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NORTH CAROLINA JOBS PLAN: Connecting Working Families to Economic Opportunity Now

BY ALEXANDRA F. SIROTA, PUBLIC POLICY ANALYST

- The current recession has pushed more than half a million members of the state's labor force out of work and paralyzed the expansion of business and growth in job opportunities.
- Certain communities and sub-populations have been disproportionately impacted by this economic slowdown. Young adults, people of color and those with only high school degrees or less are most likely to be unemployed. In addition, those living in the north east, west, and metro areas have experienced high unemployment.
- The recovery shows every sign of being jobless for an extended period, due to the reduction in hours worked, the permanent loss of jobs, and the size of the discouraged worker pool – all of which will delay improvements to the unemployment numbers in the short-to-medium term. This situation is further compounded by the lackluster growth in jobs North Carolina experienced in the early 2000s, when the state added jobs at an annual rate of 1 percent and workers at a rate of 1.6 percent.
- As a foundation for addressing the jobs crisis, North Carolina must ensure that policymakers take a balanced approach to the budget and strengthen the safety net in order to ensure that families make it through this economic downturn without suffering financial crises from which they cannot recover.
- Two job creation strategies that can deliver immediate results, are low-cost, and promise benefits for workers, employers and the economy as a whole are a Small Business Job Creation Grant program and a Short-Time Compensation Program.
- The Small Business Job Creation Grant would provide a subsidy to small businesses and non-profits to cover part of the wages and benefits associated with hiring an unemployed worker for a new post. With an investment of \$30 million, such a program would create nearly 1,000 jobs.
- A Short-Time Compensation Program works by encouraging employers to reduce hours rather than lay off workers by using unemployment insurance funds to pay a portion of the wages that an employee would

**Explaining the
Jobs Crisis**
The Great Recession

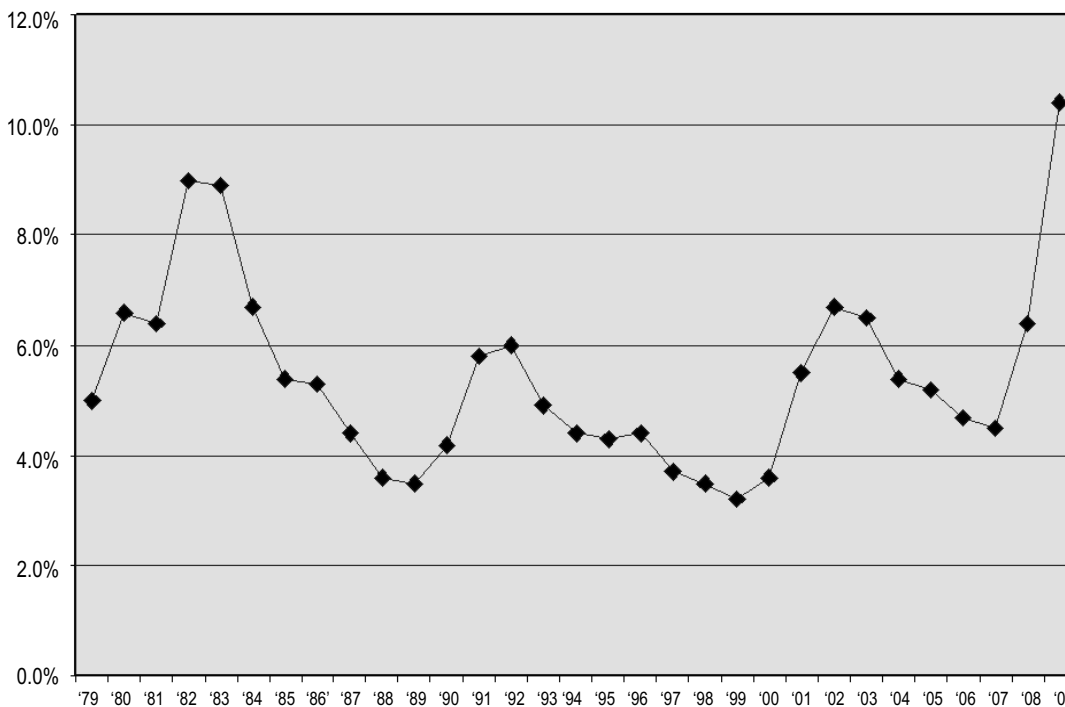
lose due to the reduction in hours. Employers retain trained employees and therefore are ready to quickly ramp up when the economy turns around, while employees maintain their earnings and thus continue to engage in consumer spending to drive a recovery. Nearly 25,000 workers could benefit from such a program in North Carolina.

- Without bold action, North Carolina’s economy will be stuck in the economic doldrums for some time to come. Federal, state and local governments have important roles to play in turning the economy around and enabling the growth of a vibrant and diverse middle class. Creating jobs and getting North Carolinians into quality jobs will not only stimulate the economy now but for years to come.

