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THE JOBS “MIRACLE” THAT NEVER HAPPENED:

North Carolina still lagging the nation in job creation and unemployment

BY ALLAN FREYER, POLICY ANALYST

Over the past several months, legislative leaders have falsely claimed that cutting state spending and cutting taxes and privatizing are responsible for turning around the state’s economy after a sluggish recovery from the Great Recession. While the state’s economy has certainly improved since 2011, there is little to brag about—this recovery is the slowest of any in 30 years¹ and what marginal job growth the state has experienced is due largely to steady growth in the national economy, rather than anything special happening in North Carolina.

If the General Assembly’s decisions were responsible for a faster recovery, we would expect to see North Carolina’s economy perform better than the national average. But in fact, we see the opposite—since 2011, North Carolina’s rate of job creation has been identical to the nation as a whole, while the state’s unemployment has remained higher than the national average. As in other states that have tried a low-road approach, cuts to spending and taxes have failed to turn around the state’s economy, while spending cuts killed public sector jobs and kept unemployment high.

The lesson is clear—far from experiencing job growth due to recent decisions by state policymakers, North Carolina’s labor market has failed to catch up to rest of the nation in the years since 2011.

North Carolina continues to have much higher unemployment than the nation as a whole

Legislators like to tout the fact that unemployment has dropped 1.7 points over the past two years, from 10.4 percent in August 2011 to 8.7 percent in August 2013.² But this is hardly a sign that the state’s economy has taken off—unemployment nationally dropped 1.8 points over the same period, to a low of 7.3 percent in August 2013,

FIGURE 1: North Carolina fails to catch up to nation in unemployment

	UNEMPLOYMENT RATE		
	August 2011	August 2013	Change
United States	9.1%	7.3%	-1.8
North Carolina	10.4%	8.7%	-1.7

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still far better than the unemployment rate in North Carolina (see Figure 1).³

In fact, the state's unemployment rate has consistently lagged the national average since the start of the Great Recession, and has made no meaningful progress toward catching up to the national average over the past two years. If the tax cuts and other

policies enacted by the General Assembly had truly turned the economy around as promised, the state would have made significant progress in catching up to the national unemployment rate over the past two years, but this has just not happened.

In fact, much of North Carolina's apparent progress in unemployment is actually an illusion produced by a mathematical quirk in how the unemployment rate is calculated. While the number of unemployed people has officially dropped since August 2011, this is only because thousands of jobless workers gave up on their job search and dropped out of the labor force, not because they actually found jobs. These discouraged workers are no longer counted among the unemployed, though they aren't

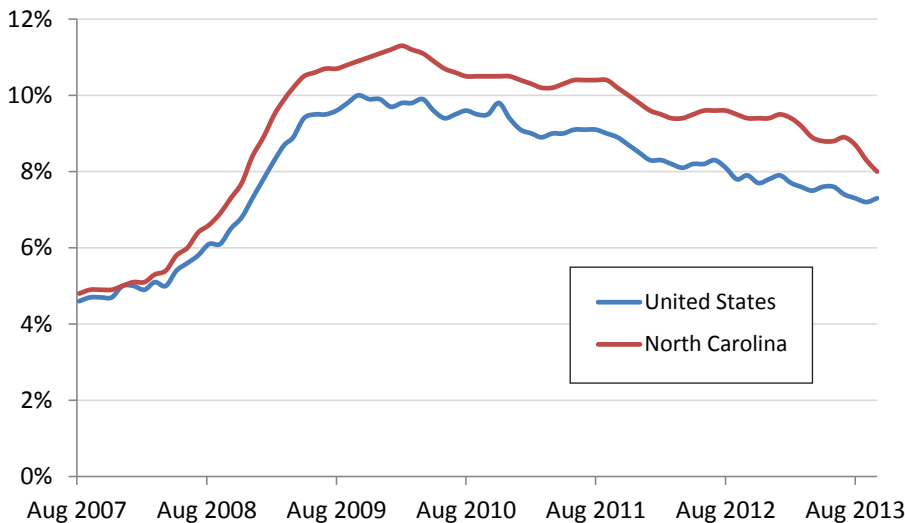
working. For example, in August 2013, the labor force—the pool of working-age North Carolinians who are employed or looking for a job—dropped by 12,300, to the lowest level since December 2011. At the same time, the number of employed people also dropped by 3,500—to the lowest level since August 2011.⁴ The shrinking labor force is also one of the main reasons that the U-6—a more accurate measure of employment that captures workers who are part-time because they cannot find full-time jobs—has also dropped since the third quarter of 2011.⁵

