

Joseph Coletti

THRIVING IN NORTH CAROLINA

JUSTICE, OPPORTUNITY, AND BARRIERS
TO ECONOMIC MOBILITY

locke 

MAY 2021

THRIVING IN NORTH CAROLINA

Justice, Opportunity, and Barriers to Economic Mobility

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Acknowledgements

Brandy Dawson, Lenore Ealy, Tom Kakadelis, Ryan Ray, Craig Richardson, and Terrance Ruth reviewed early versions of this paper. Their insights improved the paper immensely.

I believe we ought to do all we can and seek to lift ourselves by our own bootstraps, but it's a cruel jest to say to a bootless man that he ought to lift himself by his own bootstraps.

– **Martin Luther King, Jr.**¹

I have a reality check, because my head is so filled with negativity from what the media shows me and what I hear on the radio about gangs, drug dealers, the corrupt politicians, crooked cops, city segregation, and poor public schools. I know these things shouldn't be ignored, but I'm ready to hear about solutions and not just problems.

– **Arshay Cooper**²

Executive Summary

Charlotte's ranking in a 2014 study as 50th of 50 large cities for economic mobility ignited an effort among city leaders to understand the causes and propose solutions. One of those attempts highlighted a pattern of government policies from the 1930s through the 1960s, some well-intentioned and others not, that erected barriers to opportunity in Black communities. Busing and other targeted attempts to help people surmount those barriers over the ensuing years have been unsuccessful and unsustainable. Dismantling barriers to opportunity will not ensure better outcomes, but it will expand the number of paths to prosperity that are available and reduce the cost of daily life.

In recent years, such disparate political movements as the Tea Party, Occupy Wall Street, Black Lives Matter, and the political successes both of Donald Trump and Bernie Sanders all shared a common theme of frustration. Part of that frustration stems from the fact that more than one person in eight still lives in a household that does not earn enough to stay out of poverty without government assistance.

Policy responses will always come up short without moral truth. Government and markets, whether on their own or together, cannot value Black lives or end intergenerational poverty. Such entrenched challenges require a response from the community. Government can, by peeling back bureaucratic hurdles to success, allow people to use their talents for the benefit of others and to build margin for mistakes.

One policy proposal offered here would keep an existing barrier to opportunity from getting higher. Policymakers at the city and state level should resist the temptation to raise the minimum wage, which would make it harder for people to start climbing the ladder of economic mobility.

The other proposals would lower barriers. Reducing the burdens from occupational licensing would make it easier to find work. Allowing more licensed medical practitioners to provide more care that is within their ability would make it easier for people to advance in their careers. Reducing regulatory burdens on start-up companies and home-based businesses would give more people options to earn money through side hustles or entrepreneurialism. Each time a barrier to opportunity falls, it not only creates a new step towards economic mobility, it reduces the cost of providing for a family's needs.

Charlotte and the rest of North Carolina should reduce the burdens that keep the current generation of adults from gaining ground so they can provide more opportunities for the next generation. People can always fail with opportunity, but without it they cannot succeed.

PROLOGUE: Lack of Opportunity In Charlotte

Until the financial crisis and recession of 2007-09, Charlotte was not just the “regional banking capital of the world,”³ but a true rising financial center. The Queen City had ambitions to compete with Atlanta and even New York. Today, however, the Raleigh-Durham area looks more like the future of North Carolina, with a more diversified economy that includes software and health care, and higher rankings on national studies.⁴ Around Charlotte, the suburban counties of Lancaster and York in South Carolina have grown faster since 2010 than the counties of Cabarrus and Union in North Carolina.

However much the loss of prestige hurt, the biggest blow to Charlotte’s self esteem came in a 2014 academic paper from Harvard’s Raj Chetty, which led to the creation of Opportunity Insights.⁵ The pride of the New South ranked 50th of 50 major U.S. cities for economic mobility. Only 4.4% of people born in Charlotte between 1980 and 1982 whose parents were in the bottom quintile of income between 1996 and 2000, moved to the top quintile in 2011 and 2012. In San Jose, the most mobile city,



HANK DANIEL, THE CHARLOTTE OBSERVER

Savoy Theatre on S. McDowell St. in Charlotte's Brooklyn neighborhood. At its peak, the neighborhood consisted of 1,400 homes and 215 businesses.

the share was 12.9%. City leaders in Charlotte have been grappling with the questions of opportunity and mobility since the report came out.

In 2017, an Opportunity Task Force sponsored by the Foundation for the Carolinas issued a report offering 21 strategies and 91 recommendations covering a broad range of actions to improve economic mobility in the Queen City. Based on a stated vision of Charlotte-Mecklenburg as “a community that cares about all our children and youth – regardless of income, race or zip code,”⁶ the report dedicated most of its recommendations to education, child care, family structure, and other conditions affecting children and youth. The task force generally avoided calls for mandates and spending and left room for different perspectives on the best way to accomplish objectives. Many of the recommendations were systemic, aimed at the broader community, instead of programmatic, aimed at policymakers. It offered a needed emphasis on work, savings, two-parent families, social capital, and criminal justice reforms.



BILL MCCALLISTER, THE CHARLOTTE OBSERVER

With the help of federal money, Charlotte’s Brooklyn neighborhood was razed in the 1950s and 1960s for the purpose of “urban renewal.”

Strikingly, the report’s history section made clear how government policies have done more than social attitudes to create or reinforce barriers to opportunity, savings, social capital, and family:

Ultimately, it was the federal government’s New Deal programs that gave impetus and financial resources to support racial discrimination of Charlotte-Mecklenburg’s African American community. Starting in the 1930s, segregation by race was sanctioned in the New Deal’s backing of low-cost mortgages and refinance loans to promote and preserve white homeownership. For white families, who thrived from decades of accrued wealth benefits, these programs spurred one of the largest accumulations of wealth in our country’s history. But the same cannot be said for families of color. Federal “red lining” prohibited them from getting loans to buy a home. ...

