty across the United States is not expected to fall to pre-recession levels by 2024, according

**FIGURE 1: Progress to Reducing Poverty in North Carolina is Stalled**

*Official Poverty Rate Increased or Stayed Flat Each Year Since 2007*



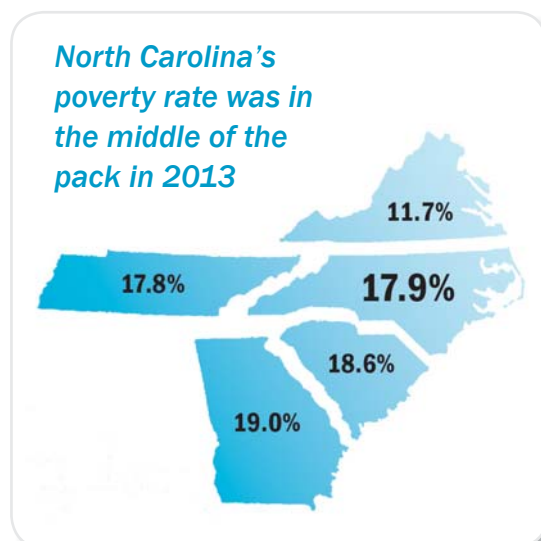
SOURCE: United States Census Bureau's American Community Survey, one year estimates, 2007-2013. An asterisk indicates that the poverty rate for that year is statistically different from the 2013 poverty rate.

to the Brookings Institution.<sup>5</sup> State-level projections are not available. But for the first time in a generation, the national economic recovery has been stronger than North Carolina's in terms of employment growth, suggesting it may take North Carolina until after 2024 to get back to pre-recession levels of poverty unless policy changes are made to redirect the state's course.<sup>6</sup> North Carolina may be facing another lost decade similar to the 2000s in terms of high poverty and prolonged deterioration in middle class income.

## Nearly One in Five North Carolinians Live in Poverty

In 2013, 17.9 percent of North Carolinians struggled to make ends meet with incomes below the federal poverty level, which was \$23,550 annually for a family of four. Some 753,000 North Carolinians lived in deep poverty, meaning they earned half or less of the annual poverty-level income for their family size. It takes more than double the federal poverty level for a family of four in the state to afford the basics such as housing, food, and child care (see the break out box, right).<sup>7</sup>

North Carolinians were more likely to live in poverty and face economic hardship compared to the average American. The state's poverty rate was the 11th highest in the nation, and its deep poverty rate was 12th highest. Compared to bordering states, North Carolina's poverty rate was in the middle of the pack—higher than in Virginia and Tennessee but lower than in South Carolina and Georgia.



## Federal Poverty Level is a Flawed Measure of Economic Hardship

The federal poverty level (FPL) is used as a baseline measure of economic hardship across the country. But there is a consensus among researchers, anti-poverty advocates, and others that this measure is too narrow, inadequate, and outdated.<sup>8</sup> It was designed in the 1960s to determine the minimum income necessary for a family to survive, not to be financially secure. The FPL has been criticized for:

- ❑ Being based only on the cost of food and assuming that cost accounts for one-third of family expenses. Food costs today are 14 percent of expenses for a family of four in the state.<sup>9</sup>
- ❑ Failing to account for what it takes for people to afford life's essentials by ignoring expenses that are significant today but were not common in the 1960s, such as child care.
- ❑ Measuring pre-tax income instead of after-tax income, thereby inaccurately portraying the amount of money a family truly has available to spend.
- ❑ Failing to take account of cost-of-living differences throughout the country.

A better baseline measure of economic hardship that avoids these flaws is the North Carolina Living Income Standard (LIS). It estimates how much income a working family with children must earn to pay for basics such as housing, food, child care, health care, transportation, taxes, and other necessities. The LIS shows that for an average Tar Heel family of two parents and two children, it takes more than double the federal poverty level—or roughly \$52,000—to afford basic expenses.<sup>10</sup> There is an LIS available for all 100 of the state's counties.

## Poverty is Skewed Sharply by One's Background

*The depth of economic hardship in the state varies sharply by race, gender, and age.*

### People of Color Are More Likely to Live in Poverty

Communities of color have historically lacked equal access to jobs and been paid lower wages than whites. They have also lived disproportionately in areas that often had less access to high-quality public and private investments, like schools and businesses. Other previous policy decisions—such as government-sanctioned exclusion from buying homes in certain neighborhoods and the initial exclusion of people of color from the GI bill—also resulted in fewer pathways to middle-class earnings for people of color.<sup>11</sup>