The national recession that began in December 2007 and the anemic recovery thus far have exacted a heavy toll on North Carolina’s economy. Despite some reports that the economy has stabilized, more than half a million members, or 11.1 percent, of the state’s labor force remain out of work. This is the highest unemployment rate experienced in the state since 1979.

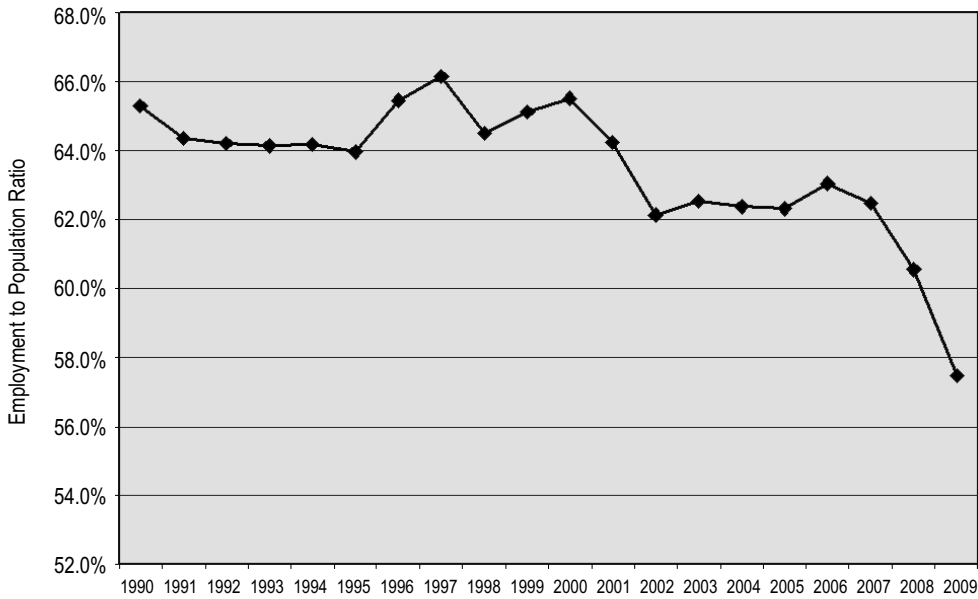
In addition to the official unemployment rate, two other important labor market indicators – underemployment and long-term unemployment – have reached record-high levels. At present, fully 17.7 percent of the North Carolina labor force is considered underemployed, a figure that adds those workers who are officially unemployed together with workers who are working part-time but would prefer full-time work and workers who are “discouraged” and have temporarily stopped looking for employment. The underemployment rate has increased 9.2 percent since 2007. Similarly, long-term unemployment, the percentage of unemployed workers who have been out of work for more than six months, sits at a staggering 35.8 percent, up nearly 20 percent since 2007.¹

FIGURE 1
North Carolina's Unemployment Rate, 1979 to 2009



Source: Economic Policy Institute analysis of Current Population Survey data.

Unemployment has implications for workers, their families, industry and the state’s economy overall. The loss of income puts a financial strain on households, requiring them to cut back on spending or access savings, if possible, to pay for mortgage or rent, groceries and other necessities. There is also clear evidence that unemployment has an impact of the health of the worker both in increasing the likelihood of depression and reducing life expectancy. For

FIGURE 2**Employment to Population Ratio**

Source: Economic Policy Institute analysis of Current Population Survey.

children, emerging evidence suggests that parental unemployment affects school achievement, undermines the stability and safety of their homes, and reduces children's lifelong earning potential.²

The state's overall potential for economic growth is undermined by unemployment. Declines in household spending reduce demand for goods and services, thereby decreasing the revenue generated for the state. The labor supply even shrinks, undermining output further. The steep decline in the employment-to-population ratio since the start of the recession points to the lost economic potential in North Carolina.

FIGURE 3**Unemployment Rate by Demographic Characteristics, 2009**

ALL	10.4%
Gender	
Male	12.10%
Female	8.60%
AGE	
16-24 yrs	20.50%
25-54 yrs	9.60%
55 yrs and older	6.00%
Race / ethnicity	
White	8.90%
African-American	14.60%
Hispanic	13.60%
Asian/Pacific islander	(a)
Education	
Less than high school	20.80%
High school	13.30%
Some college	9.20%
Bachelor's or higher	5.10%