In the 1950s and 1960s, federal funding came to Charlotte-Mecklenburg for the purpose of demolishing neighborhoods in the name of “urban renewal.” The Second Ward’s Brooklyn neighborhood, consisting of 1,400 homes and over 215 owned businesses, was razed and no replacement housing provided. The entire community was disrupted. ...

The construction of the two interstates and I-277 in the 1960s and 70s weakened the already fragile black neighborhoods. Zoning decisions exacerbated the fragility by placing heavy industrial development in areas adjacent to black neighborhoods.

Similarly, deep racial and economic separations have persisted in our education system. Despite the progressive push to desegregate schools in the early 1970s, the 1999 release of schools from their integration mandate led to the current state of public school re-segregation, mirroring our housing patterns.⁷

As this showed, after a long history of policies that harmed Black communities and left no natural path for integration of neighborhoods, government officials tried to undo the effects of their past mistakes by sending children to schools in other parts of the county. “Surprisingly,” wrote R. Shep Melnick, Tip O’Neill professor of American politics at Boston College, “the racial composition of students’ schools had no apparent effect on their test results: Scores for black students in schools that were less than 25% minority were virtually identical to those in schools that were more than 75% minority.”⁸

Opportunity Insights maintained an emphasis on youth in its 2020 follow-up report. The authors offered just three recommendations: invest in the health and education of low-income children, increase access to higher education, and expand housing opportunities with subsidized housing and zoning reforms.⁹

A 2020 Brookings Institution report, *How We Rise*, found that Black men and Hispanic women are the two groups least supported by their social networks in Charlotte. The authors called for “policies that would diminish spatial segregation patterns and educational achievement gaps between racial groups,” but they offered little more to guide policymakers.¹⁰

In some ways, the lack of specificity in recommendations is a welcome change from past reforms bathed in hubris. Today’s policy advocates are more willing to show humility in their strivings for justice and mercy. Surprisingly, few of them have simply looked to remove government barriers and allow people to make the best decisions given their situations; instead, the report writers have sought more active interventions to improve people’s behavior.

After decades of good intentions gone awry, the policy recommendations we offer here envision a humbler role for government itself as a source of improvement in the lives of its citizens, from Charlotte-Mecklenburg on down to Shalotte in Brunswick County. No reform on its own or even in conjunction with the others would magically make life better, but each would remove a barrier so that people can build better lives with their communities.



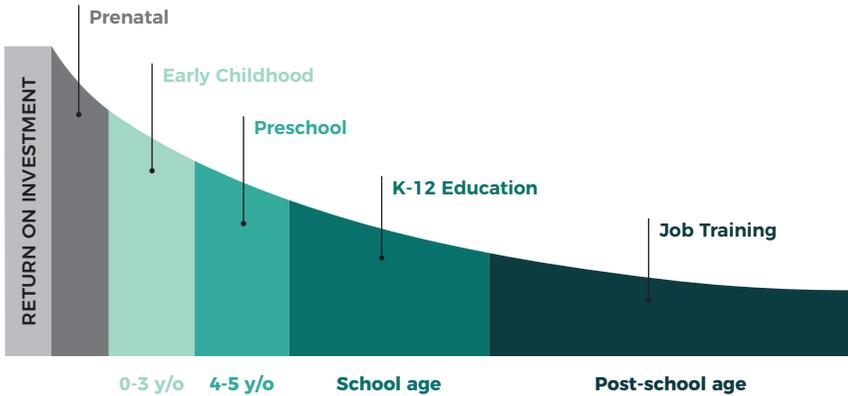
PERSPECTIVES



This is not your traditional policy paper. Traditional policy papers start with a policy problem and offer a solution within a narrow set of parameters. Unstated in the paper is an assumption that the reason for the solution is to enact in law the good intentions of the person or group recommending the policy. Writers and readers start from a common viewpoint. They know their opponents generally consider them evil, stupid, or both, so they are not surprised when their recommendations get mischaracterized that way. But they also know nobody has time to read the moral underpinnings of their opposition to increasing the minimum wage. So they focus on the quick three talking points legislators and grassroots advocates are looking for to get back in the fight. Sometimes, though, policy needs a broader context.

If you want to get to the policy recommendations to remove government-sanctioned barriers to opportunity, they are in the next section of this paper. First, though, we will consider the general challenge of policies aimed at combatting poverty with opportunity and economic mobility, their specific relevance to Black lives, the limits of governments and markets, and the importance of community.

Figure 1. Economic Impact of Investing In Early Childhood Learning



SOURCE: HECKMANEQUATION.ORG

Intergenerational Opportunity and Poverty

When you look back on the good things in your life, how many of them were solely your doing?

To say we live in community and depend on others should be uncontroversial. We are thankful for the opportunities we have had, and we recognize and take inspiration from our own stories of overcoming failure and the stories of others. At the same time, it should not be controversial to recognize that others do not have the same opportunities and resources.

Brookings Institution scholars Ron Haskins and Isabel Sawhill coined the term “success sequence”¹¹ for their finding that people who complete school, get a job, get married, and have children — in that order — are more likely to avoid poverty than those who do not do those things in that order.¹² Subsequent research has found that Blacks are less likely to meet all the steps in the sequence and less likely to advance economically even if they do follow the sequence.¹³ Nobel Prize-winning

economist James Heckman and economists Jorge Luis García, Duncan Ermini Leaf, and María José Prados found early childhood programs provide the greatest human capital return on investment, with a benefit/cost ratio of 7.3.¹⁴

Heckman et al.'s findings suggest where to direct resources for the next generation, but it would seem to relegate adults to their poverty. That is, in fact, what North Carolina does with its Temporary Assistance for Needy Families (TANF) program. In 2019, North Carolina spent 51% of federal funds it received for TANF on early child care subsidies, NC Pre-K, and Head Start, with another 23% going to child welfare. Just 6% went to basic assistance, roughly half the amount spent on administration and systems.¹⁵ Those few recipients of basic assistance are limited in how much they can save and hold in assets, though they do face work requirements.

