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INCREASINGLY UNEQUAL IN NORTH CAROLINA:

A Growing Threat to a Strong Economic Foundation

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INCOME INEQUALITY HAS BECOME A CENTRAL PART of the public debate of late as policymakers seek to grapple with an economy that has hollowed out the middle class, threatening the prospects for shared prosperity and economic stability. In North Carolina, income inequality has become endemic over the past three decades, with the top income earners capturing a disproportionate share of income while the vast majority of workers have seen their wages and income stagnate.[1]

Growing inequality is a problem for workers who no longer reap the rewards from their greater productivity. Instead, workers increasingly struggle to survive on stagnating (or falling) wages to meet their basic needs for groceries and housing, and face difficulties investing to support their children's education and movement up the income ladder. Income inequality can reduce investments in human capital, hamper entrepreneurial innovation, and limit the duration of broader economic growth. It is detrimental to our economy as a whole, and greater public and policymaker attention to the issue couldn't come soon enough.

By the Numbers

In their pioneering work, researchers Thomas Piketty and Emmanual Saez use tax return data to trace the arc of national inequality at an even finer grain than has been possible in the past. In so doing, they have identified a troubling trend in income inequality: the top 1% -- not just the top 5 or 20 percent-- fares far better than the bottom 99 percent.[2] In their work, Piketty and Saez review the ebbs and flows of the economic elite that starts high in the early years of the 20th century (with the top 10 percent claiming about half of all income and the top 1 percent claiming about one-fifth); drops precipitously with the policy innovations of unemployment insurance, financial regulation and labor standards that were part of the New Deal; and then climbs again—returning, by 2012, to its early century heights—as those policies are being dismantled.

In a new paper for the Economic Analysis Research Network, Mark Price and Estelle Sommeiller followed this methodological lead and developed estimates for

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top incomes shares, from 1917 through 2011, for American states and regions.[3] This allows us to identify patterns of income distribution for North Carolina, against a regional and national backdrop. The key findings for North Carolina include:

- **From 1917 to 2011, more than half of the overall income growth accrued to the top 1 percent of North Carolina households whose incomes average $702,000.**

- **The bottom 99 percent of North Carolina households experienced a longer period of income growth than the nation, which lasted from the 1940s to the 1990s. Despite the better than average experience in these 50 years-- ranging from 1917 to 2011-- there was just 9.2 percent income growth for the bottom 99 percent, compared to 98.4 percent income growth for the top 1 percent.**

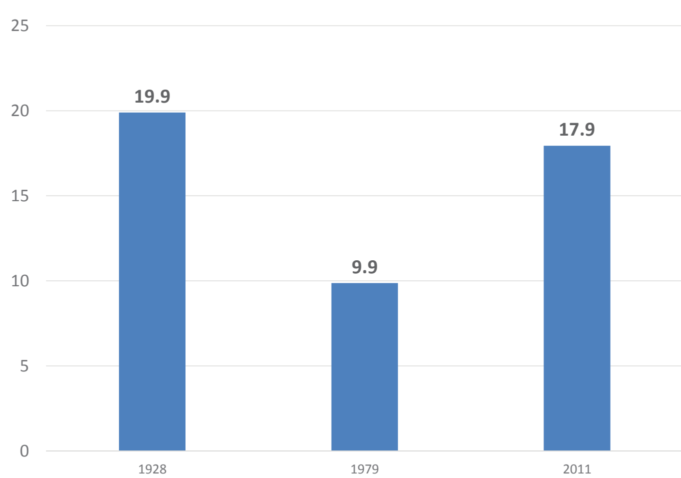
- **In 2011, the top 1 percent had $17.90 for every $1 held by a household in the bottom 99 percent. This approaches the ratio of income held by the bottom 99 percent compared to the top 1 percent in 1928: $1 to $19.90.**

- **The recovery from the Great Recession failed to level the field. The top 1 percent saw their income grow by 6.2 percent from 2009 and 2011, while the bottom 99 percent saw their income decline by 2.9 percent.**

Lopsided Income Growth from 1917 to 2011

The period from the 1940s to the 1970s was characterized by a rising minimum wage throughout the U.S., low levels of unemployment, widespread collective bargaining in private industries, and a progressive federal tax code. It was the public policies of the New Deal and thereafter—such as progressive tax policy, financial regulation, collective bargaining and an effective unemployment insurance system—that effectively supported improved growth for the vast majority of Americans and North Carolinians during this period. In stark contrast, the periods from 1917 to 1937, and again beginning in the late 1970s during which policymakers failed to support an economy that works for all, the growth in income for those at the very top skyrocketed.