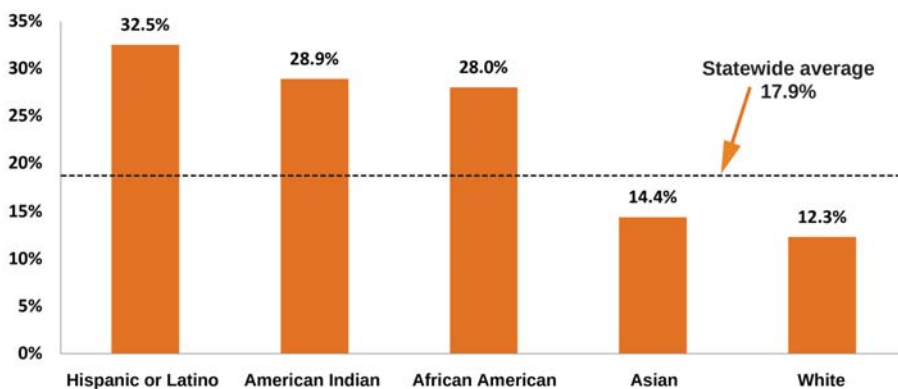
The total number of non-Hispanic whites living in poverty is greater than any other group in North Carolina, but this group makes up a relatively small share of the state's white population. And while the number of people who are poor may be smaller in communities of color, they make up a bigger share of those communities. For example, in 2013, 32.5 percent of Latinos, 28.9 percent of American Indians, and 28 percent of African Americans lived in poverty

compared to 14.4 percent for Asian Americans and 12.3 percent of whites (see Figure 2).<sup>12</sup>

While struggle and hardship has grown for all racial groups since 2007, the Great Recession and its aftermath made worse the vast racial disparities in economic conditions and opportunities that have persisted throughout the nation's history.<sup>13</sup> Since 2007, poverty rates in North Carolina have

**FIGURE 2: Racial Disparities Persist—Poverty in Any Community Hurts Us All**

2013 Poverty Rate in North Carolina by Race



SOURCE: United States Census Bureau's American Community Survey, one year estimates, 2013. American Indian includes Alaskan Native.

increased by 6.7 percentage points for Latinos, by 4.8 percentage points for American Indians, and by 3.3 percentage points for African Americans, compared to 2.8 percentage points for Asian Americans and 2.7 percentage points for whites.

Racial disparities in income not only harm people of color but have consequences for all of us because inequities keep the economy from reaching its full potential. North Carolina's Gross Domestic Product—a measure of all goods and services produced in the state—would have been \$63.53 billion higher in 2012 if there had been no gaps in income by race.<sup>14</sup> So

**FIGURE 3: Closing the Racial Poverty Gap Requires Lifting 464,000 People out of Poverty*****To match the state's non-Hispanic white poverty rate of 12.3 percent:***

- 250,421 African Americans would have to be lifted out of poverty
- 104,162 Hispanic and Latinos would have to be lifted out of poverty
- 28,708 Asian Americans would have to be lifted out of poverty
- 13,566 American Indians would have to be lifted out of poverty
- 67,155 other race/multi-racial North Carolinians would have to be lifted out of poverty

SOURCE: Author's analysis of United States Census Bureau's American Community Survey, one year estimates, 2013. American Indian includes Alaskan Native.

clearly, bringing down poverty among people of color is an economic imperative. Doing so requires lifting hundreds and thousands of people above the poverty line (see Figure 3). However, to truly build an inclusive economy requires entirely eliminating poverty.

### **Women Face More Economic Hardships than Men**

Women have made tremendous economic strides over the last few decades. Yet, women are still more likely than men to live paycheck to paycheck and struggle to pay the bills. The poverty rate for women in the state was 19.3 percent in 2013 compared to 16.4 percent for men. That year, Tar Heel women earned just 82.9 cents for every dollar men earned.<sup>15</sup> As long as women continue to earn less than men when working full-time jobs, the greater incidence of poverty among women will persist and the economy will fail to reach its potential.

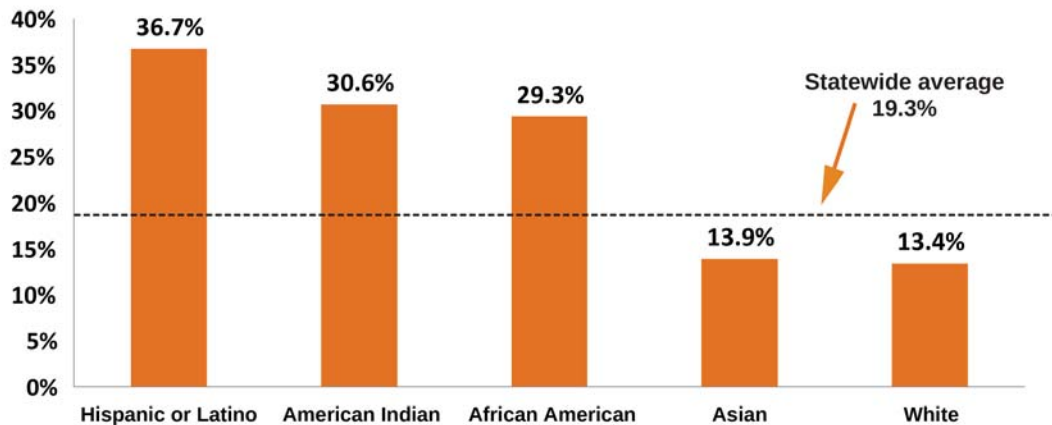
The Great Recession and its aftermath slightly narrowed the disparities in gender poverty rates. Men and women alike lost ground in the downturn, but men lost more due to major job losses in male-dominated industries, such as manufacturing and construction.<sup>16</sup> From 2007 to 2013, men's poverty rate jumped four percentage points compared to 3.2 percentage points for women. Still, nearly 156,500 women in the state would have to be lifted out of poverty for women to have the same poverty rate as men.

Women of color face particularly high rates of poverty. In 2013, Latina, American Indian, and African American women were more than twice as likely to live in poverty as Asian and white women (see Figure 4).