Despite the restrictions, existing poverty programs like TANF and the Supplemental Nutritional Assistance Program (food stamps) have made a difference. Those programs provide benefits to supplement a family's generated income, whether from wages or other sources, if it is below the official poverty rate.

When people complain that President Lyndon B. Johnson's "Great Society" policies of the mid-1960s did not improve poverty, here is their point of comparison. Between 1959 and 1969, the poverty rate fell from 22.4% to 12.1%, then it stagnated. In the 40 years since 1980, the poverty rate has only been at or below 12.1% six times – the years 1999 through 2002, then 2018 and 2019.¹⁶ Nevertheless, in 2018, Cato Institute scholar John Early estimated that, after accounting for all government transfers and better estimates of prices, just 2% of Americans lived in poverty in 2015, even though the official poverty rate was 13.5%.¹⁷

The official poverty rate is based on the income a person earns or generates before government programs, taxes, and transfers. While it is good that fewer people actually live in poverty, the poverty rate's stagnation over 50 years indicates serious barriers to opportunity and mobility. Mauricio Miller, founder of Family Independence Initiative, wrote, "Our biggest

“Government’s role is not simply to reform how people receive assistance in government programs, but to reduce the demand for that”

accomplishment in the fifty-year-long war on poverty has been to make living in poverty tolerable.”¹⁸ Miller argued for an alternative that makes poverty escapable by relying more on families.¹⁹

Government’s role is not simply to reform how people receive assistance in government programs, but to reduce the demand for that assistance in the first place. What if, instead of requiring people to work to receive benefits while at the same time making it hard for re-

ipients to marry and save money, government removed barriers and penalties against working, saving, investing, buying a home, starting a family, and getting help when needed?

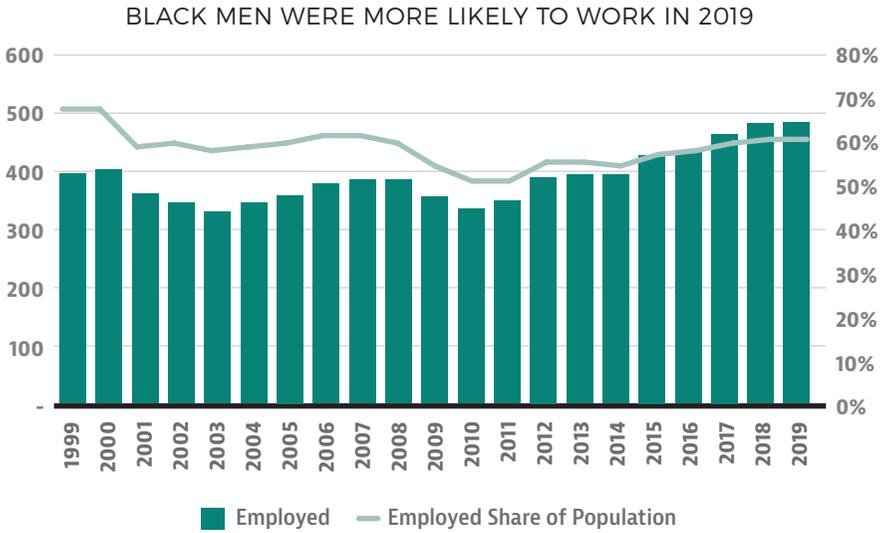
One of the issues made clear last summer during the Black Lives Matter protests and riots is how difficult it can be for Black men and women to earn a living.

Black Lives and Livelihoods

Before the pandemic struck, 61% of working age Black men had a job, up from 50% in 2010 and 2011. Unemployment for African Americans under age 24 was at its lowest point in years. The crisis of “men without work”²⁰ was easing. What made these gains possible was general economic improvement, not policies aimed either at men in general or Black men in particular.

When the pandemic took root in March 2020, states and the federal government took early steps temporarily to expand the availability of health care. In North Carolina, Gov. Roy Cooper suspended regulatory restraints on capital equipment, providers, and telehealth.

Figure 2: Employment and Employed Share of Civilian Population for Black Men, 1999-2019



SOURCE: US BUREAU OF LABOR STATISTICS

Overall, however, state policies and citizens' concerns hurt businesses that depend on personal contact. As of Spring 2021, restaurants, bars, salons, barbers, gyms, and retailers of all types had yet to return to normal. Many permanently closed. Unemployment jumped. Women and people of color have been harder hit by Covid-related shutdowns because of the jobs they have and the businesses they own.

After two months of lockdowns, news of George Floyd's death at the hands of police in Minneapolis was like a match into kindling. It provided a vivid reminder that Black men, in particular, are victimized by a complex criminal code²¹ and must be vigilant during interactions with authorities. Protests highlighted how Blacks and others have less access to capital, opportunity, and safety.



BRYAN REGAN

Black Lives Matter protesters hold signs at a monument in Raleigh, North Carolina in June, 2020.

