PULLING APART

A State-by-State Analysis of Income Trends

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I. Executive Summary

The worst effects of the 2001 recession have largely been left behind. The return of economic growth is good news, but this good news is tempered by the fact that the troubling trends in income distribution during the last decades of the 20th century persist in the current century.

Between the early 1980s and the early 2000s, the incomes of the country's highest-income families climbed substantially, while middle- and lower-income families saw only modest increases in income. During the late 1990s exceptionally low unemployment rates did yield significant gains for low-wage workers and relatively broad-based wage growth. But even the positive trends of the late 1990s were not enough to reverse the tide of growing inequality.

Moreover, the broad-based wage growth of the late 1990s ended in the wake of the 2001 downturn. Real wages for low- and moderate-income families grew more slowly in 2002 and the first part of 2003 than in previous years and then began to decline. The highest-income families also saw declines in real income as a result of the large drop in the stock market, but this decline was short-lived; the incomes of the richest families appear to have rebounded strongly since 2002.

The recession's impact on poor and middle-income families has lingered for longer than is usual. Unemployment has not fallen far enough to generate the income gains among low- and middle-income families that were seen in the late 1990s. In addition, federal tax cuts targeted primarily to high earners served to widen the gap between the incomes of the wealthiest families and those with low and moderate incomes. As result, income inequality has begun to increase again.

The trend of growing inequality has occurred in most parts of the country. Income disparities between the top fifth and bottom fifths of families in the income distribution grew in 39 states over the past two decades; in the remaining states, income inequality remained about the same. Income disparities did not decline significantly in any state during this period. Even during the 1990s, the gap between high-income and low-income families grew in almost half of the states.

The income gap between high-income and middle-income families also grew over the last ten and 20 years. Between the early 1980s and the early 2000s, the gap between high- and middle-income families grew in three-fourths of the states; it did not decline in any state. Between the early 1990s and the early 2000s, this gap increased in 21 states.

Here and elsewhere in the paper, changes in income inequality are determined by calculating the income gap — the ratio between the average family income in the top fifth and the average family income in the bottom fifth (or the middle fifth) — and examining changes in this ratio over time. These changes are then tested to see if they are statistically significant. States fall into one of three categories: (1) states where inequality increased – that is, the ratio increased by a statistically significant amount, (2) states where there was no change in inequality – the change in the ratio was not statistically significant and (3) states where inequality decreased by a statistically significant amount.

While the national trend toward increasing inequality has received widespread coverage, less attention has been focused on how this trend has varied by state. This analysis examines trends in income inequality in each of the 50 states over the past two business cycles.

Income Inequality Increased in Most States Over the Last Two Decades

Across the nation, the income gap between the richest and poorest fifths of families is significantly wider than it was two decades ago:

- In 38 states, the incomes of high-income families grew faster than the incomes of low-income families between the early 1980s and the early 2000s. Of the remaining states the incomes of the bottom fifth and the top fifth of families increased about the same amount in 11 states. In one state — Alaska — the income of low-income families grew at a faster rate then the income of high-income families.

- On average, nationally, the incomes of the poorest fifth of families grew by $2,660 over the two-decade period, after adjusting for inflation. By contrast, the incomes of the richest fifth of families grew by almost that much ($2,148) each year over the course of the two decades, for a total increase of $45,100.

The widening income gap is even more pronounced when one compares families in the top five percent of the income distribution (rather than the top fifth) to the bottom 20 percent.

- In the 11 large states for which this comparison is possible, the incomes of the top five percent of families increased by 73 percent to 132 percent between the early 1980s and the early 2000s. By contrast, the incomes of the bottom fifth of families in these states increased by 11 percent to 24 percent over the same period.[1]

- In the 11 large states analyzed, the increases in the average incomes of the top five percent of families ranged from $80,400 to more than $153,000. In five states — Massachusetts,

[1] An analysis of the average income of the top five percent of families was conducted for eleven large states that have sufficient observations in the Current Population Survey to allow the calculation of reliable estimates of the average income of the top five percent of families. These states are California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas.

Michigan, New Jersey, New York, and Pennsylvania — the increase exceeded $100,000. By contrast, the largest increase in average income for the bottom fifth of families in these states was only $4,000. In New York, for example, the average income of the top five percent of families grew by $105,000, while the average income of the bottom 20 percent increased by only $1,900.

Middle-income families also lost ground compared to those at the top. In 39 states, the gap between the average income of middle-income families and the average income of the richest fifth of families widened significantly.

Wide Gap Separates High-Income Families from Poor and Middle Class

The resulting disparities between the incomes of high- and low-income families are substantial.

- In the United States as a whole, the poorest fifth of families had an average income of $16,780 in the early 2000s, while the top fifth of families had an average income of $122,150, or more than seven times as much.

- In the early 1980s, there was no state in which the average income of high-income families was as much as 6.4 times larger than the average income of low income families. By the early 2000s, 32 states had "top to bottom" ratios of 6.4 or greater. The increase in income disparities was greatest in Arizona (with the largest disparity), New York, Massachusetts, Tennessee, New Jersey, West Virginia, Connecticut, Hawaii, Kentucky, and South Carolina.