In North Carolina, women are more likely to live in poverty than men in all major racial groups except Asian Americans (see Figure 5). Latina women represent the largest share of women living in poverty compared to men. And while white women have lower poverty rates than women of color, their women-to-men poverty ratio ranks second behind Latina women and higher than African Americans and American Indians. Differences in education levels, employment, and family structure, along with racial and ethnic differences, are likely driving the disparities.<sup>17</sup>

**FIGURE 4: Racial Disparities Persist Among Women**

2013 Poverty Rate in North Carolina by Race, Women Only

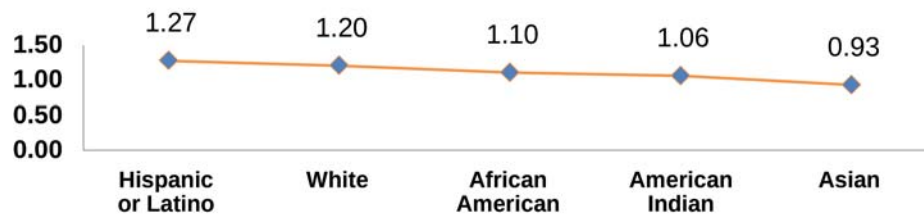


SOURCE: United States Census Bureau's American Community Survey, one year estimates, 2013. American Indian includes Alaskan Native.

Poverty rates also vary widely by family composition and age, with poverty maintaining a tight grip on families headed by single mothers. Approximately 4 in 10 single women with children lived in poverty in 2013 compared to nearly 3 in 10 single fathers and 1 in 10 married couples with children. For single mothers who worked part-time, the poverty rate was 50.4 percent but drops to 15 percent for single mothers who worked full-time.<sup>18</sup>

Gender inequality extends into retirement age too. Older female adults are far more likely to struggle to make ends meet than men: 12.2 percent of women over 65 lived in poverty compared to 7.2 percent of men in 2013.

**FIGURE 5: Latinas and Whites Experience Largest Women-to-Men Poverty Ratios in North Carolina**



SOURCE: United States Census Bureau's American Community Survey, one year estimates, 2013. American Indian includes Alaskan Native.

## Children Have the Highest Poverty Rates of Any Age Group

Poverty has the fiercest grip on children—especially children of color—compared to any other age group. North Carolina’s child poverty rate was 25.2 percent in 2013, well above the national rate of 22.2 percent. It has grown by nearly 6 percentage points—or by 140,000 children—in the state since 2007, when the Great Recession began, harming families and the state economy in the short term and for decades to come.

For the 1 in 4 Tar Heel children growing up in poverty, the consequences are devastating. For the youngest children, the effects of poverty—such as unhealthy stress levels—can disrupt their brain development.<sup>19</sup> Such damage can hurt their chances of success in school and dampen their earning potential as adults.<sup>20</sup> In fact, poverty can fuel intergenerational cycles of deprivation. More than 4 in 10 children who grow up in poverty are likely to remain there as adults—and there is even less economic mobility for African American children.<sup>21</sup>

The state’s child poverty rate was the 12th highest in the nation in 2013. Compared to bordering states, the rate was higher than Virginia’s but lower than Georgia’s, South Carolina’s, and Tennessee’s.

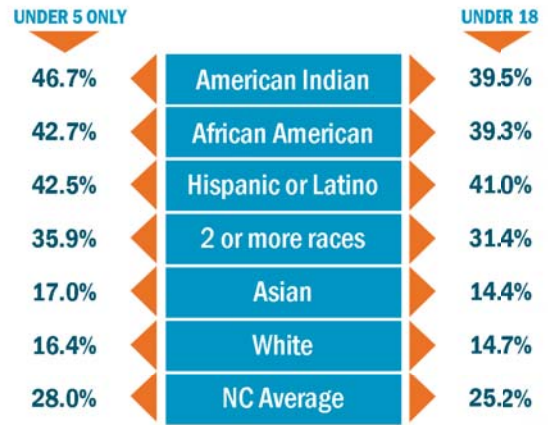
Economic hardship remains high for all children, but children of color are facing crisis levels of poverty. The child poverty rate was 41 percent for Latinos, 39.5 percent for American Indians, and 39.3 percent for African Americans, compared to 14.7 percent for whites and 14.4 for Asians (see Figure 6). Poverty had an even fiercer grip on children under age 5, during the years of rapid brain development, with rates approaching 50 percent for American Indian, African American, and Latino children.<sup>22</sup>

Even with North Carolina’s economy struggling to create enough jobs for everyone who wants to work, 3 in 4 children who were poor lived in families with at least one worker and 3 in 10 were in families with at least one worker employed full-time, year-round.<sup>23</sup>

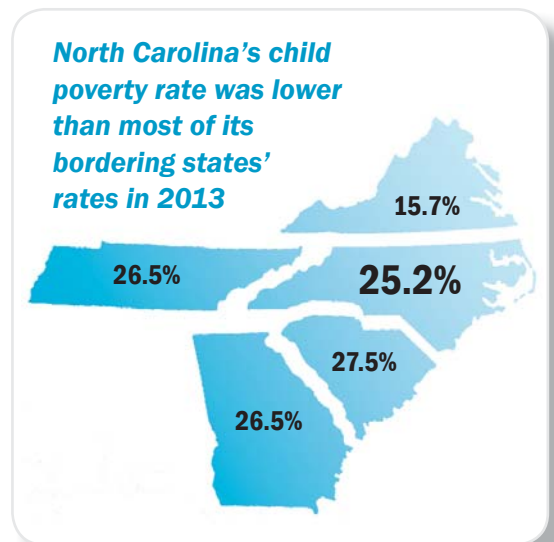
## Education Helps Fend Off Poverty

One of the best paths to achieving economic security is through the schoolhouse door. The likelihood of being pushed into poverty is cut in half for high school graduates compared to people who drop out of high school. In 2013, North Carolinians ages 25 or older with at least a bachelor’s degree had a poverty rate of 4.6 percent, compared to 31.9 percent of those without a high school diploma (see Figure 7).

