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Action for Children North Carolina

Child Poverty in North Carolina: A Preventable Epidemic

As a society, Americans believe in equal opportunity for all. Hard work should be rewarded, and a full-time job should afford enough income to support a family with dignity. Children should have more and better opportunities than their parents did, and race and ethnicity should not be major factors in determining the trajectory of a young person's life.

Yet about every 20 minutes in North Carolina, a child is born into poverty.[1] A full-time, minimum-wage job today leaves a family well below the federal poverty level.[2] Children are increasingly trapped in intergenerational poverty, and minority children are disproportionately likely to grow up poor, undereducated, unsafe, unhealthy and unemployed.

Child poverty is an epidemic, with long-term effects ranging from cognitive impairment to physical and emotional disability. If 1-in-5 children suffered from a single debilitating, life-limiting affliction, citizens would demand research into the cause, treatment for the symptoms and a cure for the ailment. The same attention must be paid to the poverty that is negatively affecting 20 percent of North Carolina's children. The social and economic costs to the state of doing otherwise are staggering.

Recent neuroscience and developmental research informs us that children's brains are constructed over time, and brain development is directly affected by environmental factors. Poverty often prevents families from investing the time and financial resources they would like in their children's development, and the detrimental effects are literally built into the architecture of the children's developing brains, limiting their long-term social, emotional, cognitive and physical health outcomes.[3] Society must take advantage of the opportunities for positive intervention that begin at or before birth and continue throughout childhood, adolescence and even into early adulthood.

The physical, environmental and economic health of a child's neighborhood is also an important predictor for his or her long-term well-being. Poor schools, the presence of drugs, high crime and the lack of a viable business community all limit life opportunities for children in poor communities.[4]

For North Carolina to maximize economic performance, every child's full potential must be realized. Society must approach poverty as the structural issue it is, propelled by broad social and economic forces largely outside the control of poor families and children. This brief lays out a framework of effective ways to reduce child poverty in North Carolina: support families, strengthen communities and invest in children's futures.

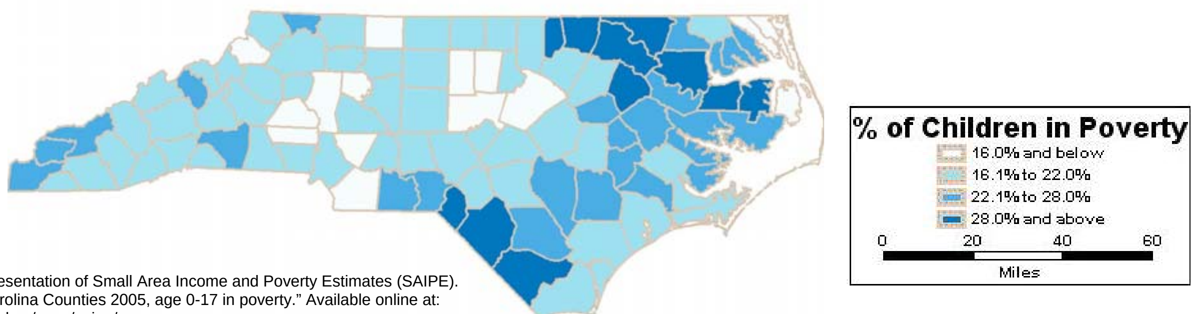
Policy Recommendations

- ★ Support families with decent wages; affordable, high-quality child care and housing; and access to tax credits and health insurance.
- ★ Strengthen communities through increased access to traditional banking services, improved public and adult education, environmental clean-up efforts and strategic economic development investments to attract socially responsible businesses.
- ★ Invest in children's futures through increased opportunities for asset creation, such as appropriate savings vehicles, affordable financial education for adults and children, greater support for small businesses and increased access to homeownership.

Child Poverty in North Carolina

Today in North Carolina, enough of our children are languishing in poverty to form a single file line from Raleigh to the coast.[5] Poor children begin life at a severe disadvantage and fall farther behind their higher-income peers every day.