For Black-owned small businesses, despite an immediate upsurge in purchases in June and July 2020, sales later returned to pre-Covid rates.²² The number of Black-owned businesses had already shrunk 41% between February and April 2020 due to Covid restrictions, compared with declines of 22% for all businesses.²³ It was tragically ironic that riots harmed Black-owned businesses, though Black business owners did not connect the looting to the protests, which they often supported.²⁴

The riots also harmed Black lives directly. “[Homicide] rates increased significantly in June, well after the pandemic began, coinciding with the death of George Floyd and the mass protests that followed,” researchers for the National Commission on COVID-19 and Criminal Justice stated in their year-end report. “Overall, homicide rates increased 30% in 2020, a large and troubling increase that has no modern precedent.”²⁵

The most consistent policy recommendation during the summer protests was Black Lives Matter’s infamous call to “defund the police.” The



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Some businesses remained shuttered in Raleigh nearly a year after the George Floyd demonstrations and ensuing violence.

phrase has meant variously to redirect money within police departments, reduce police spending in favor of social workers, and in some cases totally eliminate funding. Other demands included the old standby of instituting a \$15 per hour minimum wage, demilitarizing the police, making reparations for slavery, installing new teaching standards for schools, renaming public spaces, and removing statues from public land. By February 2021, however, the emphasis had changed so much that five of “BLM’s 7 Demands” addressed the January 6, 2021 riot at the U.S. Capitol.²⁶

Protestors rarely voiced whatever political demands they may have had, but they often expressed their frustration with historical policies and practices that make it more difficult for African Americans to thrive. Their actions and words more often reflected a call for personal and social repentance and renewal than for a policy agenda.

Recognizing the validity of the underlying importance of justice and reconciliation, my colleague Jon Sanders made the case last June²⁷ that the best way to ensure Black lives matter is to uphold “the revolutionary belief that each and every person is created equal with self-evident rights of life, liberty, and the pursuit of happiness” and that “it is government’s duty to secure those rights.”²⁸ Doing so would include dismantling the systemic barriers to education, health care, and opportunity imposed in the name of protecting the vulnerable or providing for the destitute. Instead, Sanders emphasized a portion of the John Locke Foundation’s founding principles:

*We know that “the **individual** pursuit of economic opportunity benefits **all**” and also that we are “a free society where citizens solve social problems not only through government but also by **working together in families, neighborhoods, churches, charities, and other private, voluntary organizations.**”²⁹ [Emphasis in original.]*

The next section of this paper considers the roles of community, markets, and government in our lives and a society that provides opportunity. The penultimate section offers proven policy proposals for removing barriers to opportunity. It concludes with an invitation to North Carolinians who want to meet the needs of their neighbors.

Community, Markets, and Government

Our actions do not always have the effects we intend. Government actions are no different. Policies intended to make life better for citizens can perversely make life worse for the very people they are intended to help. Ending such a government program can appear to endanger those the program is designed to protect and assist, but it may have the most salutary effects, such as when North Carolina reformed unemployment insurance in 2013 or when welfare reforms instituted work requirements for recipients.

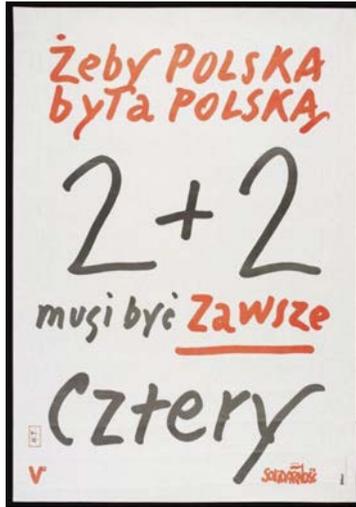
The challenge is twofold. First, policy is generally evaluated on first-order effects. For example, a higher tax rate would provide more tax revenue if the activity being taxed does not change. But each change in policy changes the amount of the activity done by changing the cost of doing it. Some people would alter their behavior to limit how much they would have to pay in the higher tax environment. Behavioral changes owing to changes in incentives are why tax policy uses “dynamic scoring,” but they feature in every area of humans making decisions, from toddlers to CEOs.

“Policies intended to make life better for citizens can perversely make life worse for the very people they are intended to help.”

This level of analysis leads to the assumptions that a big problem needs a big actor and that small groups responding independently cannot accomplish the same result as would be possible with a single, planned response. But the state must treat everyone alike, so it forces healthy banks to take TARP money alongside struggling banks and sends \$5.2 billion to fiscally sound North Carolina so it can send money to profligate New York.

A variant of this challenge is the philosophical problem that atomism and collectivism reinforce each other. Government assistance breaks the bonds of family and community. But if government doesn't provide assistance, then who can? Nonprofit human service providers receive 70% of their funding from government. Libertarian philanthropist Richard Cornuelle noted that nonprofits were the ones who complained the loudest about President Ronald Reagan's challenge to welfare, because they were not independent of, but dependent on, government.³⁰ One of the few times progressives acknowledged secondary effects of policy was during the 2006 debate over repealing the estate tax, as they warned that estate gifts to charities would dry up.³¹ Lack of faith in what Edmund Burke called “the little platoons we belong to in society”³² and

Figure 3. “May Poland be Poland: 2+2 must always equal four”: A Henryk Tomaszewski Poster for the Solidarity Independent Trade Union. Poland, 1989.



SOURCE: VICTORIA AND ALBERT MUSEUM

the concept of subsidiarity lead to big proposals in a vicious cycle that further undermines the ability of small groups to act.

Furthermore, public policy analysis has a materialist bias that gets worse with increasing attempts to measure and quantify effects. This bias paid off in the Cold War as markets proved better able to provide life's needs, wants, and a clean environment, but having stocked grocery stores was just part of the story. Truth is a prerequisite and a result of markets. Moral truth is why St. John Paul II and posters stating “2+2 must always equal four” were considered revolutionary in Poland under Soviet occupation. Market transactions value buyer and seller as equals, each with a stake in obtaining value, and when government tilts the scale to help either the buyer or the seller, it dehumanizes both parties by making them means to a politically desirable end instead of ends in themselves as persons.