Source: Economic Policy Institute analysis of Current Population Survey, 2009

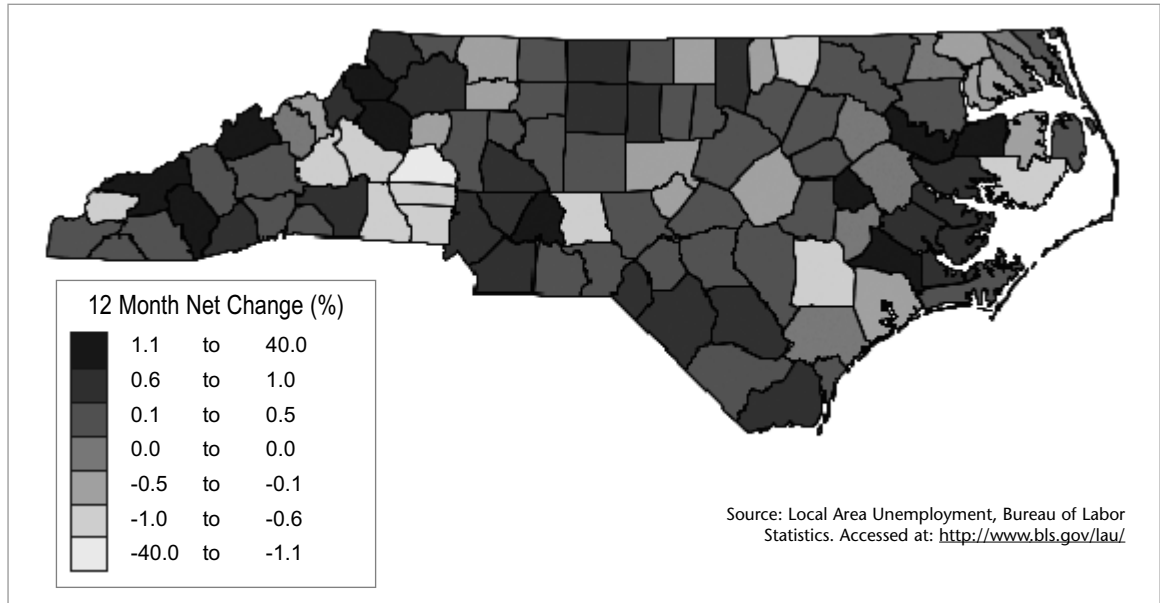
Unemployment has disproportionately impacted certain segments and communities. Nationally, black males make up only 5.5 percent of the labor force, yet they represent almost 13 percent of the long-term unemployed. In North Carolina, 9.6 percent of whites were unemployed in February (the latest month for which state data is available) versus 14.5 percent of African-Americans.

Another group that has been particularly hard hit by the recession is young people, aged 16 to 24, who are just entering the workforce and starting out their careers. The timing of the recession affects young people's lifelong earnings and connection to the labor force.

In addition to demographic differences, there are significant geographic differences. Among North Carolina's urban areas, Jacksonville has the lowest unemployment rate at 8.4 percent while Rocky Mount has the highest rate at 14.7 percent. Both the highs and lows point to the key role that community assets can play in stabilizing economies in tough economic times. Jacksonville, for example, fared far better than other metro areas in the region because of its major employer – the military – providing workers with a stable income with which to support local business. At the same time, Rocky Mount has struggled with high poverty rates. Textile and tobacco jobs have not been replaced by significant or quick growth in other industries. Clearly, there are areas as well that were impacted by the unique nature of this recession, driven as it was by specific losses in the financial services industry, it is not surprising to see high growth in unemployment in the Charlotte area.

FIGURE 4

12-Month Unemployment Change by County, March 2009 to 2010



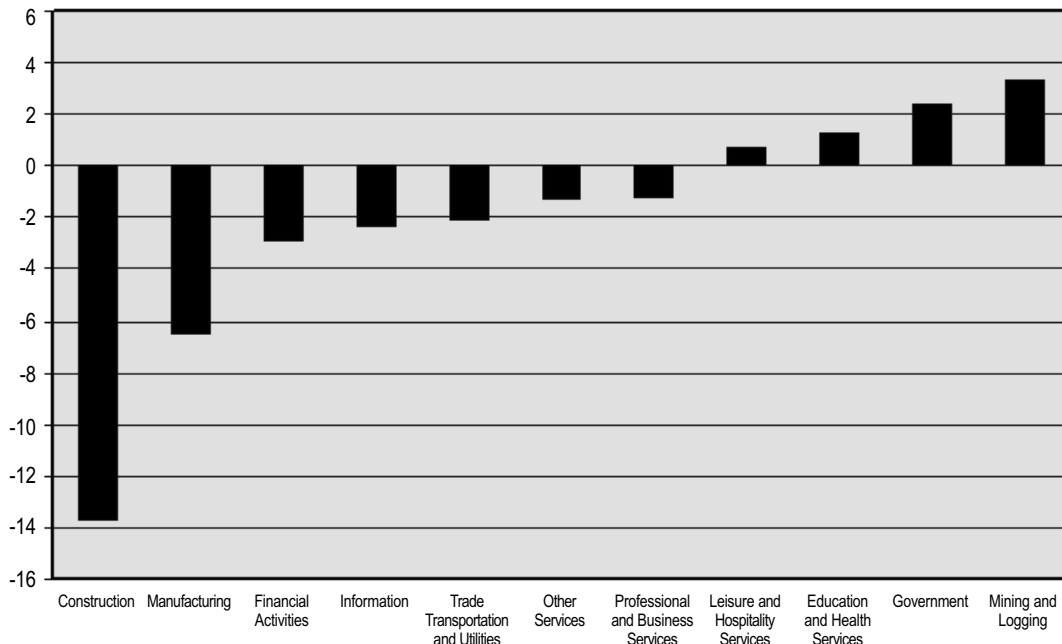
Just as not all populations have felt the current recession equally, so too has there been variation in the impact across industries. Manufacturing and construction have been most significantly impacted. The decline in manufacturing has been slow but consistent in North Carolina over the past few decades. The recession only served to accelerate losses. In construction, however, losses were prompted by the very start of the recession and the bursting of the housing bubble and subsequent decline in residential building followed by commercial construction. Education, health services and government have seen moderate gains which would be expected given their critical services to communities and, for