A family is considered to be living in poverty if its total annual income is less than the federal poverty level, or $21,200 for a family of four. For such a family, $1,767 per month must stretch to cover rent, child care, food, transportation, health care, taxes, clothing, utilities and all other needs for four people. Research suggests that families need around twice that much to meet their basic needs[6]—for a family of four in North Carolina, that would range from $33,036 in rural areas to $44,124 in the Raleigh-Durham-Chapel Hill metro area.[7] Even at that income level, it is not uncommon for families to lack access to health care, have unstable child care arrangements, be forced to miss rent payments, have utilities shut off and even run out of food.[8]



Action for Children representation of Small Area Income and Poverty Estimates (SAIPE). "Estimates for North Carolina Counties 2005, age 0-17 in poverty." Available online at: http://www.census.gov/hhes/www/saipe/.

"Child poverty is an epidemic, with long-term effects ranging from cognitive impairment to physical and emotional disability."

The above map of North Carolina's 100 counties shows child poverty percentages across the state. In 19 of the more rural counties, the child poverty rate equals or exceeds 25 percent. However, make no mistake, poverty in North Carolina is both a rural and an urban problem. While the highest *rates* of child poverty are seen in rural counties left behind by recent job growth, the highest *numbers* of poor children are living in large cities, where jobs may be more plentiful but the cost of living is much higher.

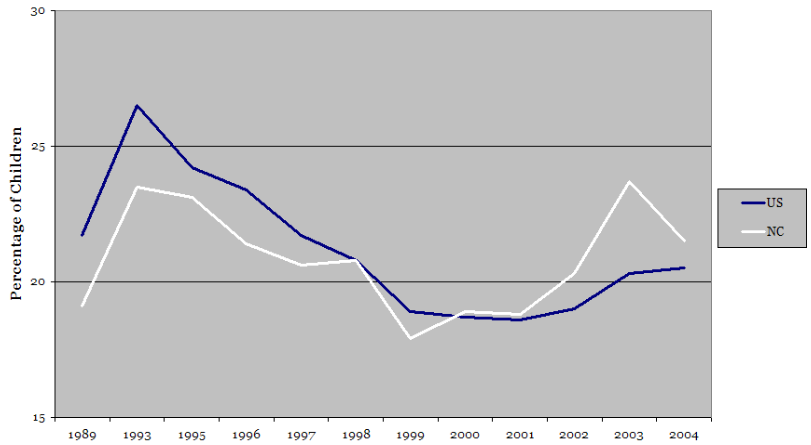
During the 1990s, the rate of child poverty in North Carolina was lower than the U.S. rate. In 2000, however, North Carolina's child poverty rates, particularly the percentage of young children living in poverty, surpassed the national average (see chart on Page 3).[9] The state's child poverty rates have continued to substantially exceed the U.S. rates ever since.

The Roots of Child Poverty in North Carolina

Poverty in North Carolina is partially rooted in the state's economic history. Over the last few decades, important manufacturing industries in North Carolina, such as textiles and furniture, have been hard hit by competition from overseas markets. The well-paying factory jobs that used to fuel the state's economy have largely been replaced by low-wage, low-benefit service industry jobs. Although a recent boom in the banking, finance, information technology and biotechnology fields in North Carolina is driving population and job growth in the major urban centers such as Charlotte and the Triangle, this high-tech, high-wage growth has not reached most small towns and rural areas.

Since the recession in 2000, the state's economy has been in a slow recovery. Many of those on the bottom rungs of the economic ladder have continued to struggle, even as things are looking up for the state as a whole. Comparatively well-paying manufacturing jobs have continued to decline (by 27 percent between 2000 and 2007), and new jobs have been created mainly in the service industry, where wages are low and benefits few. The unemployment rate today is higher than in 2000, and slow job creation and a weak labor market have held down wages. After adjusting for inflation, North Carolina's median wage in 2006 was no higher than in 2000, and the wages of the lowest-paid 20 percent of workers actually fell.[10]

Percent of US and NC Children Under Age 5 in Poverty (1989-2004)



The Costs of Child Poverty

North Carolina cannot afford to continue losing children to poverty. In addition to a moral imperative to protect and nurture our most vulnerable citizens, increasing global competition and the aging of the baby boomer generation highlight the economic need for every child to grow into a healthy, productive member of the workforce.[11] Two recent reports stress the heavy costs of poverty. The Government Accounting Office, a nonpartisan research arm of Congress, found that higher poverty rates are associated with slower economic growth, particularly in areas of concentrated poverty.[12] Another report estimated that child poverty, through reductions in productivity and increases in crime and health care costs, costs the U.S. $500 billion a year, or 3.8 percent of the Gross Domestic Product.[13] The same analysis applied to North Carolina produces an annual cost of $15.4 billion—nearly three-quarters of the state's 2007-2008 operating budget.[14]