**FIGURE 6: Child Poverty Remains High for All Children, Highest among Children of Color under 5**



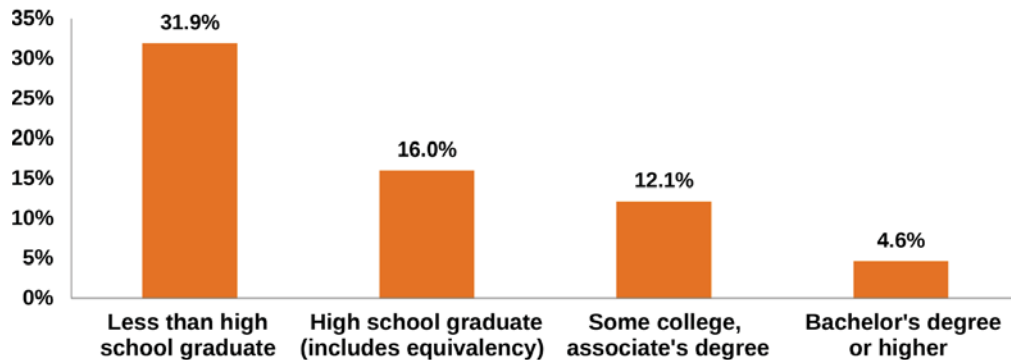
SOURCE: United States Census Bureau’s American Community Survey, one year estimates, 2013. American Indian includes Alaskan Native.





**FIGURE 7: Education Helps Safeguard Against Poverty**

*Poverty Rate rate in North Carolina by Educational Attainment for Adults Ages 25 and Older*



SOURCE: United States Census Bureau's American Community Survey, one year estimates, 2013.

But how well-off one's parents are also plays a major role in learning and later economic success. A low-income student is less likely to show up to kindergarten ready to learn, to graduate from high school, and to make it to college compared to a middle- or higher-income student.<sup>24</sup>

Even if they make it to college, American children growing up with economic hardships are less likely to cross the finish line and graduate than students living in financially secure families. Of the ones who get college degrees, 16 percent remain stuck at the bottom of the income scale as adults. But for most children growing up in poverty, a college degree helps them overcome the disadvantages of growing up in a low-income family.<sup>25</sup> This underscores the importance of strong state investments in education, from pre-kindergarten to college, so that North Carolina's schools can be a stepping stone to economic security for all.

## *Poverty Differs Greatly by Geographic Area*

The depth of economic hardship varies strikingly by locale. Differences in job availability; public and private investments in schools, businesses, and transportation; and historic patterns of hardship make some regions more susceptible to poverty than others. Rural parts of the state—especially in the mountains and in the east—are plagued by persistent inter-generational poverty and face high unemployment rates. All 10 counties that have had poverty rates above 20 percent for the last three decades are rural and located in the eastern region of the state.<sup>26</sup> While most urban and suburban areas are reaping the gains of the recovery and have some of the lowest poverty rates, they also have the deepest pockets of economic hardship, hunger, and disadvantage.

Targeted investments in poor and isolated communities can bring opportunity to those communities and build a stronger, more inclusive economy for them and the entire state.

## Poverty's Rural-Urban Divide

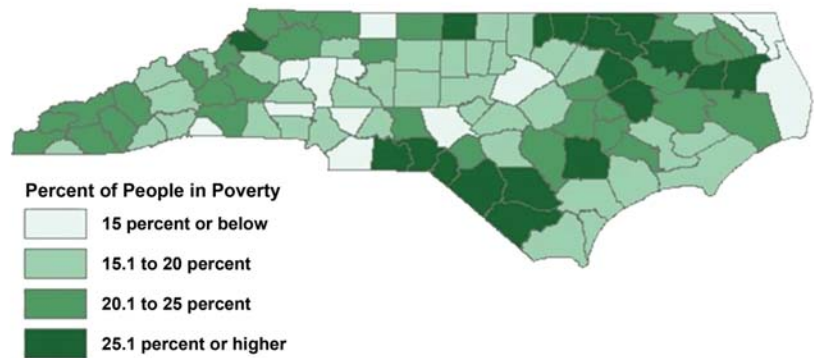
Poverty's reach in 2013 varied considerably across North Carolina's counties, with rates ranging from 9.5 percent in Camden County to 34.1 percent in Scotland County (see Figure 8). Seven in 10 counties had poverty rates higher than the state average in 2013—that's worse than the previous year when it was approximately 6 in 10 counties.