FIGURE 1: **Ratio of incomes of top 1% and bottom 99%, 1928, 1979, 2011 in NC**

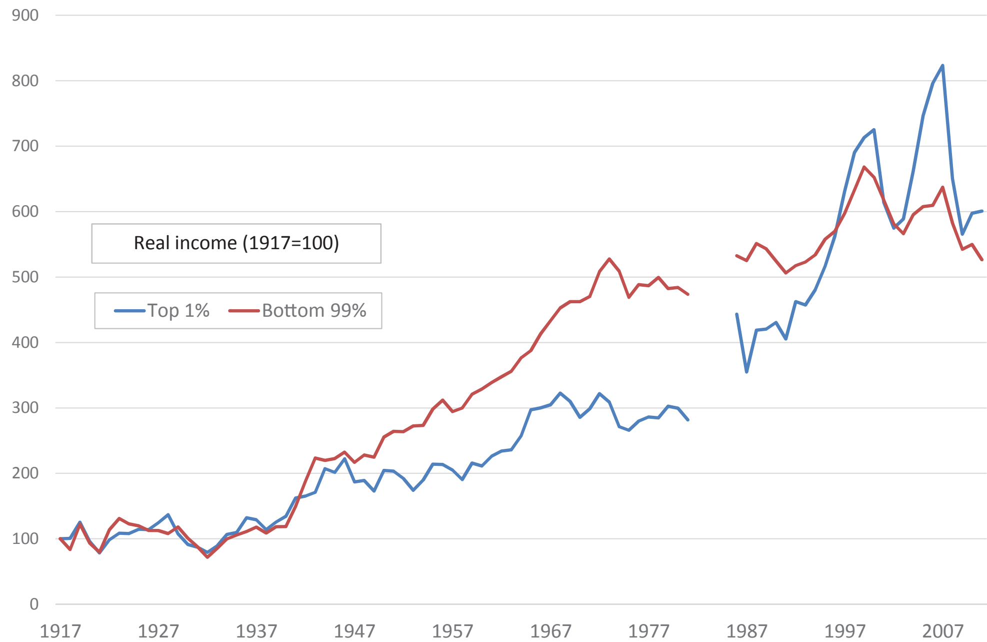


SOURCE: Sommellier and Price, 2014.

North Carolina's income growth is consistent with the national trends—the strongest growth in income has been experienced at the top while the bottom 99 percent of households experienced relatively modest growth. Indeed, the growth in income for the top 1 percent has reached levels not seen since the Depression era (see Figure 1). For every $1 claimed by a household in the bottom 99 percent in 2011, the top 1 percent had $17.90. This approaches the ratio of income held by the bottom 99 percent compared to the top 1 percent in 1928, when the top 1 percent had $19.90 for every $1 held by the bottom 99 percent.

From 1917 to 2011, the top 1 percent of North Carolina households saw their incomes grow by 98.4 percent while the bottom 99 percent saw just a 9.2 percent growth in their incomes over the same period.[4]

FIGURE 2: Top 1% and bottom 99% real income growth in NC from 1917 to 2011



SOURCE: Sommellier and Price, 2014. The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011. Economic Analysis and Research Network (EARN) Report.

http://www.epi.org/publication/increasingly-unequal-states-of-america-income-inequality-by-state