Advocates for markets and individuals cannot absolve companies and individuals of their responsibility when responding to government programs, whether they are targeted incentives to relocate a business, or regulatory structures that protect incumbents. Incentives are not just monetary, and it is terrible to lose one's soul to gain the world, Wales, or a new Walmart. If market advocates want to expand economic freedom for those who lack opportunity, they should be prepared to use moral suasion and examples to encourage better behavior from those who benefit from current systems.

None of this discussion is to downplay the material benefits of markets. Joseph Schumpeter found the miracle of market economies is how they make former luxuries available to more people "in return for a steadily decreasing amount of effort."³³ Nevertheless, it is important to recognize that there are material costs in the process of creative destruction that make such benefits possible. Companies fail, industries die, and people and places fall behind.

The boom town drawing one generation becomes the ghost town the next generation tries to escape, as the book and movie *Hillbilly Elegy* make poignantly clear. Openness to economic competition means businesses that served a community may lose out, whether Black-owned businesses, corner grocers, or American textile manufacturers. The loss of local businesses can erode social capital, and the lure of new opportunities can further that erosion by attracting the most talented young people away.

On the whole, the benefits from markets outweigh the costs, but the costs are often concentrated in specific areas. Government works to provide concentrated benefits and disperse the costs, so it is only natural that people would look to government as a balance to the flaws in markets, particularly if they do not believe intermediary institutions can provide that balance.

To be fair, some intermediary institutions have been exclusionary and harmful. But government policies have more often institutionalized and

frozen existing structures even as they undermined those competing intermediary institutions. Harvard University sociologist Nathan Glazer wrote 50 years ago:

Every piece of social policy substitutes for some traditional arrangement, whether good or bad, a new arrangement in which public authorities take over, at least in part, the role of the family, of the ethnic and neighborhood group, or of the voluntary association. In doing so, social policy weakens the positions of these traditional agents.³⁴

Government policies have made it harder for some people and places to get ahead by making bad situations more tolerable, penalizing attempts to get ahead, outlawing certain actions, or even doing a combination of the three. Some of these policies were enacted to help those worse off, some to help those in a particular place or group, and still others with the express purpose of harming a particular group.

It is not an indictment of America to acknowledge the mixed motives behind past policies, even as those of us engaged in public policy work to undo past harms and try not to create new harms as a result. Our challenge is how to remove systemic barriers and provide support so people can use their innate abilities and contribute to their community.

In the process of evaluating and developing policies, progressives have sought ways to expand government power, trusting in technically trained professionals to improve people or to provide for them what they could not do for themselves.³⁵ Their proposals have sought justice and mercy, but they often lacked humility.

Meanwhile, conservatives have sought to restrain government and rely on the agency of individuals because people in government are still human³⁶ and, as observed by Soviet dissident and Nobel Prize-winner Aleksandr Solzhenitsyn, “the line separating good and evil passes ... right through every human heart – and through all human hearts.”³⁷ They have started with humility about the ability of government policies to bring about justice and mercy.

This contrast in evaluating and developing policies is illustrated by the City of Charlotte's experiences in trying to improve the economic mobility of its residents.



POLICY PROPOSALS

Work provides dignity. It allows us to meet our own needs, care for our families, and contribute to the community. A number of policies restrict the ability of people to work. They increase the wages of those fortunate enough to get a job and simultaneously raise prices for those who purchase the good or service being provided.

Some policies keep people from getting a first job and other people from getting a better job. The recommendations this paper offers are to halt or reverse government interventions with negative unintended consequences, and also expand opportunity by actively rolling back or repealing systemic barriers to opportunity.

Keep the Minimum Wage From Becoming a Barrier To Work

The most obvious place to start is with the popular idea of increasing the minimum wage from \$7.25 to \$15 per hour. Although it may seem to make intuitive sense that paying people more will mean more money



FILE PHOTO

Minimum wage mandates, while well-intentioned, often hurt the very people they are purported to help.

for people, the effect of such a change would be to hurt businesses, workers, and consumers. Economists David Neumark and Peter Shirley found that published studies have generally concluded that the young and other low-skilled workers are hurt the most by minimum wage increases.³⁸ Some businesses, such as McDonald's,³⁹ can raise prices to pass along the cost of a higher wage to their customers, but the price increase offsets a portion of the value of the wage increase. Local circumstances can affect the degree and timing of price increases.⁴⁰

Too high of a minimum wage leads to job losses, business closures, and higher prices. It also reduces opportunities for people to find work in the future. Poor, low-skilled, and people of color are more adversely affected by minimum wage increases, while the benefits accrue more to workers in wealthier families. Economists Joseph Sabia and Richard Burkhauser, studying the effect of a 2010 proposed minimum wage

increase to \$9.50 per hour, found that 63% of those who would have benefited from an increase were “second or third earners living in households with incomes twice the poverty line,” compared with just 13% of workers in poor households.⁴¹

Native North Carolinian Thomas Sowell wrote in 2013 on the racial motivations of white workers to raise the minimum wage,⁴² though he noted that minimum wage laws “usually have no intentional discrimination at all.”⁴³ Their effects, however, have been discriminatory. Sowell writes in *Discrimination and Disparities* that if the “correlation between increased minimum wage rates and changing racial differences in unemployment rates, and labor force participation rates, among teenagers ... does not conclusively prove causation, it does establish a remarkable coincidence, persisting for decades.”⁴⁴

Thomas C. Leonard went further, stating that early advocates found “the minimum wage provided an invaluable service. It identified inferior workers by idling them.”⁴⁵ Those supposedly inferior workers included immigrants from Southern and Eastern Europe, immigrants from Asia, Blacks, and women. Leonard provides numerous examples of leading intellectuals of the time, such as Felix Frankfurter, the future Supreme Court justice who was then counsel of the American Association for Labor Legislation, and eminent Ivy League economists, who saw the minimum wage as a first step to “restorative, disciplinary, or, it may be, surgical treatment”⁴⁶ including “isolation or sterilization,”⁴⁷ such as North Carolina’s program of forced sterilization that lasted “until at least the 1970s.”⁴⁸