The geography of poverty at the county level reveals the bleak economic reality that many rural residents face. In 2013, the highest poverty rates were in 45 rural counties— up from 31 in 2012. Urban areas, by contrast, are fueling the state's economic recovery. This widening rural-urban divide is driven by job losses in rural areas, long-term changes in the state's economy, and inadequate levels of targeted state aid to economically-stressed areas.<sup>27</sup>

Scotland County in the rural and southern part of the state has the highest poverty rate. One in 3 residents lived in poverty and found it difficult to put food on the table and make ends meet in 2013. Among urban counties, Forsyth County in the Piedmont Triad had the highest poverty rate, with more than 1 in 5 residents living in poverty and struggling to afford the basics. At the opposite end of the spectrum, rural Camden County and urban Wake County had the lowest poverty rates, with 1 in 10 residents living in poverty.

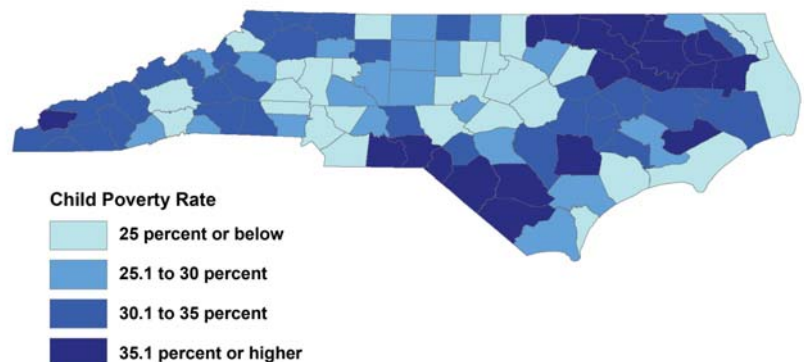
For children, county poverty rates in 2013 ranged from 13.4 percent in Orange County to 48.5 percent in Edgecombe County (see Figure 9). More than half of the state's counties had a child poverty rate above 30 percent—all rural except Forsyth County. At least 4 in 10 children lived in poverty in eight counties. Persistent economic hardship among children will be a long-term problem for local economies, spanning generations to come.

**FIGURE 8: Poverty Remains Stubborn to Economic Recovery, with Rates Varying Considerably across the State**



SOURCE: United States Census Bureau's Small Area Income and Poverty Estimates, 2013.

**FIGURE 9: High Child Poverty Rates Persist, with Rates Varying Considerably across the State**



SOURCE: United States Census Bureau's Small Area Income and Poverty Estimates, 2013.

## Concentrated Poverty Afflicts North Carolina's Neighborhoods

Even in a county that is thriving overall, economic hardship differs greatly from one community to the next. North Carolina is contending with the growing concentration of poverty in neighborhoods in both urban and suburban areas, an analysis of poverty at the neighborhood level shows.

Clusters of poverty became more common in the state during the 2000s. More than 1 in 2 North Carolinians who lived in poverty in 2010 also lived in areas with poverty rates 20 percent or higher; it was just 1 in 4 in 2000.<sup>28</sup> In fact, over that decade the state's metropolitan areas experienced some of the biggest jumps in the country for the number of people who are poor and living in high-poverty areas. Under this measure, 4 of the top 10 fastest-growing poverty rates in the nation's 100 largest metropolitan areas were in North Carolina.<sup>29</sup> High-poverty areas are also rapidly increasing in the state's suburban areas as well.<sup>30</sup>

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**Living with poverty-level incomes and residing in a poor neighborhood magnifies economic disadvantage.**

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Living with poverty-level incomes and residing in a poor neighborhood magnifies economic disadvantage, creating a double burden. High-poverty areas are often afflicted with poorly performing schools, fewer job opportunities, and less access to healthy food options and quality health care—all of which make it harder for their residents to move out of poverty.<sup>31</sup>

Even for middle- and upper-income children, growing up in a high-poverty area can raise the chances of sliding down the income ladder by more than half.<sup>32</sup> This is troubling for the state's long-term economic viability because North Carolina has the fastest growth in the nation in the share of people of all incomes living in high-poverty areas.<sup>33</sup>

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## *Low Wages, Inequality, and Policymakers' Decisions Keep Poverty High*

**P**overty remains high because North Carolina's economy is off-kilter. The state's middle-wage jobs in manufacturing, which provided a critically important ladder out of poverty, have been replaced by jobs in hospitality, retail sales, and other services that pay much less.<sup>34</sup> As such, wages are idling in neutral, middle-class living standards are increasingly out of reach, and economic gains are bypassing everyone except those at the top. At the same time, policymakers are enacting policies that make it more difficult for working families to get ahead.

Hard work is no longer enough to climb out of poverty and allow families to meet basic needs. The share of North Carolina workers earning poverty-level wages is growing rapidly. More than 3 in 10 workers in the state earned wages at or below the official poverty line in 2013, up from 1 in 4 in 2000 (see Figure 10). This is the 8th-worst ranking in the nation.<sup>35</sup> Despite working full-time, a minimum-wage worker with two children earns a poverty-level wage. Raising the minimum wage would help families and the economy get back on track.<sup>36</sup>

A Tar Heel household at the mid-point, or median, for earnings brought in less income in 2013 than it did at the start of the millennium. That is nearly a decade and a half of decline in raising middle-class living standards. Looking back only to 2007, when the recession began, median household income has dropped by 8.5 percent, to \$45,906 (see Figure 11).<sup>37</sup> That \$4,280 decrease is roughly equivalent to what a moderate-income family of three spends on health care in a year.<sup>38</sup>

The state's median household income was the 11th-lowest in the nation. Compared to bordering states, North Carolina's median household income was in the middle of the pack—lower than Virginia's and Georgia's but higher than South Carolina's and Tennessee's.

