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ON ECONOMIC ACTIVITY

Low-Income Boys in Higher Inequality Areas Drop Out of School More Often than Low-Income Boys in Lower Inequality Areas, Limiting Social Mobility, New Brookings Paper Finds

"Economic despair" may contribute if those at the bottom do not believe they have the ability to achieve middle class status

Greater income gaps between those at the bottom and middle of the income distribution lead low-income boys to drop out of high school more often than their equally economically disadvantaged counterparts living in lower inequality areas, suggesting that there is an important link between income inequality and reduced rates of upward mobility, according to a new paper presented today at the Brookings Panel on Activity. The finding has implications for social policy, implying a need for interventions that focus on bolstering low-income adolescents' perceptions of what they can achieve in life.

In "Income Inequality, Social Mobility, and the Decision to Drop Out Of High School," Brookings Nonresident Senior Fellow and University of Maryland economics professor Melissa S. Kearney and Wellesley economics professor Phillip B. Levine propose a channel through which income inequality might lead to less upward—often assumed to be the case but not yet fully proven. The conventional thinking among economists is that income inequality provides incentives for individuals to invest *more* in order to achieve the higher income position in society, but Kearney and Levine observe that if low-income youth view middle-class life as out of reach, they might decide to invest *less* in their own economic future.

The authors focus on income inequality in the lower half of the income distribution, as measured by income gaps between the 10^{th} and 50^{th} percentiles rather than income gaps between the top and bottom, which has been more of a focus in popular culture. They show this "lower-tail" inequality is more relevant to the lives of economically disadvantaged youths because the middle is a more realistic ambition. Furthermore, Kearney and Levine's research could reconcile a puzzle: social mobility does not appear to be falling, despite the rise in income inequality. But, as Kearney and Levine point out, U.S. income inequality has been rising because the top of the distribution has been pulling away from the middle—not because the bottom is falling farther behind the middle.

The authors look specifically at high school drop-out rates through a geographic lens, noting the link between highly variable rates of high school completion and income inequality across the country. One-quarter or more of those who start high school in the higher inequality states of Louisiana, Mississippi, Georgia, and the District Columbia fail to graduate in a 4-year period, as compared to only around 10 percent in the lower inequality states of Vermont, Wisconsin, North Dakota, and Nebraska. Their econometric analysis goes on to show that low-income youth—boys in particular—are 4.1 percentage points more likely to drop out of high school by age 20 if they live in a high-inequality location relative to those who live in a low-inequality location.

Kearney and Levine examine a number of potential explanations for this link, including differences in educational inputs, poverty rates, demographic composition, and other factors. Ultimately, the evidence suggests that there is something specific about areas with greater income gaps that lead low-income boys there to drop out of school at higher rates than low-income boys elsewhere. The authors' research suggests that adolescents make educational decisions based on their perceived returns to investing in their educational development: a greater distance to climb to get to the middle of the income distribution could lead to a sense that economic success is unlikely—what they term "economic despair."

"Income inequality can negatively affect the perceived returns to investment in education from the perspective of an economically disadvantaged adolescent," they write. "Perceptions beget perceptions."

Digging into reasons students themselves give for dropping out, they find that low-income students from more unequal places are more likely to give up on their educational pursuits. Surprisingly, survey evidence shows that academic performance does not have as large an impact on low-income students in high inequality states: 51 percent of dropouts in the least unequal states reported that they dropped out because of poor performance, compared to only 21 percent of students who dropped out in the most unequal states.

The finding suggests that economic despair could play an important role: if a student perceives a lower benefit to remaining in school, then he or she will choose to drop out at a lower threshold of academic difficulty. They also note that while the wage premium of completing high school should reduce the dropout rate, household income inequality has an offsetting negative effect.

The choice between staying in school and dropping out may reflect actual or perceived differences from the benefits of graduating. For instance, the authors note their past research showing that youth from low-income households who grow up in high lower-tail inequality states face lifetime incomes that are over 30 percent lower than similar children in lower inequality states. They also highlight other research showing that the overwhelming majority of 9th graders aspire to go to college, but by 11th grade, low-SES students are substantially less likely to expect they will enroll in college, even among those students with high test scores.

"There are important policy implications for what types of programs are needed to improve the economic trajectory of children from low-SES backgrounds," they write. "Successful interventions would focus on giving low income youth reasons to believe they have the opportunity to succeed. Such interventions could focus on expanded opportunities that would improve the actual return to staying in school, but they could also focus on improving perceptions by giving low-income students a reason to believe they can be the "college-going type." For example, interventions might take the form of mentoring programs that connect youth with successful adult mentors and school and community programs that focus on establishing high expectations and providing pathways to graduation. They could also take the form of early-childhood parenting programs that work with parents to create more nurturing home environments to build self-esteem and engender positive behaviors."

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