If the workforce continues to shrink, it is unlikely that the state will be able to completely replace the 471,000 jobs lost during the Great Recession or meet the needs of a growing population—and certainly undermines the notion that the state's economic policies have promoted a boom in job creation since 2011.

North Carolina continues to have a smaller share of its population employed than the nation as a whole

If the General Assembly's policies had truly delivered on their promises, the state would have begun catching up to the national average in terms of the number of its citizens with jobs. Again, this is just not the case—the Tarheel State has consistently lagged the rest of the nation in the percentage of its people who are employed. Since the unemployment rate does not count the number of unemployed workers who have given up on finding work, the number of people with jobs compared to the total working-age population is a far better indicator of the true health of the job market for workers than the traditional unemployment rate. According to this measure, 54.6 percent of working-age people in the Tarheel State were employed, compared to 58.6 percent in the nation as a whole. To

FIGURE 2: North Carolina has had higher unemployment than the rest of the nation since 2007



Source: Local Area Unemployment Survey

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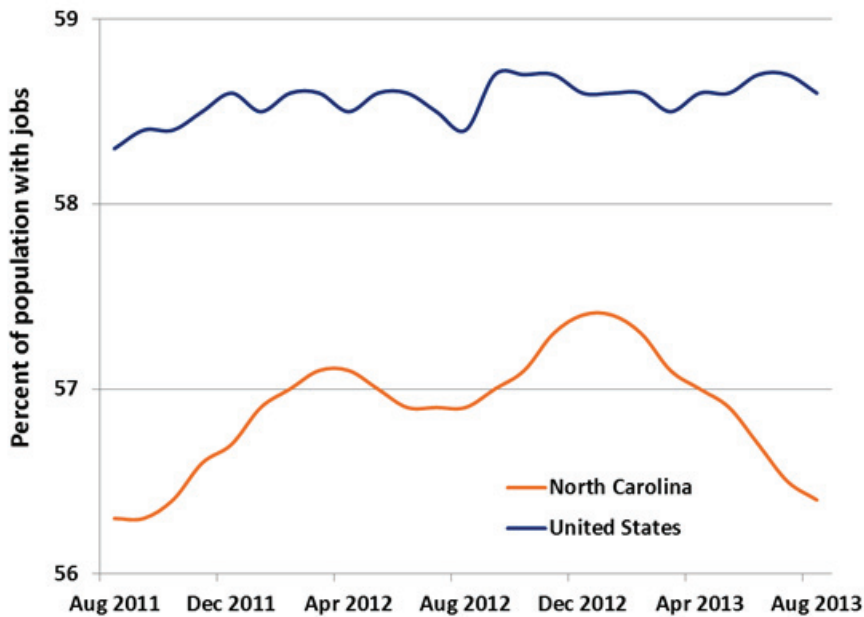
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FIGURE 3: North Carolina continues to fall behind nation in job creation



Source: Local Area Unemployment Survey

achieve the national average, North Carolina would need 130,000 more jobs than it has now.⁶

As seen in figure 3, the jobs-to-people trends are even more discouraging when looking over the longer term. From August 2011 to August 2013, the share of the U.S. working-age population with jobs remained largely steady, between 58.3 and 58.7 percent, suggesting a stable level of employment in the nation as a whole. But in North Carolina, the trend has been very different over the past two years. After rising from 56.3 percent in August 2011 to 57.4 percent in December 2012, the state's rate fell precipitously back down to 56.3 percent in August, erasing nine months' worth of gains.⁷