North Carolina is also grappling with a growing disparity between the richest households and everyone else, which is at an historical level. The trend concentrates wealth at the top and erodes income and opportunity for low-income and middle-class households.<sup>39</sup> The top 20 percent of households in the state—those with the highest incomes—had average annual incomes \$153,548 higher than the bottom 20 percent in 2013. The top 20 percent of households held more than half of all income in the state in 2013, compared to the 14.3 percent held by the middle 20 percent and 3.3 percent held by the bottom 20 percent (see Figure 12).<sup>40</sup> Those growing up at the bottom and top ends of the income scale tend to stay there during adulthood.<sup>41</sup>

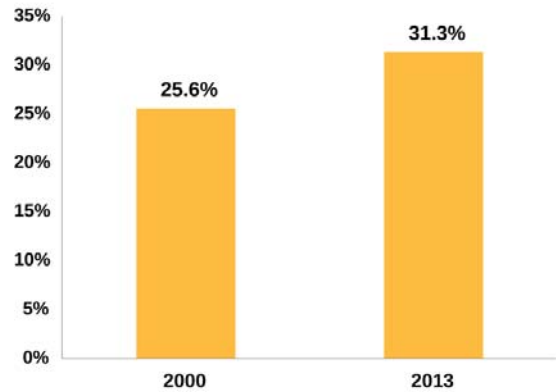
Poverty also remains high due to federal and state lawmakers' decisions to dismantle or underinvest

in things that reduce poverty, foster economic mobility, and lay the groundwork for an economic future that benefits everyone.

While federal lawmakers protected millions from being pushed into poverty during the recession via the American Recovery and Reinvestment Act of 2009, they have since pursued policies that are holding back the national economic recovery and keeping poverty elevated. For example, in 2012 Congress allowed the expiration of the payroll tax holiday, which lowered most workers' take-home pay by 2 percent. In 2011, Congress enacted massive across-

**FIGURE 10: Share of NC Workers Earning Poverty Wages is Substantial, Up from 2000**

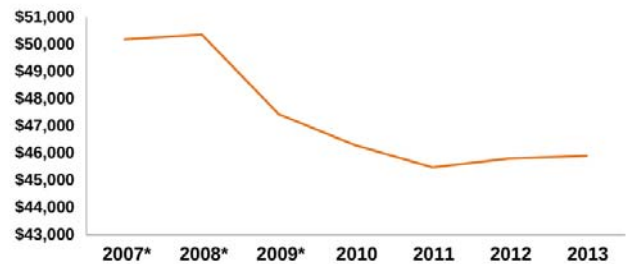
*Share of Workers Earning Poverty-level Wages*



SOURCE: Economic Policy Institute's analysis of United States Census Bureau's Current Population Survey, 2000 and 2013.

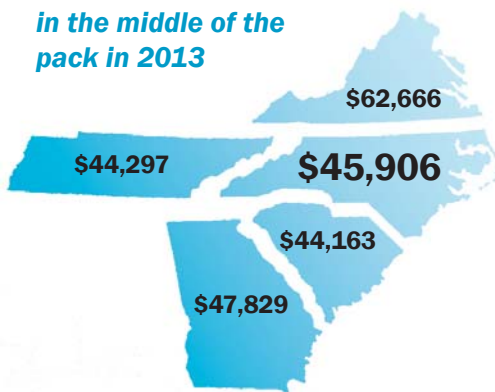
**FIGURE 11: Middle-Class Living Standards Are Stalled in North Carolina**

*Median Household Income*

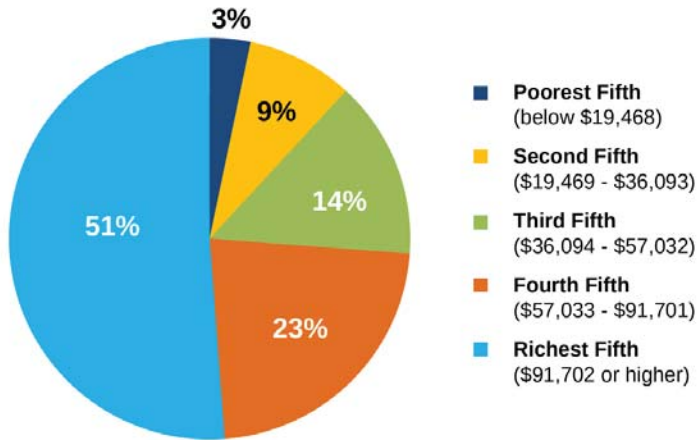


SOURCE: United States Census Bureau's American Community Survey, one year estimates, 2007-2013. An asterisk indicates that the median household income for that year is statistically different from the 2013 median household income.