The Effects of Child Poverty

The systemic negative effects of living in poverty are well-known. Lack of health insurance and poor health care and dental care can lead to a wide range of physical health problems that are pervasive and long-lasting.[15] Poor neighborhoods often have poor schools, which limit children's academic achievement. Lack of adequate social and community structures lead to low social and professional networking capacity and decreased employability.[16] In short, living in poverty can short-circuit opportunities in every sphere of a child's life and greatly hamper success as an adult.

Poverty impacts children through its effects on their families and neighborhoods. Children are affected by families' financial circumstances which, in turn, are affected by the economic health of their communities.

Family Poverty: How Deprivation Affects Brain Development

Living in poverty correlates with negative outcomes for children. Research shows that poor children are less likely to succeed in school, more likely to have long-term health problems and more likely to rear their own children in poverty than their higher-income peers. Recent scientific evidence further supports these findings by demonstrating that the detrimental effects of poverty are literally built into the architecture of children's developing brains.[17]

A child's brain is built over time, layer by layer. A strong foundation of circuits that control simple cognitive, social and emotional skills is essential for the development of more complex thinking and reasoning. Children experience life largely through the relationships they have with other people, starting with parents and caregivers and extending to other adults in their communities. In early childhood, it is the consistency and responsiveness of these caregiver relationships that lay the groundwork for a child's healthy brain development.[18]

Fact:
The percentage of students eligible for free and reduced-price lunch in North Carolina has almost doubled since 1989, to nearly 50%.

THE FACE OF POVERTY IN NORTH CAROLINA

The face of poverty in North Carolina may not look like you think. Forty-five percent of children in poverty in this state live with at least one full-time worker; another 21 percent live with at least one part-time worker. Nearly a third of poor families in North Carolina are headed by married couples, and 97 percent of children living in poverty in the state are U.S. citizens. The largest subgroups of North Carolina children living in poverty are babies and toddlers—35 percent are under four years old.[i]

i. North Carolina Institute of Medicine calculations from CPS 2005-2006.

Young brains develop primarily through the process referred to in the science as “mutuality and reciprocity.” Young children naturally seek interaction with others through facial expressions, babbling and, later, talking. Adults respond with their own gestures and vocalizations. This back and forth tennis-like process builds neural circuitry.[19]

The broader social and economic forces surrounding families often disrupt or prevent the formation of key relationships, derailing the young brain’s development. Forced to work many hours a day to make ends meet, poor parents often do not have the time and financial resources that they would like to invest in their children’s development. Additionally, parents who must worry constantly about how to cover their families’ most basic needs labor under a higher stress level than do parents who are more economically secure. This combination of under-investment and high stress caused by economic insecurity takes a toll on children.[20] Their cognitive brain development can be stifled, leading to learning disabilities, lower IQs, repeating grades, dropping out of school and limited success in the labor market as adults.[21] Poor children begin school already behind their higher-income peers and fall further behind as they progress through the system.[22] Living in poverty can also inhibit children’s social and emotional brain development, leading to behavioral and emotional problems, antisocial behavior, depression and problems with self-regulation and impulsivity.[23]

Research has shown that poverty can also create a high and constant level of stress in children that is toxic to the developing brain. Part of the healthy body’s stress management process is to elevate levels of the hormone cortisol when faced with a stressful situation—the “fight or flight” mechanism. Stress becomes toxic for the developing brain when, instead of fluctuating up and down, cortisol levels remain high for inappropriate lengths of time, leading to difficulties with learning, memory, self-regulation and the immune system. Children living with this toxic stress are more likely to develop stress-related physical illnesses (cardiovascular disease, hypertension, diabetes) and mental health problems (depression, anxiety disorders, substance abuse), and may tend toward risky behaviors later in life.[24]

“The detrimental effects of poverty are literally built into the architecture of children’s developing brains.”