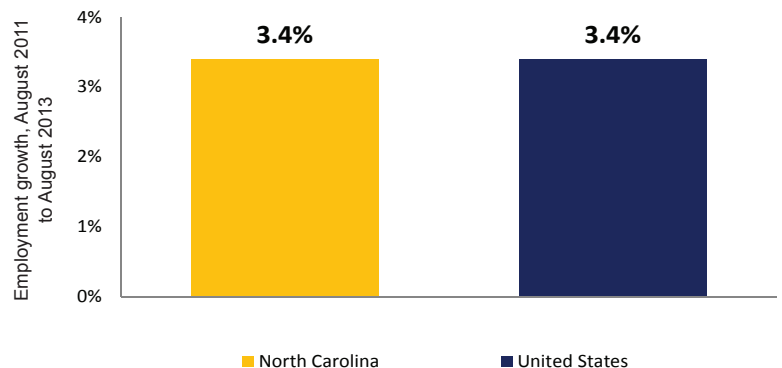
Combined with the drop in the labor force over the same period, this downward trend suggests that North Carolina's labor market is moving in the wrong direction, leaving too many workers with too few job opportunities—a far cry from the claims of legislative leaders.

North Carolina is not creating enough jobs to catch up to the rest of the nation

It's clear that the state's anemic job creation is due to overall growth in the national economy, and not to policies enacted by the General Assembly. If state policies were responsible for employment growth since 2011, North Carolina would have seen faster overall job growth than the nation as a whole, coupled with real progress on bringing down unemployment closer to the national average. These trends are just not happening in North Carolina.

Despite legislative leaders' claims, North Carolina's job creation record is weak. The state still needs to create 471,000 jobs to replace those lost during the recession and keep up with population growth.⁸ As a result, the state has been unable to make meaningful progress on reducing the state's joblessness and increasing the share of its people who have jobs.

FIGURE 4: North Carolina fails to grow jobs faster than national economy



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Since August 2011, the state's job creation has barely kept pace with the national average—North Carolina has experienced just 3.4 percent growth in total nonfarm employment (the barometer that economists consider the most important—see figure 4).⁹ This is identical to the national job creation rate over the same period, suggesting that North Carolina's

employment growth is simply following—rather than leading—the performance of the national economy. This finding is reinforced by the fact that North Carolina's Gross State Product—a basic measure of the economic performance—grew at 1.67 percent from 2011 to 2012, essentially the same as the national economic growth rate of 1.7 percent.¹⁰

In fact, North Carolina's overall job creation has been held down by public-sector job losses. Since August 2011, state and local governments in the Tarheel State have eliminated 4,900

WHAT ABOUT THIS FALL'S JOB REPORTS?

This brief compares labor market changes between August 2011 and August 2013 instead of using the more recent jobs numbers released by the U.S. Bureau of Labor Statistics for September and October 2013. This is because the analysis and surveys of employers and individuals used to determine these job numbers normally occur during the first two weeks of every month, and during the

month of October, the Federal government was shut down, rendering the surveys unreliable and not comparable to previous months.¹¹ As a result, we used August as the benchmark month with the most reliable recent information. It is also the month that allows the best historical, year-over-year comparisons, since spending cuts and other policies touted by lawmakers began to be fully enacted in July 2011.

public sector jobs, wiping out 4 percent of the state's private sector job gains, digging the unemployment hole deeper for our state's workers, and reducing the number of customers who can support local private businesses. This is just more evidence that cutting government jobs doesn't reduce unemployment.

- 1 Freyer, Allan. (2012). BTC Brief: The Farther the Fall, the Greater the Climb.
- 2 N.C. Division of Employment Security
- 3 Author's analysis of Local Area Unemployment Survey, U.S. Bureau of Labor Statistics
- 4 Ibid.
- 5 U.S. Bureau of Labor Statistics, Alternative measures of labor underutilization by state, fourth quarter of 2010 through third quarter of 2011 averages .
- 6 Author's analysis of Local Area Unemployment Survey, U.S. Bureau of Labor Statistics
- 7 Ibid.
- 8 Economic Policy Institute
- 9 Author's analysis of Current Employment Survey, U.S. Bureau of Labor Statistics
- 10 Bureau of Economic Analysis, per capita real GDP by state.
- 11 Bureau of Labor Statistics. (2013).)Frequently asked questions: The impact of the partial federal government shutdown on the Employment Situation for October 2013.

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