**North Carolina's median household income was in the middle of the pack in 2013**



**FIGURE 12: Top 20 Percent Holds More than Half of All Household Income in North Carolina**



SOURCE: United States Census Bureau's American Community Survey, one year estimates, 2013.

the-board cuts— known as sequestration—to vital public services that went into effect in 2013. The measure forced deep cuts to housing vouchers and long-term unemployment benefits, making it harder to afford the basics for people already living on the edge.<sup>42</sup>

State lawmakers also chipped away at work and income supports when they were most needed. In 2013 they permanently cut unemployment benefits at a time when North Carolina had the 5th-highest unemployment rate in the nation, making the state

ineligible for \$600 million in federal aid for the long-term unemployed. An estimated 70,000 North Carolinians abruptly lost unemployment benefits within months.<sup>43</sup> They also allowed the state Earned Income Tax Credit to expire, meaning nearly 1 million working families lost access to this credit, which allowed them to keep more of what they earned.<sup>44</sup> That same year, state lawmakers passed a tax plan that shifted taxes away from the wealthy and onto low-income and middle-class taxpayers.

The tax cuts are costing upward of \$1 billion this fiscal year and going forward, making it impossible to replace the most damaging cuts to anti-poverty programs and other vital services that lawmakers enacted in the aftermath of the recession. The level of underinvestment is stark. There are more than 8,000 fewer pre-kindergarten slots available today for four-year olds at risk of not being ready for grade school than there were during the recession, and per-pupil spending in the public school system is lower today than when the recession hit. Long waiting lists abound for child care subsidies and in-home and community care for older adults.

Underinvesting in people and communities is not the way to help people move up and out of poverty, boost North Carolina's economy, or create a better future for everyone.

## Work and Income Supports Help Keep Poverty in Check, Boost Economic Mobility

The increases in poverty in the aftermath of the Great Recession were substantial. But far more North Carolinians would be living on the edge in the absence of work and income supports, which the federal government expanded at the start of the economic recovery to counter massive job losses and steep drops in family income.<sup>45</sup> Examples of these supports include tax credits for working families, temporary unemployment benefits, and Social Security for older adults and dependent children.

Work and income supports are effective anti-poverty tools because they provide people with a temporary bridge to meet basic economic needs and support healthy development among children. They reduce the number of North Carolinians living in poverty by half while simultaneously reducing the depth of economic hardship for those who remain poor. The state poverty rate dropped from 30.8 percent to 14.9 percent, on average, from 2009 through 2013 when accounting for supports

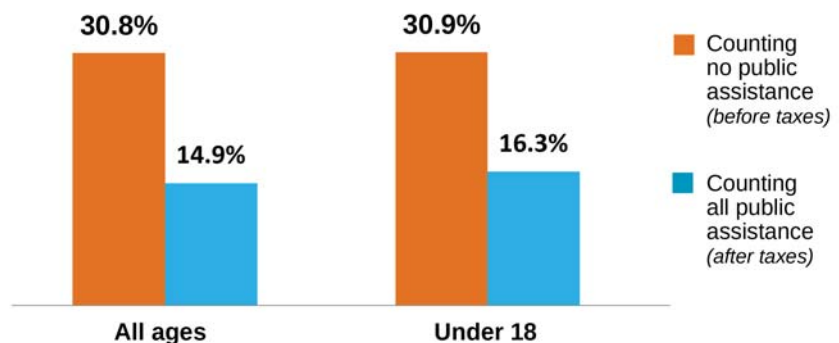
and tax credits (see Figure 13). This equates to lifting 1.5 million North Carolinians, including 340,000 children, out of poverty each year, on average. To put that in perspective, that is nearly double the population of Charlotte, NC.

These figures are based on the Census Bureau's Supplemental Poverty Measure (SPM), which—unlike the official poverty measure—accounts for taxes, non-cash benefits such as rent subsidies, and cash assistance such as Social Security. The SPM also makes other adjustments, taking into account out-of-pocket medical costs, work expenses such as child care, and differences in living costs across the country.

Work and income supports also blunt poverty's reach across the United States. Absent any safety net benefits in 2013, the supplemental poverty measure would have been 12.6 percentage points higher. The case is similar when looking further back. Poverty across the country fell significantly over the last half-century—from 26 percent in 1967 down to 16 percent in 2012—when accounting for work and income supports, proving the critical role that effective public policies play in combating poverty and boosting economic security.<sup>46</sup>

Keeping these robust work and income supports is vital to reducing poverty.

**FIGURE 13: Work and Income Supports Cut Poverty Rate in Half in North Carolina Each Year, on Average, During 2009-2013**



NOTE: Figures use the federal government's Supplemental Poverty Measure (SPM).

SOURCE: Center on Budget and Policy Priorities' analysis of 2009-2013 Census Bureau data from the March Current Population Survey and SPM public use files.