These recent developments in neuroscience underscore the importance of beginning interventions for economically at-risk children at birth or even prenatally, since much of the neural circuitry is constructed at very young ages. Furthermore, developmental research demonstrates that since children learn skills at different ages, there is opportunity for affecting outcomes throughout early childhood and beyond.[25] Since early interventions have been shown to mitigate the detrimental effects of poverty, North Carolina should continue to expand its ground-breaking investments in early care and education.

Brain development does not stop in early childhood, however. New scientific research shows that between the ages of 6 and 12, growth of grey matter in the brain increases dramatically, peaking around the beginning of adolescence. The brain then goes through a pruning process, eliminating synapses that have not been adequately used. Adolescent brains continue to undergo significant neural development, including drastic changes of structure and function, until the early 20s.[26] This new research spotlights a crucial window of opportunity for policymakers. Just as very young children show developmental gains from programs such as Smart Start and More at Four, older children can also benefit from interventions that reduce family stress, expose them to healthy relationships and provide positive, stimulating experiences.

Community Poverty: How Neighborhoods Affect Child Development

Families do not exist in a vacuum. Their outcomes are worsened when negative conditions surround them. Low incomes, few assets and high housing prices have consigned many poor families to communities of concentrated poverty, cut off from the mainstream economy. As people see fewer opportunities to improve their situations, stress and illicit economic activity increase, along with crime and violence. Schools suffer, and children's future educational and employment outcomes decline.[27]

The community that surrounds a family is an important indicator of children's future educational outcomes. Studies have shown that having affluent neighbors correlates with higher IQ, verbal and reading test scores for children growing up in poor families,[28] while having poorer neighbors correlates with higher school dropout rates.[29] In the late 1980s and early 1990s, the Chicago Housing Authority randomly assigned more than 4,000 black public housing residents to private sector apartments, about half of them in suburbs outside the city. A follow-up study of the families showed that the children placed in suburban neighborhoods had far better educational outcomes than those placed in inner-city neighborhoods. Low-income youth living in wealthier suburbs were more likely to finish high school (95 percent vs. 80 percent), follow the college education track (40 percent vs. 24 percent), enroll in college (54 percent vs. 21 percent), be employed (75 percent vs. 41 percent) and have a better-paying job that received at least one job benefit (55 percent vs. 23 percent) than low-income youth living in the impoverished inner city.[30] The only significant difference between the two groups of children was the neighborhood in which they were placed.

"Living in poverty can short-circuit opportunities in every sphere of a child's life and greatly hamper success as an adult."

Poor neighborhoods have fewer institutions to support families. A 2006 study of 12 major urban areas found that 70 percent of low-income neighborhoods do not have a single bank or credit union,[31] and the Federal Reserve found in 2004 that more than 65 percent of families earning less than $30,000 did not have a savings account.[32] Absent mainstream financial establishments, poor families are forced to use alternative, high-priced providers. These providers are estimated to take in at least $10 billion in fees annually, and those dollars are coming straight out of America' poorest communities.[33]

"Seventy percent of low-income neighborhoods don't have a single bank or credit union."

The communities children live in are significant determinants of the levels of physical danger, criminal activity and drug use they are exposed to, as well as the quality of education they receive. Neighborhoods also help determine the community relationships, role models, peers and other social networks made available to children and the employment opportunities on their horizons.

Race-Based Asset Gap Result of Race-Based Income Inequality

Thirty-seven percent of black children in North Carolina are living in poverty, while the rate for white children is only 10 percent.[i] Intergenerational poverty hits minorities disproportionately: race-based *income* inequality is reinforced every generation by a continuing race-based *asset* gap, also known as a racial wealth gap. The average white family in North Carolina earns 1.8 times more than the average black family,[ii] and for every dollar of assets owned by a white family in the U.S., a black family owns only 10 cents.[iii]

i. North Carolina Institute of Medicine calculations from CPS 2005-2006.
Ii. Quinterno (2006), "The Wealth of Cities: Urban Families Richer, Less Apt to be Poor, but Racial Disparities Persist," *BTC Brief*, N.C. Budget and Tax Center. Available online at: http://www.ncjustice.org/assets/library/822_btcbrief1092006.pdf
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Recommendations for Combating Poverty: Today and for The Future

Children exist in the context of their families and their communities. They succeed when their families are healthy, emotionally stable and financially sound and when their neighborhoods are safe, clean and connected to the mainstream.