Raising the minimum wage would erect a new barrier to opportunity. Some economists argue that the true minimum wage is zero dollars per hour because that is the wage of unemployment, which is not to argue

“Poor, low-skilled, and people of color are more adversely affected by minimum wage increases, while the benefits accrue more to workers in wealthier families.”

for repeal of the minimum wage. In fact, the disincentive effect of the current minimum wage has weakened substantially because the inflation-adjusted rate has fallen since the last increase in 2009. As the value of the minimum wage has declined, market wages for many jobs have naturally grown to exceed the minimum wage.

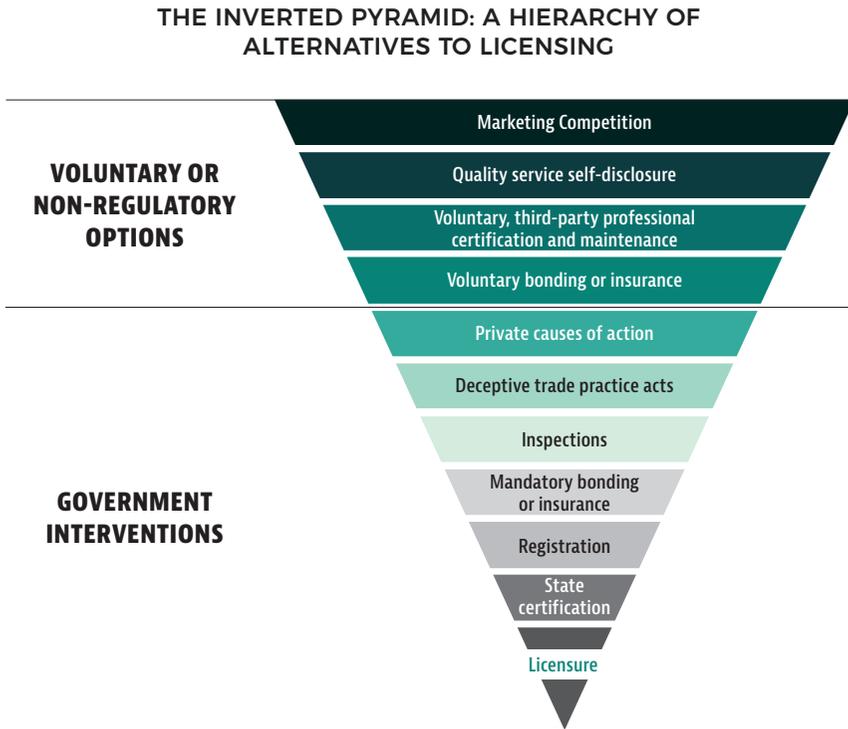
Roll Back Occupational Licensing

Occupational licensing is considered a way to protect consumers. Decades of research, however, has shown that licensure does little to improve public health, does not remove bad actors, and mainly benefits those already in a profession by raising barriers to entry against would-be newcomers. Instead of protecting customers, the occupational licenses burden them with higher costs — an estimated \$1,033 per household in 2015.⁴⁹ Worse, those in control of licensing boards too often used their authority to deliberately exclude Blacks from practicing their trade.⁵⁰

Licensing means not just fewer jobs, but fewer businesses. According to Stephen Slivinski, senior research fellow and director of the Doing Business North America (DBNA) project at the Center for the Study of Economic Liberty at Arizona State University, “The states that license more than 50 percent of the low-income occupations had an average entrepreneurship rate that was 11 percent lower than the average for all states, and the states that licensed less than a third had an average entrepreneurship rate that was about 11 percent higher.”⁵¹

North Carolina provided a stark example of the link between licenses and entrepreneurs in a legal fight over teeth whitening that went all the way to the U.S. Supreme Court. Starting in 2006, the State Board of Dental Examiners “issued at least 47 official cease-and-desist letters to non-dentist teeth whitening service providers and product manufacturers, often warning that the unlicensed practice of dentistry is a crime. This and other related Board actions led non-dentists to cease offering teeth whitening services in North Carolina.”⁵²

Figure 4:



SOURCE: JOHN ROSS, INSTITUTE FOR JUSTICE

The Court’s decision did little to restrict the power that the 62 occupational licensing boards North Carolina still had in 2020,⁵³ not including the Bar Association. In 2017, the General Assembly’s Joint Legislative Administrative Procedure Oversight Committee listed 33 boards that the legislature had recommended to eliminate or consolidate.⁵⁴ The committee’s list did not include, for example, the licensing boards for auctioneers, barber examiners, cosmetic art examiners, funeral services, massage and bodywork therapy, physical therapy, or dental examiners.

Occupational licensing is the most restrictive way to enforce standards, as Institute for Justice researcher John Ross illustrated with his “10 less



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Occupational licensing boards, like those overseeing manicurists, raise barriers to entry against would-be newcomers.

restrictive alternatives.”⁵⁵ Those in health care argue that licensing is necessary for payment from Medicare and insurance companies, but to the extent that this is true, there are ways to lessen the burden of licensing.⁵⁶ In 2020, North Carolina made it easier for military spouses and veterans with relevant training to obtain a license to work.⁵⁷

Other states have taken steps toward Universal License Recognition, which if adopted here, would extend similar protections to anyone who moves to North Carolina holding an occupational license from another state.⁵⁸ North Carolina already allows people to sell certain real estate without a license if they make that clear to would-be customers.⁵⁹ New Mexico has a more expansive allowance for such non-license disclosure.⁶⁰

Allow Medical Professionals To Provide Care

While occupational licensing affects multiple industries, health care professions face tighter restrictions that make it hard for people who are

licensed to provide services. Scope-of-practice laws mean fully capable nurse practitioners cannot provide care without the consent of a supervising physician. While not as strict as some states that require a doctor on site, North Carolina is still overly restrictive against nurse practitioners.