education and government, their counter-cyclical function.

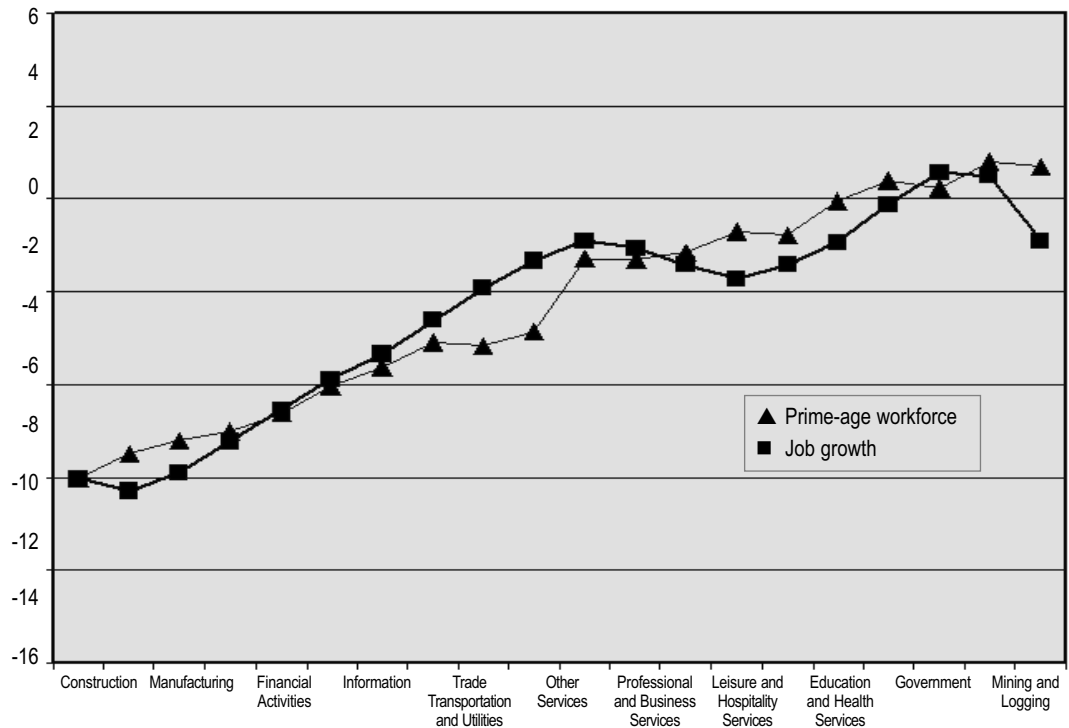
In total, the state economy has shed nearly 280,000 jobs (6.7 percent of total employment) since the recession began.³ Even before the current recession, beginning in the early 2000s, North Carolina's job growth had failed to keep pace with the growth in the prime-age workforce, creating a difficult labor market that got much worse when the economic downturn caused a steep decline in the number of jobs coming on line.

FIGURE 5

% Change in Employment (March 2009 to March 2010)



Source: Employment Security Commission of North Carolina, March 2010.

