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*Timely,
accessible,
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analysis of
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issues*

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ECONOMIC MOBILITY & THE AMERICAN DREAM:

How is the Deck Stacked in North Carolina?

KEY FINDINGS:

- **Factors beyond effort and skill impact one's ability to achieve the American Dream of getting ahead, including geography, socioeconomic status, education attainment, and race.**
- **Research shows that economic mobility is harder for North Carolinians compared to the average American. North Carolina lags behind the United States and the Southeastern region in absolute and relative upward economic mobility.**
- **North Carolinians are contending with widespread income inequality, which correlates with lower economic mobility. In 2010, the average household income for households in the top fifth of the income distribution was nearly 15 times as large as the income of households in the bottom fifth and more than 3 times as large as the income of households in the middle fifth.**

Research Calls into Question Access to the American Dream

The American Dream is built on the belief that regardless of one's starting point in life, one can get ahead with hard work and ingenuity. Economic mobility—the ability of people to improve their economic standing—is a pillar of that dream and is important because high rates of mobility offset high rates of income inequality, which can be a drag on the economy.¹ A growing body of research challenges American beliefs about equality of opportunity, finding that the “rags to riches” experience is hard to come by.

As expected given the growth in the American economy over the last few decades, two-thirds of Americans experience real income gains compared to their parents' incomes. Yet, 4 in 10 Americans at the bottom fifth of the income ladder are not moving up relative to their peers.²

Research shows that a complex mixture of factors beyond effort and skill significantly impact one's economic mobility. These factors include, but are not limited to, place of residency, family economic background, education, and race. North Carolina lags behind the United States and the Southeastern region in economic mobility.³ The mobility gap also exists at the international level. Many European nations outperform the United States in intergenerational economic mobility.⁴

North Carolinians Are Less Economically Mobile than the Average American

According to a recent study by the Pew Center on the States, economic mobility varies across states and regions in the United States. The study looks at individuals born from 1943 to 1958 and examines their income data during their prime working years—the 10 years between ages 35 to 39 and 45 to 49—with the most recent data coming from 2007.⁵

In the study, North Carolinians ranked lower than Americans and Southerners on average in absolute mobility, which the study defined as earnings increases over the 10-year period. The study found that North Carolinians experienced average earnings growth of 14 percent, 3 percentage points lower than the American average. North Carolina also ranked lower on upward mobility, which is defined as the ability of individuals in the bottom half of the earnings distribution to move up 10 or more percentiles over the 10-year period. Only 26 percent of North Carolinians were upwardly mobile relative to their peers, compared to 34 percent of Americans.⁶

The study found no notable difference in downward mobility—residents starting in the top half of the income distribution and falling by 10 percentiles or more—between North Carolina and the nation as a whole.⁷

Income Inequality and Future Economic Mobility

Lower economic mobility correlates with income inequality, according to research.⁸ To paraphrase Isabel Sawhill, a Brookings Institution's expert on economic mobility, climbing the income ladder becomes more difficult as each step on the ladder grows farther apart.⁹

In 2010, the income gap between the average household in the bottom fifth of the income distribution and the average household in the top fifth in North Carolina was \$137,547. The average household income for those in the top fifth was nearly 15 times as large as the income of households in the bottom fifth and more than 3 times as large as the income of households in the middle fifth.¹⁰

Other research shows that middle-class living standards are increasingly out of reach for many North Carolinians. From 2001 to 2010, median household income in the state dropped by 9.4 percent while the poverty rate jumped 24.5 percent. Employment in the state was also lower in 2010 than at the beginning of the decade.¹¹

For reasons outlined below, the consequences of the recent economic downturn and the income decline of the last decade will shape the future income prospects of all North Carolinians, including its children.

Other Drivers of Economic Mobility on a National Scale

Beyond geography, research shows that other factors influencing mobility include socioeconomic background, asset accumulation, education, and race—all of which pose challenges to the theme of the American Dream.

Research shows that one's economic fortune is strongly linked to parental economic standing. Although one study found that two-thirds of Americans experience real income growth, the findings also revealed that high levels of both persistent disadvantage and advantage pass from parents to their children. Approximately 40 percent of Americans born into the bottom fifth or top fifth of the income scale remain there as adults. Only 6 percent of those born into the bottom fifth actually reach the top fifth.¹²

There is also a meaningful relationship between economic mobility and the ability to accumulate financial and non-financial assets, which can help a person fend off poverty and make ends meet during a period of unemployment or other emergencies. Research shows a person's wealth is strongly correlated with parental wealth, especially for those whose parents were in the bottom and top fifths

of the wealth distribution.¹³ Unfortunately, asset poverty is on the rise in North Carolina, where more than 1 in 4 households are asset poor. The share of asset-poor households is even higher for households of color.¹⁴

Economic resources also affect one's ability to live in safe neighborhoods, attend quality K-12 schools, and access opportunities requiring significant upfront investments such as higher education. Research shows there is a strong relationship between educational attainment and economic mobility: higher levels of education tend to yield higher incomes. People who start out in the bottom fifth of the income distribution are four times more likely to climb to the top fifth if they graduate from college. Of those who do not obtain a college degree, nearly half will remain in the bottom fifth as adults.¹⁵ Therefore, family background can be overcome—a finding that supports calls for adequate investments in public education.

Economic mobility is more restricted for people of color than whites across income groups. Research shows that about 63 percent of African Americans who start out in the bottom quarter of the income distribution are likely to remain there as adults, nearly double the rate for whites. African Americans who start out in the bottom quarter on the income distribution are also about four times less likely to reach the top quarter compared to whites.¹⁶ Further, African-American children born into middle-income families are more likely to fall to the bottom of the income distribution compared to whites.¹⁷ In North Carolina, the average gap in median household income between these two races was \$18,431 in 2010.

Conclusions

Research shows that the American Dream may be slipping out of reach for many North Carolinians. It is critical for policymakers to rebuild economic opportunity and shared prosperity for all of the state's residents by making adequate public investments in education and family well-being. Policies that enable and promote opportunities—such as job training programs, tax credits for low-income families, and poverty alleviation—are needed to offset the state's limited mobility and high income inequality.

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