Reducing child poverty in North Carolina means supporting families, strengthening communities and investing in children's futures.

"Reducing stress of economic insecurity by providing income supports to [poor children's] families can improve their cognitive, social and emotional skills."

Support Families

Children exist in the family unit, and studies have shown that even when poor children have already fallen behind their higher-income peers, reducing the stress of economic insecurity by providing income supports to their families can improve their cognitive, social and emotional skills.[34] Indexing the minimum wage to inflation, ensuring adequate subsidies for high-quality child care and expanding the availability of tax credits, affordable housing and health insurance are all effective strategies for ensuring adequate family incomes.

Strengthen Communities

Families are affected by their communities, and the health of a neighborhood has a significant impact on the long-term prospects of its children. Ensuring healthy, vibrant and connected communities gives families and children the best chance to succeed. New and improved socioeconomic data collection and analysis at the community level is convincing traditional financial institutions that investment in low-income neighborhoods can be far more profitable than was previously realized.[35] North Carolina's Self-Help Credit Union has demonstrated that low-income borrowers pose no greater credit risk than others.[36] As assumptions about the higher cost and lower profits of doing business in low-income communities begin to shift, financial institutions should be encouraged to make strategic investments in traditionally underserved neighborhoods to provide affordable financial services to low-income consumers. Other critical strategies for strengthening communities include high-quality early child care, improved public schools, effective adult education, environmental clean-up efforts and strategic economic development investments to attract socially responsible businesses.

Invest in Children's Futures

Ensuring adequate family incomes and investing in poor communities, while crucial, is not enough. An oft-repeated myth in America is that with some pluck and luck, any poor child can pull himself or herself up by the bootstraps to achieve success in life. In reality, one of the most intractable and insidious aspects of poverty in this country is the degree to which the current system actually limits economic mobility, consigning generation after generation to an insecure financial future. Of those children born to parents in the bottom fifth of the income distribution, 42 percent will stay there.[37]

Twenty-nine percent of North Carolina's children—almost 1-in-3—live in asset-poor households, meaning their families have insufficient net worth to sustain living at the federal poverty level for three months ($5,300 in savings for a family of four) if their income were to be disrupted.[38] In the U.S. population at large, the personal savings rate has declined since the mid-1990s to a current rate of -0.5 percent, the lowest it has been since the Great Depression.[39] In other words, Americans are spending more than we are earning, and we have far too little in the bank.

Combating intergenerational poverty requires intense, long-term investments to encourage saving and build financial assets. These strategies often get shunted to the side by politicians because their payoffs may not be seen for years. That long-term effect, however, is exactly what makes them so critical in the attempt to prevent poverty from claiming yet another generation of America's children.

CHILDREN'S SAVINGS ACCOUNTS

Children's Savings Accounts are a particularly promising asset-building strategy.[i] These savings accounts for children would be opened at birth with a small public investment. That investment would grow over time and could be added to over the years by the child, family and friends. The account could be supplemented by public funds from time to time when certain education- or age-related milestones are reached. The subsequent saved amount could be withdrawn by the child and used for higher education, starting a small business or purchasing a home, or to encourage saving behavior. As the account grows, children can learn key financial concepts to build their financial sophistication. Children's Savings Accounts can provide a nest egg that, for poor children, can serve as a springboard to success.

i. For more information on Children's Savings Account programs already underway in the United Kingdom and Singapore, please see the Global Assets Project, available online at: http://www.globalassetsproject.org/.

Key strategies for building assets include making available appropriate savings vehicles, such as Individual Development Accounts, Children's Savings Accounts and education savings plans; providing accessible and affordable financial education for adults and schoolchildren; facilitating the creation and growth of small businesses; and putting homeownership within reach for a larger percentage of low-income families.

Conclusion: Child Poverty Demands Systemic Solutions

If North Carolinians wish to maximize the state's economic performance by harnessing the human capital potential of every child, the burgeoning field of developmental science must be called upon to critically inform policy decision-making.

- ★ Families must be supported rather than punished.
- ★ Communities must be strengthened rather than sidelined.
- ★ Children must be offered a more secure future, through long-term asset-building strategies for those on the bottom rungs of the economic ladder.

Child poverty is a systemic issue, and real change takes time. The investments North Carolina can make today will better the lives of tomorrow's children.

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