FIGURE 6**Job Growth and Growth in Prime-Age Workforce (25 to 54), 1990 to 2009**

Source: Economic Policy Institute analysis of Current Population Survey

Indeed, the gap between employment opportunities and the growth in the workforce during the current recession represents a shortfall of 429,787 jobs.⁴

The Longer Trend for Workers in N.C.: 1990s to Today

The current picture of unemployment cannot be separated from the historic transformation in North Carolina's economy that has occurred over the past four decades.⁵

- The shift in employment from manufacturing to the service sector, beginning in the 1970s and extending to the 2000s, brought with it challenges for working families including lower wages, fewer benefits and less mobility.
- Post-secondary education became a minimum qualification for entering the middle class, and yet two-thirds of North Carolinians do not have such a credential and one of every two workers older than age 16 does not have basic skills.
- Stagnating wages and rising costs for basic necessities prevented many low-income working families from moving into the middle class before the current economic downturn. Indeed, during the period of economic expansion from 2002 to 2007, the typical household saw its inflation-adjusted wages decline.⁶

These changes to North Carolina's labor market underscore the need for long-term planning and policy development to improve the quality of jobs available to North Carolina's workers and ensure that the skills of the workforce match available jobs. However, given the current state of the economy, an immediate effort to create jobs is essential to improving the employment picture for thousands of North Carolinians while providing a boost to local economies. The following policy proposals would meet the challenges outlined above – persistently high unemployment, disproportionate impacts for communities of color and rural and urban poor geographies, and low levels of job creation – by leveraging government investments for targeted private- and public-sector job creation. In so doing, the proposals are guided by the goal of establishing an economy that can work for all North Carolinians.

American Reinvestment and Recovery Act turned the tide but did not lift all boats

The American Reinvestment and Recovery Act, passed by Congress in February 2009, had as its goals to create and preserve jobs, to stimulate economic activity and to lay the foundation for long-term growth. Most economists agree that additional spending was needed to boost the economy and avoid deflation. Monetary policy had contributed all it could – interest rates were actually negative – so government spending needed to be enlisted. Recent analysis of the trends leading up to the passage and implementation of ARRA find that the more than \$700 billion investment turned the tide and established positive trends in Gross Domestic Product growth and employment.⁷

The ARRA has awarded North Carolina and its communities with more than \$4.6 billion. While less than a third of the amount awarded, \$1.6 billion, has been received, the funds have already directly created more than 26,000 jobs as of March 2010.⁸

As the nation contemplates the possibility of a jobless recovery, it is too early to assess whether ARRA laid a foundation for the type of sustained economic growth that can rebuild household wealth and community stability in the long term. However, emerging evidence does suggest that ARRA may have failed to address existing inequities well-established before the recession and further exacerbated by it. Research from the Kirwan Institute at Ohio State University points to a diverging trend

in the unemployment numbers as of January 2010 when the national unemployment rate declined but the unemployment rate for blacks and Latinos continued to rise.⁹

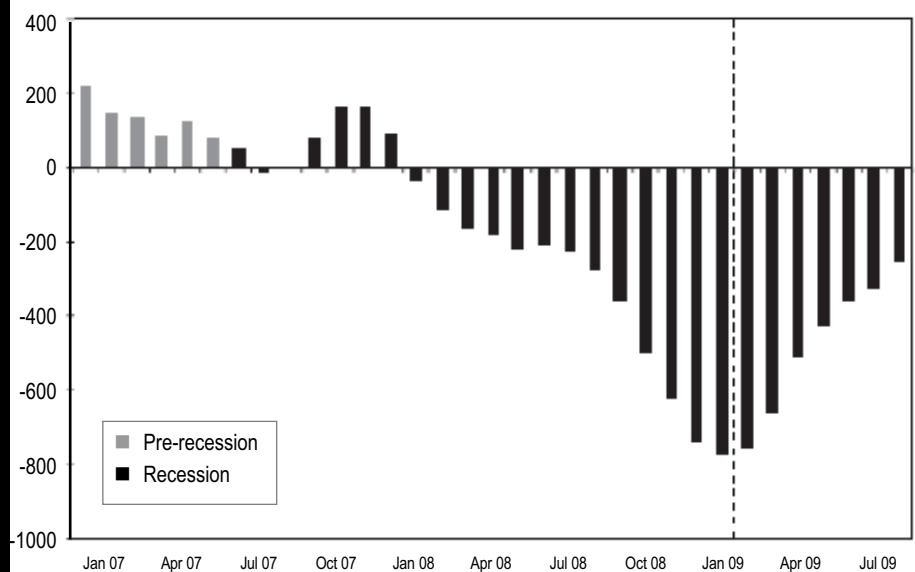
It is possible, in addition, to analyze the procurement of ARRA contracts by historically underutilized businesses. Here again, researchers have found that women-owned businesses have

reason for concern that not everyone is included in this effort to establish a long-term recovery and that, by overlooking these important but historically marginalized groups, the ARRA will not put North Carolina in a better economic position vis a vis where the state was prior to the downturn.

The impact of ARRA has already

FIGURE 7

Changes in Payroll Employment, Rolling Three-month Average



NOTE: The first stimulus package, the Economic Stimulus Act passed in February 2008, provided a large but temporary boost to both GDP and personal disposable income that appeared in the second quarter of 2008

Source: Bureau of Labor Statistics

received 2.4% of contracts despite representing 28.2% of business; black-owned businesses have received 1.1% of contracts despite representing 5.2% of business; and Latino-owned businesses have received 1.6% of contracts despite representing 6.8% of businesses.¹⁰ There is, therefore,

begun to wane and will decline through 2010 at a time when there continues to be a need for broad-based improvements, particularly to the employment situation and specifically for the communities historically excluded from full economic citizenship.