In a related matter, a 2019 John Locke Foundation paper suggested creating a new license for dental therapists to expand access to dental care in rural settings, nursing homes, and schools.⁶¹ North Carolina could also expand access by allowing currently licensed dental hygienists to open solo practices, as they can in 42 other states.

Such expanded freedom to practice would not mean an end to supervising physicians or dentists. Not every nurse practitioner, dental therapist, or dental hygienist would be comfortable taking on additional risk. Not every patient would be comfortable seeing one without a doctor's or dentist's oversight. Concerns that professionals would try to go beyond their license or competence are overblown. Dentists and doctors provide referrals to therapists, surgeons, and others with special skills. There is every reason to expect nurse practitioners, dental hygienists, and other associate professionals to refer patients to the proper professionals.

Allowing solo practice by these professionals would not represent an easing in regulation for a teen or low-skilled worker seeking a first job. It would help expand what is possible in later jobs even as it expands access to care and lowers the cost of care for people who need it most.

Repeal the Certificate-of-Need Law

Those who already have a license must clear still more hurdles if they want to provide certain medical services. They must get a Certificate of Need (CON) from the state, over the objections of their competitors, before they can make capital investments for providing health care.⁶² Certificate of Need limits access and raises the cost of care.⁶³ North Carolina Gov. Roy Cooper temporarily suspended CON's application early in the pandemic. Blue Cross and Blue Shield of North Carolina, the state's largest insurer, supports a full and permanent repeal of CON, saying the

law is “holding back North Carolinians.”⁶⁴ Permanent repeal would allow providers to offer more access to care at lower prices.

Relax Restrictions Against Telehealth

North Carolina should eliminate the restrictions on licensed providers’ use of telehealth – restrictions that were temporarily eased for the pandemic. Telehealth expands opportunity to provide care, and it does not need to be compensated at the same rate as in-person health services. It is a complementary service that expands opportunities for providers to work and for patients to receive care at lower cost.

Remove the Tax Advantage for Employer-Sponsored Health Insurance

Another impediment to work and wages is the federal tax credit for employer-provided health insurance. It drives up the cost of health care by separating consumers not just from the price of services, but also from the price of the insurance paying for those services.

Worse, as employers dedicate more money to purchasing and providing insurance, they have less available to provide in wages. To find affordable alternatives, employers have had to increase employees’ share of premiums, co-pays, and deductibles. When employers choose to provide cash to workers, that money is then taxed.

Another alternative is for businesses to cut hours for individual employees below the 30-hour legal threshold, above which they would be required to provide them health insurance. Since these jobs tend to pay lower-skilled workers lower wages in the first place, their work is at a tax disadvantage to those with higher skills who work full time for more pay and have their health insurance benefits paid by their employers. Those higher-wage employees have a higher tax rate, which further increases the value of their tax savings.

A 2017 Cato Institute analysis of reporting from the U.S. Office of Management and Budget, the U.S. Centers for Medicare and Medicaid Services, and the U.S. Congressional Budget Office estimated the “compensation workers surrender to employers” as a result of employer-sponsored insurance from 2016 to 2025 at \$9 billion, equal to federal Medicare spending. Add in the \$4.4 billion in lost federal tax revenue because of the “exclusion for employer-paid premiums,” and it quickly becomes clear how expensive it is for low-paid workers and small companies to subsidize the health insurance of highly paid employees of large companies. The extra coverage also contributes to the one-third of health spending “that does nothing to improve health.”⁶⁵

Converting the tax break to employers and high-income earners to a tax credit or other subsidy would make health insurance portable and health care less expensive and more affordable. It would allow more people to earn and save and even go into business for themselves.

Remove Unnecessary Regulatory Barriers To Start-ups

Starting a business is hard work. Would-be entrepreneurs have to make sure their product or service is right for customers at the right price, ensure they have enough access to money to stay in business, and deal with countless other concerns that they may not have even thought about before changing a hobby into a business or setting out on their own. Government policy has been to focus more attention on large companies promising to create or relocate hundreds of jobs, rather than on side hustles and startups.

“Telehealth expands opportunity to provide care, and it does not need to be compensated at the same rate as in-person health services.”



FILE PHOTO

Aggressive enforcement of permitting and zoning regulations has been known to even shut down children's lemonade stands.

State and local regulations often do more to get in the way of a new venture than to help it take root. Recently, the North Carolina Rural Center launched a new task force with the support of a grant from the Ewing Marion Kauffman Foundation to help address this problem. The Small Business Policy Task Force is led by a group of entrepreneurs, small-business advocates, and policymakers all dedicated to empowering North Carolina's entrepreneurial ecosystem through direct policy engagement and action. The Rural Center's task force has offered a slate of policy recommendations in the areas of funding, support, knowledge, and opportunity. They include having state and local governments consider how expensive and burdensome a new regulation would be on a new business. The Kauffman Foundation and the Better Cities Project are two organizations that suggest documenting this expense in an "Entrepreneurial Impact Statement."⁶⁶

The Rural Center's task force also suggested adding a regulatory ombudsman who could help businesses make their way through state and

local barriers and help governments find ways to reduce their regulatory burdens on businesses.⁶⁷ Local chambers of commerce could host an ombudsman, while the Economic Development Partnership of North Carolina or the North Carolina Chamber could perform the role of state-wide ombudsman.