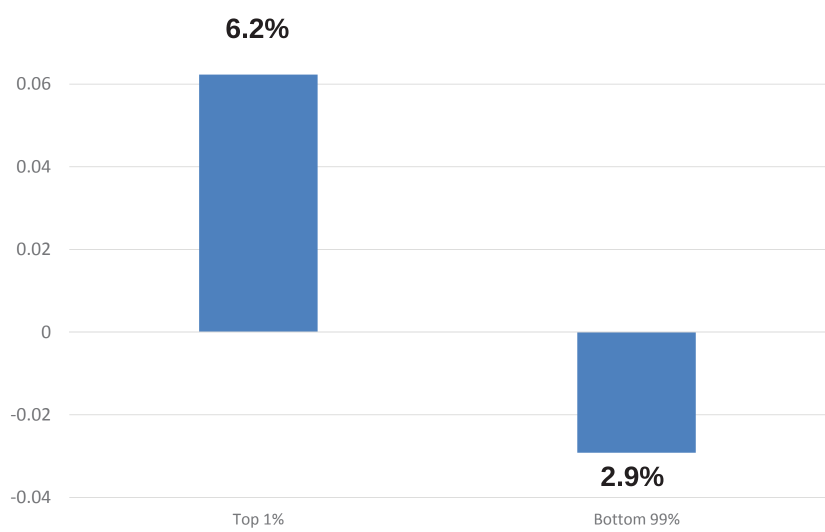
North Carolina's income growth is also slightly distinct from the nation, however. (See Figure 2.) North Carolina experienced a longer period in which real income growth for the bottom 99 percent was more robust than for the top 1 percent. This period in North Carolina ran from the 1940s until the 1990s while at the national level, the decline in the share of income growth available to the bottom 99 percent began its decline in the 1970s.

Just as the 1970s ushered in a policy shift at the federal level, so too was there an economic shift underway in North Carolina in which the dominance of agriculture was giving way to strong growth in manufacturing, namely textiles and furniture. In combination with strong investment in education and skills training at the K-12 and post-secondary levels that began in the 1960s, industrial growth and the coincidence of growth in the consumer base delivered improved wages alongside an attractive business climate. It is important to note, however, that this overall improvement for the bottom 99 percent is likely masking the persistence of disparities across racial groups and geographies where inequality and poverty continued to disproportionately impact North Carolinians.[5] Additionally, in 1995, the median wage in North Carolina despite this growth was still just $13.94, well below the national median of $15.15 and the third lowest among our neighboring states.[6] By 2011, the average income of the bottom 99% in NC was $39,145, below the South ($41,075) and the U.S. ($42,694).

Eroding income for those at the bottom

The recovery from the Great Recession has been unlike previous recoveries from economic downturns. In the past, when the economy has become more productive, wages have grown. This is because economic theory and prior historical experience, namely in the immediate post-war period, found that as workers became more efficient and effective at producing goods and services, the profits from that productivity returned to workers in the form of higher wages. A period called the Great Divergence began in the 1970s, in which the connection between productivity and wages was broken. This divergence was driven by a greater share of profits being held by owners of capital and not shared with workers, a stark divergence in the wage and compensation differences between CEOs and their employees and the faster growth in the cost of consumer goods than wages.[7]

FIGURE 3: Real income growth for the top 1% and the bottom 99%, 2009 to 2011 in NC



SOURCE: Sommellier and Price, 2014.

An even more troubling trend is emerging in some states in the recovery from the Great Recession. In the most recent period from 2009 to 2012, North Carolina's economy has grown but wages have fallen.[8]

With the available data from Sommellier and Price, a more nuanced picture of this trend emerges in which the top 1 percent in North Carolina have captured real income growth of 6.2 percent while the bottom 99 percent have seen their incomes fall by 2.9 percent. (See Figure 3). North Carolina is one of seventeen states nationwide that saw only the incomes of the top 1 percent grow while the bottom 99 percent lost ground.

North Carolina's history of holding inequality in check

From 1917-2011, North Carolina performed better than our neighbors at holding income growth at the top in check and better than the nation and the South in overall income growth. (See Figure 4). Along with the second strongest overall income growth from 1979 to 2011, North Carolina experienced the second strongest growth in income for the bottom 99 percent. Virginia experienced the highest overall income growth and the second strongest growth in income for the bottom 99 percent. The share of income growth going to the top 1 percent in North Carolina, while lower than South Carolina, Georgia and Tennessee, still meant more than half of the income growth between 1917 and 2011 went to the top 1 percent.