Turning Point for the Economy

In the near future it is likely that the National Bureau of Economic Research will declare that the recession, defined as two or more consecutive quarters of negative economic growth, ended in mid-2009. In the third quarter of 2009, GDP grew for the first time since the second quarter of 2008, and while that growth was modest, it signals a turnaround in productivity. Economists predict, however, that the economic recovery will be slow for the following reasons:¹¹

- Banks are reluctant to lend, making it difficult, if not impossible, for small businesses to expand.
- Consumer spending likely will be slow to rebound as households choose to rebuild savings rather than shop.
- The economy is still not employing the full capacity of its resources – both human and capital – but those in the upper part of the income distribution continue to benefit from growing income inequality.

The recovery also shows every sign of being jobless for an extended period, due to the severity of the downturn's impact on the reduction in hours worked, the permanent loss of jobs, and the size of the discouraged worker pool – all of which will delay improvements to the unemployment numbers in the short-to-medium term.¹² The recent 2010 Economic Report of the President projected that the nation will not return to pre-recession levels of employment until at least 2018. And while other analysis has put estimates within slightly earlier timeframes, it is clear that broad-based investments will be needed to specifically address this aspect of the downturn – an aspect upon which lies the potential for shared prosperity in the future.

Addressing the Jobs Crisis in North Carolina

This has been a unique recession — longer and deeper than any since the Great Depression — and much more undermining of citizen and business confidence in the economy and the government. For these reasons, state government, while admitting its limitations relative to the private sector in its job creation prowess, must move beyond its traditional roles of investor in key public goods and services. North Carolina must address the jobs crisis head on and make temporary but significant investments in job creation. Such job creation investments should be driven by the best available data and analysis of the current economic situation and the goal of achieving an equitable, prosperous economic system that works for all North Carolinians.

A Strong Foundation for a Jobs Plan

In order to embark on a plan for creating and sustaining good jobs in North Carolina, it is essential that a strong foundation exist. Such a foundation is built through a balanced approach to the state budget and a strong safety net.

Take a Balanced Approach to the State Budget¹³

North Carolina, like many states, is facing another year of significant challenges to providing communities with the services and infrastructure that sustain economic life. Without an effort to modernize the state budget to better line up with today's economic and fiscal realities, North Carolina will continue to struggle to do the work of government.

- **Find Efficiencies** — The legislature should evaluate expenditures based on their goals and determine whether there are better ways to reach those goals. By finding more efficient ways to serve residents, the state can free up resources without affecting access to or the quality of those services.
- **Eliminate Ineffective Tax Expenditures** — Evaluating all special tax breaks (credits, exemptions, deductions, etc.) and eliminating those that have not achieved their goals will also free up needed resources.
- **Raise Revenue** — Several reform-minded changes to the tax code could bring in additional funds while modernizing the revenue system and making it more stable over time. These include closing corporate tax loopholes, expanding the franchise tax to limited liability businesses, expanding the sales-tax base to include warranties and repairs for real property, and converting the entertainment privilege tax to a retail sales tax.

Strengthen the Safety Net

In addition to the many unemployed in North Carolina who will turn to public benefits for support as they weather this storm, those who remain on the job are feeling the crunch as their wages fall or fail to keep up with rising costs and their benefits are suspended or reduced.¹⁴ Providing assistance to these low-income workers will help their families stay afloat financially and will strengthen North Carolina's economy.

- **Permanently Extend Unemployment Insurance Coverage and COBRA Subsidies** — More than 35 percent of currently unemployed workers are considered long-term unemployed, meaning they have been out of work for more than six months. Giving them continued access to unemployment benefits will enable them to avoid foreclosure and bankruptcy. Extending the subsidies for COBRA, which provide unemployed workers with access to health insurance, will enable them to avoid crippling health costs while they look for work.
- **Ensure qualified families enroll in the Supplemental Nutrition Assistance Program (SNAP)** — Formerly known as Food Stamps, this program enables families to focus on paying for things like housing and utilities without having to worry about that most essential of expenses — food. At a time when many food pantries around the state are running low on supplies and funds, increasing the number of eligible families enrolled in SNAP will literally save North Carolinians from hunger. And because the program is federally funded, it will bring more money into the state's economy.
- **Eliminate asset limits in public benefit programs** — Assets limits for public benefits, especially SNAP and TANF, represent a significant administrative cost to Department of Social Services as each application must be screened for savings above a state-established threshold. For many households experiencing unemployment for the first time, long-term savings represent the promise of a return to middle-class status and an ability to pay for future costs like their children's education and retirement. In combination with the high administrative cost, requiring households to spend down these savings is counter-productive to stabilizing a family's budget and saving state dollars.
- **Fully fund the Home Protection Program** — The challenges in the housing market were a key component of the current economic downturn but foreclosures started well before December 2007. Indeed, analysis by the Center for Community Capital at UNC-Chapel Hill identifies the start of the housing crisis as January 2005 and notes that foreclosures have increased by nearly 13 percent from that moment to the present.¹⁵ The Home Protection Program was thus in place before the current increase in unemployment and aims to provide support to workers who have lost their job and those at risk of foreclosure. The program provides a temporary stay of foreclosure, a loan to get current on ones mortgage and financial counseling. Foreclosures represent a significant cost to households but also to lenders and communities as properties lose value and neighborhoods can become blighted. Investing in a proven program that can mitigate these costs and support workers to complete their mortgage payments is important to stabilizing the housing market.