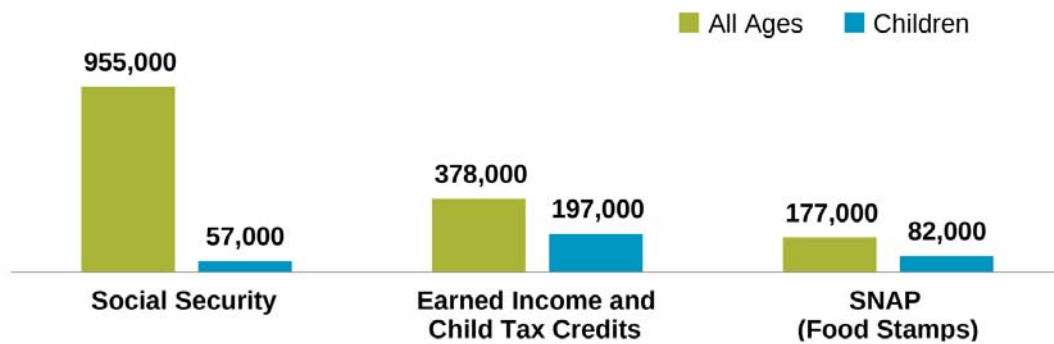
## Numbers Tell a Powerful Story

There are four core federal work and income supports that are effective at lifting adults and children out of poverty (see Figure 14). Social Security reduces poverty substantially in North Carolina, especially among older adults. The cash assistance lifted 955,000 people out of poverty each year, on average, from 2009 to 2013. This includes 57,000 children. Throughout the United States, the number of older adults struggling to make ends meet would have quadrupled without Social Security in 2013.<sup>47</sup>

The strongest anti-poverty tools for children, besides a job that pays a family-sustaining wage, come in the form of tax credits for families. The federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) kept 378,000 North Carolinians—including 197,000 children—out of poverty each year, on average, from 2009 to 2013. The EITC allows workers earning low wages to keep more of what they earn so they can support their families and afford work-related expenses such as child care and transportation. North Carolina had a state credit that was as high as 5 percent of the federal credit, but lawmakers allowed it to expire in 2013. The CTC offsets some of the additional costs that parents incur for their children.

**FIGURE 14: Work and Income Supports Keep More than One Million North Carolinians Out of Poverty**

*Number of people kept above poverty line based on Supplemental Poverty Measure, 2009-2013*



SOURCE: Center on Budget and Policy Priorities' analysis of 2009-2013 Census Bureau data from the March Current Population Survey and Supplemental Poverty Measure public use files.

If not for the Supplemental Nutrition Assistance Program (SNAP), an additional 177,000 North Carolinians—including 82,000 children—would have lived in poverty each year, on average, from 2009 to 2013. SNAP helps families struggling to put food on the table get a nutritionally adequate diet. Compared to other work and income supports, SNAP is particularly effective at targeting people living in extreme poverty who often face the prospect of spending days with little or no food.<sup>48</sup> Two in five American families receiving SNAP earn incomes below half of the poverty line.<sup>49</sup>

In addition to reducing poverty, SNAP also reduces the likelihood that a family will go through

periods of food insecurity, defined as reduced food intake or disrupted eating patterns in a household due to lack of money or other resources.<sup>50</sup> This is particularly important in North Carolina, which has the 5th-highest level of food insecurity in the nation.

## **Work and Income Supports Provide Long-Term Benefits**

Work and income supports are good economic policy not only because they reduce the depth of poverty but also due to their long-term benefits. These supports take a two-generation approach and have lasting benefits for children and adults, including improved health, better learning, and more employment opportunities. For children, these benefits can reach into adulthood.

Young children who benefit from SNAP are healthier adults and are more likely to graduate from high school, according to a recent study.<sup>51</sup> They are 13 percentage points less likely to be obese in adulthood and 18 percentage points more likely to graduate from high school, compared to children who lacked access to food assistance. They are also less likely to experience heart failure as adults.

Children who grow up in low-income families are also more likely to fare better during adulthood if their families receive income boosts from tax credits such as the EITC and CTC. These children perform better in school, are more likely to go to college, and tend to earn more when they reach adulthood, according to several studies.<sup>52</sup> For families earning below \$25,000, a \$3,000 increase in income from the EITC during a child's early years can lead to a significant increase in earnings in adulthood, as well as increased work hours for individuals between the ages of 25 and 37.<sup>53</sup>

The EITC also has lasting benefits for adults by making low-income work more viable, especially among less-educated single mothers. By increasing the number of women who work and their earnings, the EITC boosts the Social Security benefits they eventually receive—potentially leading to lower poverty rates and greater financial security during their retirement.<sup>54</sup>

Early childhood programs, like the state's Child Care Subsidy Program and NC Pre-K program, build a pathway for more of North Carolina's children to achieve financial security and middle-class status. Early childhood education has been proven to enhance school readiness and produce substantial long-term educational and economic gains. Not only does NC Pre-K in particular build a pathway for more of North Carolina's children to achieve financial security and move into the middle class, it also reduces the odds of third-grade special education placement.<sup>55,56</sup> The strength and competitiveness of North Carolina's economy depends on a competent, high-quality workforce, and these programs play a vital role in meeting that need.

All told, a growing body of research confirms that work and income supports benefit North Carolinians at every stage of life and are stepping stones in today's economy. They help adults and children move out of poverty and up the income scale both in the short and long terms. These investments enable workers and families to succeed, contributing to a stronger and more inclusive economy.

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**Early childhood programs build a pathway for more of our state's children to achieve financial security and middle-class status.**

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## Conclusion

North Carolina needs policies that create equal opportunity, rebuild entryways to expand the ranks of the middle class, and ensure that prosperity is broadly shared so that all North Carolinians can reach their potential. Until local, state, and federal lawmakers fix the state's and the nation's broken economic model, large numbers of people from Murphy to Manteo will wake up to poverty, struggle to put food on the table, and be unable to afford the basics like rent and child care.

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