Again, North Carolina distinguished itself from the rest of the South with early investments in roads, a strong commitment to public education, and indigenous industries with local supply chains.[9] Given the strong correlation that researchers have found between inequality, tax policy and public investment, another part of the explanation for North Carolina's outcomes could be its progressive tax code relative to its neighbors as well

FIGURE 4: **Income growth from 1979 to 2011, overall and for the top 1% and bottom 99%, U.S. and by state and region**

Rank (by top 1% income growth)	State/region	Average real income growth			Share of total growth (or loss) captured by top 1%
		Overall	Top 1%	Bottom 99%	
27	**North Carolina**	**17.3%**	**98%**	**9%**	**52%**
29	Georgia	12.2%	96%	3%	75%
36	South Carolina	1.8%	79%	-5%	360%
26	Tennessee	14.2%	99%	5%	66%
8	Virginia	34.1%	158%	23%	37%
	South	16.2%	107%	6%	68%
	United States	14.8%	129%	2%	86%

Note: Ŧ Only the incomes of the top 1% grew over this period
Source: Sommellier and Price, 2014.

as its strong investment in public education and commitment to equity in funding public schools in low-wealth communities.[10] Both of these anti-inequality policies have been undermined in the past year by a final tax plan that eliminated the state's graduated income tax rate and various protections for low-income taxpayers, and reduced available dollars for investment in the classroom. This suggests that North Carolina's growing income inequality could accelerate in future years.

Income inequality hampers important contributors to economic growth

The post-war period up until the 1970s in the United States was not just a period of relative improvement in closing the income gap between the bottom 99 percent and top 1 percent, it also corresponded with robust economic growth.[11] It is largely agreed that economic growth takes place when investments in human or physical capital boost productivity, when there is strong and stable demand for goods and services, when institutions—from economic to corporate—are effectively governed, and when the labor force increases.[12]

There is growing evidence that many of the factors that strengthen economic growth are inhibited by income inequality.[13] For example, high income inequality is one of five significant factors that reduce economic mobility in a region.[14] Research has also shown that greater income inequality serves as a deterrent to entrepreneurial ventures, as the risk of falling on harder times are much greater in a highly unequal society.[15] It can also deter workers from moving careers or finding a better match for their skills, thus resulting in an underutilization of human capital. Income inequality has also been associated with lower overall educational attainment as families struggle to afford investments in their children's education.[16]

Income inequality has also proven to be a determinant of the quality of economic growth. In analysis of 174 countries, International Monetary Fund economists found that countries with lower income inequality experience longer growth spells.[17] Research into the patterns of economic growth in the United States have found that greater equity in economic outcomes across groups is linked to regional prosperity.[18] Moreover, economists have found that income equality is strongly and positively correlated with employment and output growth supporting greater regional prosperity.[19]

While there is also theoretical support for a potential causal link between inequality and growth, there is still more work to be done to demonstrate empirically that high inequality leads to lower growth.[21] Beyond growth, however, there are other important reasons to care about inequality. Basic tenets of the American social contract are that work should pay off, that there should be equality of opportunity, and that upward mobility should be available to all. Growing income inequality threatens the fabric of this social contract and with it the foundations of democracy.

Conclusion

The growing attention to income inequality is highly significant as North Carolina and the U.S. as a whole seek a stronger foundation for the economy. Analysis of historic trends in inequality in North Carolina and the nation find that income inequality is growing unchecked and importantly that public policy can play a role in supporting equal economic opportunity.

Policymakers at the state and federal level should once again ensure that the economy works for all. This will require raising and indexing the minimum wage, maintaining strong accountability measures for taxpayer-supported job creation, re-establishing a progressive tax code at the state level, building a strong safety-net and unemployment insurance system, and investing in both our state's human capital and physical infrastructure.

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