Stimulate Job Creation

As noted above, the growth in jobs in North Carolina has failed to keep pace with the growth of the prime-age workforce since the early 2000s. As a result, by the time the Great Recession arrived in December 2007, North Carolina was poorly positioned to weather the significant job loss that followed.

The trend in the nation, with more than six job seekers per job opening, will continue in North Carolina unless the state takes action to boost job creation.¹⁶ Implementing two new programs – a Small Business Job Creation Grant program and a Short-time Compensation Program – could increase the number of jobs available, decrease unemployment, and move North Carolina toward an economic recovery. Importantly, if these strategies target those communities and populations hardest hit, they can additionally lay the foundation for a more inclusive economy.

Small Business Job Creation Grant

A direct way to create jobs is to provide employers with subsidies to help cover the wages and benefits of new positions. Such wage subsidy programs have been implemented internationally, nationally, and at the state level, most notably in Minnesota.

This Small Business Job Creation Grant in North Carolina could be administered by Local Workforce Investment Boards to provide local monitoring and matching of employers and workers to achieve the greatest economic and social benefits. The program would be available to small businesses or non-profit employers who create new positions so as to minimize displacement. Employers who commit to providing on-the-job training and to keeping the position for at least six months would receive \$10 per hour in wage and benefit subsidies. To be eligible, the employee must be unemployed and either have exhausted their unemployment benefits or have benefits that represent the sole source of income for the family. They must also live in a Tier 1 county, which are forty counties designated as the most distressed in the state.

The ultimate goal would be for employers to transition these jobs into permanent positions. As an incentive to do so, the employer will not be required to pay back the subsidy if the employee remains on the job past 18 months. If the employee does leave before that time and is not replaced by a qualified participant, then up to 70 percent of the subsidy would need to be returned.

A look at the Minnesota Employment and Economic Development (MEED) program, which began in 1983, suggests such a strategy can be successful at creating jobs, providing workers with meaningful work experience and allowing business to expand. Over the first five years of the program, MEED enrolled more than 42,000 participants and resulted overall in 18,000 permanent jobs.¹⁷ Evidence suggests that the work experience gained, even if not immediately resulting in a permanent position¹⁸, increased long-term employment rates and improved earnings in the long run.¹⁹ More than half of participating employers would not have expanded their business without the MEED Program. The wage subsidy provided immediate financial relief to cash-flow issues and the strain of costs associated with training and start-up. Ninety percent of employers reported minimal administrative burden to participate and 80 percent were satisfied with the work of their employees in the program.²⁰

IMPACT IN NORTH CAROLINA

An investment of \$30 million in North Carolina could create nearly 1,000 permanent jobs if the program is run at the same net cost-per-job rate as MEED.²¹ More than twice that number of workers would effectively be engaged in temporary work through this program and could gain work experience, build skills and improve their long-term employment prospects.

POLICY SPECIFICS

- The program should be limited to small employers (100 employees or fewer) in the private and non-profit sectors because they are likely to be influenced by a subsidy program. These businesses would also be able to leverage the program, since it is a grant, to access bank loans. Employees would gain valuable experience in both sectors.
- A subsidy approach makes money available immediately to businesses rather than waiting for tax time or when a venture turns profitable. As such, a subsidy program has the potential to generate immediate returns for the business and for the broader economy within a year.
- A wage subsidy program must be based on the creation of new jobs – as measured through payroll expansion and monitored by Local Workforce Investment Boards – to ensure that workers are not displaced to take advantage of the program.
- Additional ways to target the funds to minority-owned businesses should also be considered.

Short-Time Compensation Programs

Short-time compensation programs, sometimes called work share tax credits, are a demonstrated policy tool for states to employ when layoffs threaten the economic security

of workers and the state's potential for immediate economic recovery. These programs began in 1978 in California and have expanded to 17 states across the country.