Kauffman and the Rural Center both address the need for capital to start a business, but those regulatory burdens listed above increase the time and capital a person needs to invest. Commercial kitchen requirements can make it hard for a good cook with a family to make and sell a little extra, creating black markets in samosas, empanadas, even barbecue. Aggressive enforcement of permitting and zoning regulations has been known to go to such ridiculous lengths as to shut down even children's lemonade stands.⁶⁸ Commissary rules and outright bans on food trucks in pedestrian-friendly locations raise the cost of running a truck and mean more expensive meals for working people.

Shippers and other home-based businesses can also run into trouble. A report from the Center for Growth and Opportunity at Utah State University examined regulations in Charlotte and 11 other cities across the country. Charlotte specifically permits a number of occupations "from graphic design to millinery," the report found, but the city prohibits equipment that is "not normally part of a household," forbids nonresident employees, and limits a home-based business to no more than 25% of the home. The authors recommended that no-impact home-based businesses be allowed to operate by right of ownership and that performance standards on "measurable health, safety, and welfare impacts" with industry-specific regulations be set by state government.⁶⁹

Expand Opportunities To Work by Removing Other Barriers

Work After Criminal Convictions

People with a criminal conviction in their past have a hard time landing a job and can find themselves barred from getting licensed in an occupation unrelated to their crime. Limiting occupational license disqualifications to misconduct directly related to the job can help. Eliminating some should not be difficult, since North Carolina has 641 such disqualifications.⁷⁰ Certificates of relief⁷¹ reduce the licensing barrier⁷² among other sanctions for those people who can obtain one. Employers, landlords, and others are also protected if they hire, rent to, or otherwise put trust in someone who shows them a certificate.

People with criminal convictions can have trouble finding a job even in fields that do not require a license. For example, many employment applications have a box to check if an applicant has been convicted of a crime. Efforts to “ban the box” (BTB) inadvertently led to discrimination based on name, address, and racial or ethnic characteristics instead. In a field experiment, researchers Amanda Agan and Sonja Starr found, “Before BTB, white applicants to employers with the box received 7% more callbacks than similar black applicants, but BTB increased this gap to 43%.”⁷³

The experience with BTB reinforces the challenge of making social change through public policy. While working to expand opportunity, policymakers should not put too much faith in their own intentions and instead put more emphasis on the things that actually work. The rest of us should help businesses learn about what works from their peers.

Make Home a Productive Asset

Land-use regulations create a significant barrier to home-based businesses and other ways homeowners can use their space to pay the

mortgage. New thinking about ways to allow for more affordable housing options in cities, including Raleigh and Durham, have started to allow accessory dwelling units such as granny flats and converted garages and basements, as well as short-term rentals. Loosening these restrictions means expanded housing options for renters and more income opportunities for homeowners, which are positive steps. But they only just begin to address the housing wealth disparity between Black neighborhoods and white neighborhoods. The next challenge is how individual homeowners and developers, large and small, respond to the changes.

Build Assets and Escape Government Assistance Programs

Finally, existing government assistance programs have a host of problems. They penalize marriage and work with benefit cliffs and disincentive deserts,⁷⁴ and they penalize saving with asset restrictions. They are too narrowly targeted, also, which creates other problems. For example, housing assistance does not allow a poor person to balance housing costs and transportation the way a person in the market for an unsubsidized home or apartment would. It leaves few options for recipients living in food deserts who must try to find work near transit lines and sometimes spend hours making bus transfers to buy groceries or get their children to a better school.⁷⁵



CONCLUSION

There is near-universal agreement that work is good and people need help in hard times. Now is the time to retool government policy so people can escape poverty and not just tolerate it.

We all need more opportunities to work, save, and get ahead, to develop human capital in schools and communities.

We all need margin in our lives. Margin is what makes it possible to recover from a mistake. Nassim Taleb calls it playing with house money.⁷⁶ Having two parents, completing school, earning money from work, saving, and waiting for marriage and childbirth all provide margin. People with little or no margin must make decisions to stay alive that may not look rational to somebody with margin.

Perversely, the government that tries to help also has little margin because it can pursue only one strategy with one set of rules. The problem in government gets worse the more it is centralized, and most assistance

programs are highly centralized because they are funded by Congress instead of the states. More margin provides more room to experiment. Experiments are the source of innovation and growth. For example, the Family Independence Initiative provides margin by requiring people to be in a community to receive money. The same principle undergirds many microloan efforts in developing countries. Successful start-ups often build on community, getting more people bought in, and having more people with a stake in its success.⁷⁷

Instead of adding more programs and more rules, policymakers should consider removing barriers to family formation, community building, work, and saving. They could leave the next generation with bootstraps if they allow this generation to work, save, and start a family without penalty.

A woman with curly hair, wearing a white apron over a white sweater, stands in a workshop. The background is filled with tools and equipment, and a sign with the word "BICYCLE" is visible. The entire image has a teal overlay.

People can
fail with
opportunity,
but without it
they cannot
succeed.

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Our History

The John Locke Foundation was created in 1990 as an independent, nonprofit think tank that would work “for truth, for freedom, for the future of North Carolina.” The Foundation is named for John Locke (1632-1704), an English philosopher whose writings inspired Thomas Jefferson and the other Founders. The John Locke Foundation is a 501(c)(3) research institute and is funded by thousands of individuals, foundations and corporations. The Foundation does not accept government funds or contributions to influence its work or the outcomes of its research.

Our Vision

The John Locke Foundation envisions a North Carolina of responsible citizens, strong families, and successful communities committed to individual liberty and limited, constitutional government.

Our Mission

The John Locke Foundation employs research, journalism, and outreach programs to transform government through competition, innovation, personal freedom, and personal responsibility. Locke seeks a better balance between the public sector and private institutions of family, faith, community, and enterprise.



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