NC Justice Center
Opportunity and Prosperity for All

BTC Brief

NC BUDGET & TAX CENTER

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Up, Up and Away: Incomes of NC's Richest Five Percent of Families Pull Apart from All Others

Timely, accessible, and credible analysis of state and local budget and tax issues

The incomes of North Carolina's richest five percent of families have grown much faster than those of all other families over the past 20 years. Top families now earn, on average, 12 times more than the poorest ones and four times more than middle-income families.

Rising Income Inequality: The Late 1980s to the Mid-2000s

Between 1987-89 and 2005-06, the post-federal tax, inflation-adjusted incomes of North Carolina's richest families rose by 57 percent. This represents an annual gain of $4,249. In contrast, the poorest fifth of families saw their incomes rise by 9.9 percent, which translates into an annual gain of $87. And the middle fifth of families posted a 9.6 percent gain, which equals an annual raise of $234 **(see table, over)**.

Although the incomes of different North Carolina families grew at similar rates between the late 1990s and mid-2000s, this development did little to offset the long-term rise in inequality. Consider the following:

- In the mid-2000s, the richest five percent of families had an average income ($197,331) that was **12.0** times greater than the average income of the poorest 20 percent of families ($16,436). This was up from a ratio of **8.4** in the late 1980s.
- In the mid-2000s, the richest five percent of families had an average income that was **4.3** times greater than the average incomes of the middle 20 percent of families ($45,432). This was up from a ratio of **3.0** in the late 1980s.

The Impact of Inequality

Growing inequality points to a state in which the benefits of economic growth have bypassed all but a handful of families. Put differently, the living standards enjoyed by most families have stagnated despite overall economic growth. Besides raising important questions of fairness, widening inequality carries serious economic, social and political costs. As a result, individuals and communities fail to prosper to the best of their abilities.

The Causes of Economic Inequality

Rising income inequality results form political and economic choices that have eroded the institutions that once produced rapid, equitable growth. The decline in the value of the minimum wage, the weakening of unions, the undercutting of social insurance mechanisms, the sustained underinvestment in educational systems and the promotion of low-road trade policies – all of these factors have launched working families along a path of downward mobility.

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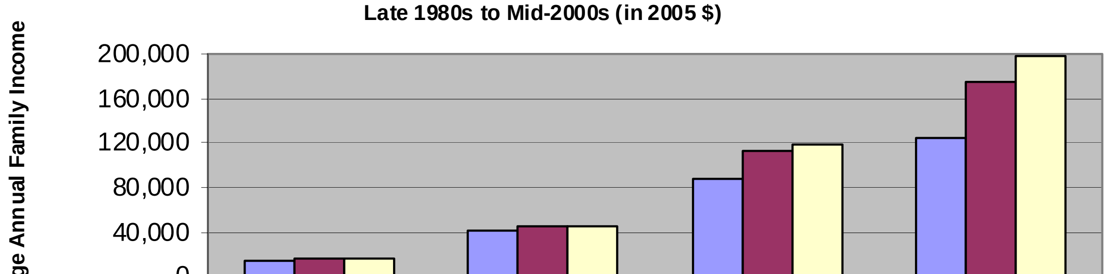
Reversing the Trend

Concerned state leaders can use a variety of proven policy tools to reverse the status quo. Expanding access to key work-support programs like child care subsidies, setting standards to improve the quality of existing jobs and investing in the skills of current workers are effective ways of sharing prosperity more broadly. (These strategies are detailed in the recent Budget & Tax Center report *Making Ends Meet on Low Wages*.)

Though often overlooked, state tax policies contribute to both the growth of, and potential reduction of, income inequality. As described in the Budget & Tax Center report, *Who Pays Taxes in North Carolina*, the state's regressive state and local tax system asks the most from the families who have prospered the least. Until tax policies align with the income distribution, the state will struggle to generate revenues adequate to its needs. In particular, three kinds of policies are needed:

- A strengthened commitment to the use of progressive income taxes as a way of financing needed investments rather than relying upon regressive sales taxes.
- A more aggressive use of refundable tax credits like the Earned Income Tax Credit (EITC) as a tool for ensuring the fair tax treatment of working families.
- A comprehensive reform of the state tax system to ensure that changes are made in a coordinated manner, thereby ensuring the equitable raising of the revenues adequate to the needs of a growing state.

Table: Average Annual Income of North Carolina Families, by Selected Income Groups, Late 1980s to Mid-2000s (in 2005 $)



	Bottom Fifth	Middle Fifth	Top Fifth	Top 5%
Late 1980s	14,961	41,453	88,104	125,102
Late 1990s	16,123	45,754	111,658	174,819
Mid 2000s	16,436	45,432	118,259	197,331

* Income is post-federal tax and includes the cash value of the EITC, food stamps, subsidized school lunches and housing subsidies. Capital gains are not included. Sources: Center on Budget & Policy Priorities and Economic Policy Institute.

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