Here's how short-time compensation programs work. Instead of laying off workers, employers reduce hours, and public funds are used to pay a portion of the wages that employees lose. The programs are voluntary for employers and administered through the unemployment insurance system. As an example, employers could shorten the work week by a day rather than lay off a fifth of their workforce, and employees would likely receive nearly 90 percent of their previous compensation.

Such an approach benefits both employers and workers. Employers are able to maintain a trained workforce that can quickly ramp up production when the economy turns around and do not incur the costs of retraining and low survivor morale. Eighty percent of employers in a study of short-time compensation programs in the United States reported employees on short-time were either as productive as or more productive than non-short-time employees.²² Additionally, employees maintain their income and access to benefits such as health insurance and retirement plans. And because incomes are not significantly impacted, established economic theory demonstrates that consumer demand should remain constant, thereby eventually providing employers with the need for more work hours and eventually workers. Estimates at the national level suggest that if employers of 60 million workers shortened their hours by 5 percent rather than instituted layoffs, 3 million jobs would be created.²³

There are, of course, costs associated with such a program. In a national evaluation of short-time compensation programs from the Department of Labor, employers reported an increase in their unemployment insurance payroll tax. Analysis suggests that the tax increase may be only slightly higher than what employers would have incurred had they instituted layoffs but at a level that is sufficient to offset the cost to the unemployment insurance system.²⁴ Administration of the program does require additional investment. Another cost is the maintenance of fringe benefits by employers; however, despite these costs the vast majority of employers continued to provide these benefits to their employees without a mandate. Ultimately, however, a short-time compensation program distributes the cost of the economic downturn across employers, workers and government.

IMPACT OF SHORT-TIME COMPENSATION IN NORTH CAROLINA

North Carolina could see significant impacts if such a policy were implemented. North Carolina has experienced persistently high unemployment, with a rate higher than the nation at 11.1 percent as of March 2010. Of the initial unemployment insurance claims received in March, 46 percent were from employees who expect to be recalled to their jobs.²⁵

According to the experience in 2009 of states with short-time compensation programs, there was one short-term-compensation participant for every 22 unemployment-insurance recipients. Based on those figures, an estimated 24,719 workers would participate in the program in North Carolina, a portion of whom would have alternatively experienced layoffs.²⁶

POLICY SPECIFICS

- In order to limit the potential for gaming the system and to ensure the program targets low-income workers, the credit could be capped at 10% of a worker's earnings or \$3,000 and should be triggered by a significant rise in unemployment.
- To correct for the likelihood that larger firms would take advantage of the program, it would be important to encourage alternatives to shorter work hours such as paid leave so that smaller firms could take advantage of the program.
- Automation of the administration program could reduce administrative costs and ensure that the funds are distributed immediately through self-reporting and later verified through payroll tax payments.

Paying for North Carolina's Investment in Work

Implementing any of these new state-level initiatives will require state funds at the exact time that the state budget is facing deep shortfalls for the foreseeable future.

North Carolina currently spends \$1.2 billion annually on economic development programs, most of which is through lost revenue from special tax breaks that are rarely, if ever, evaluated for their effectiveness. A recent study of the Article 3J tax credits, for example, found that these credits, despite having cost the state hundreds of millions of dollars since their creation, have not resulted in employment gains that would not have occurred otherwise.²⁷

Another example of a special tax break that could be eliminated to free up resources to pay for new initiatives is the sales tax exemption on energy purchases made by manufacturers. While this credit has not stopped the manufacturing sector from shedding approximately one-third of its jobs, manufacturing workers and their employers would directly benefit from a short-time compensation program that would reduce labor costs, allow employers to retain their skilled laborers and save on the costs of re-hiring workers as the economy rebounds.

FIGURE 9

Cost per Job for Various Targetted and Fiscal Job Creation Strategies	
STRATEGY	COST PER JOB
Small Business Job Creation Grant Program ²⁹	\$34,000
Short-Time Compensation Program ³⁰	\$22,500
ARRA-Government Spending ³¹	\$92,136
ARRA-Tax Cuts	\$145,351
ARRA-Tax Relief to States	\$115,603

Source: Economic Policy Institute analysis of Current Population Survey, 2009

These proposals are low-cost job creation strategies. Such investments have the potential to directly boost the number of jobs relative to GDP and thus be more cost-effective than efforts that seek to stimulate demand for goods and services and public spending alone.²⁸

In addition, economists have found that targeted job creation strategies have the potential to generate fiscal benefits of \$20,000 per job in increased tax revenues and reduced social spending.³² As such, the net cost per job is lower than indicated above and has the potential to decline over time.

CONCLUSION

Without bold action, North Carolina's economy will be stuck in the economic doldrums for some time to come. Federal state and local governments have important roles to play in turning the economy around and enabling the growth of a vibrant and diverse middle class. Thankfully there are sound, proven policies that policymakers can enact, like the ones proposed here, that can help to stabilize the economy, stimulate job growth and ensure that all North Carolinians share in future economic gains.

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