- By the early 2000s, the average incomes of the top five percent of families were 12 times the average incomes of the bottom 20 percent. The states with the largest such gap were Arizona, Texas, New York, New Jersey, Kentucky, Tennessee, Florida, California, North Carolina, and Pennsylvania.

Similarly, the income gaps between high-income and middle-income families have grown:

- In the early 1980s, there was only one state — Alaska — in which the average income of the top fifth of families was more than 2.3 times larger than the average income of the middle fifth of families. By the early 2000s, the "top-to-middle" ratio was greater than 2.3 in 36 states.

- The states with the largest gaps between high-income and middle-income families were Texas, Kentucky, Florida, Arizona, Tennessee, New York, Pennsylvania, North Carolina, New Mexico, and California.

Prosperity of 1990s Was Not Shared Equally

Inequality did not grow as quickly during the 1990s as during the prior decade (or as quickly as it appears to be growing in the 2000s), but income gaps continued to grow in many states.

- In close to half of all states, the income gap between the top and bottom of the income distribution grew between the early 1990s and the early 2000s. In 21 states, average incomes grew more quickly among the top fifth of families than among the bottom fifth.

- By contrast, the average incomes of the bottom fifth of families grew significantly faster than the incomes of the top fifth in only one state - Georgia.

The incomes of very high-income families — the richest five percent — grew dramatically between the early 1990s and the early 2000s. In eight of the 11 large states analyzed, the incomes of the top five percent grew substantially faster than the incomes of the poorest 20 percent.

Families in the middle of the income distribution have fallen farther behind upper-income families in many states over the past decade:

- In some 21 states, the ratio of the incomes of the top fifth of families to the middle fifth of families increased between the early 1990s and the early 2000s. Income disparities between the top and middle fifths of families increased most in Kentucky, Pennsylvania, North Carolina, Indiana, Tennessee, Texas, West Virginia, Vermont, New Jersey, and Connecticut. The top-to-middle ratio did not decline significantly in any state.

Causes of Rising Inequality

Researchers have identified several factors that have contributed to the large and growing income gaps in most states. The growth of income inequality is primarily due to the growth in wage inequality. Wages at the bottom and middle of the wage scale have been stagnant or have grown only modestly for much of the last two decades. The wages of the very highest-paid employees, however, have grown significantly.

Several factors have contributed to increasing wage inequality, including long periods of high unemployment, globalization, the shrinkage of manufacturing jobs and the expansion of low-wage service jobs and immigration, as well as the lower real value of the minimum wage and fewer and weaker unions. These factors have led to an erosion of wages for workers with less than a college education, who make up approximately the lowest-earning 70 percent of the workforce. More recently, even those with a college education have experienced real wage declines, in part due to the bursting of the tech bubble in high-wage industries, but also due to the downward pressure on wage growth from offshore competition.

Only in the later part of the 1990s was there a modest improvement in this picture. Persistent low unemployment, an increase in the minimum wage, and rapid productivity growth fueled real wage gains at the bottom and middle of the income scale. Yet those few years of more broadly shared growth were not sufficient to counteract the two-decade-long pattern of growing inequality. Today, inequality between low- and high-income families and between middle- and high-income families is greater than it was either 20 years ago or ten years ago.

The expansion of investment income (such as dividends, rent, interest, and capital gains) during the 1990s also contributed to increased income inequality, since investment income primarily accrues to those at the top of the income structure. The large increase in corporate profits during the recent economic recovery has also contributed to growing inequality by boosting the incomes of investors.

Government policies — both what governments have done and what they have not done — have contributed to the increase in wage and income inequality over the past two decades in most states. For instance, deregulation and trade liberalization, the weakening of certain aspects of the social safety net, the lack of effective labor laws regulating the right to collective bargaining, and the declining real value of the minimum wage have all contributed to growing inequality. In addition, changes in federal, state and local tax structures and benefit programs have, in many cases, accelerated the trend toward growing inequality emerging from the labor market.

States Can Choose a Different Course

A significant amount of increasing income inequality results from economic forces that are largely outside the control of state policymakers. State policies, however, can mitigate the effects of these outside forces. States play a major role in setting labor-market policies that affect income inequality, such as rules governing the formation of unions, the design of the unemployment insurance systems, and the establishment of state minimum wages.

The minimum wage, for example, has a direct bearing on individual earnings. The federal minimum wage has not been adjusted for more than eight years, and its real value has fallen considerably since the late 1970s. States can help reverse or moderate the decline in wages for workers at the bottom of the pay scale — and compensate for the decline in the value of the federal minimum wage — by enacting a higher state minimum wage, as 18 states and the District of Columbia have done.

Improvements are also warranted in the unemployment insurance system. During the 1980s, unemployment insurance protection for both middle- and low-income families eroded as a result of federal and state cutbacks. The share of jobless workers receiving these benefits is now lower than at the end of the 1970s. Efforts are needed at the national and state levels to make more unemployed workers eligible for unemployment assistance.

In addition, there are a host of options that state policymakers can consider to strengthen their social safety nets. Previous federal and state changes to programs that assist low-income families have contributed to the increase in income inequality in recent years. The number of families receiving cash assistance has fallen significantly, for example, as states have placed increasing emphasis on reducing their cash assistance caseloads. The number families receiving cash assistance, which peaked at 5 million in the early 1980s, dropped by more than 57 percent by 2000. While studies indicate that one-half to three-quarters of former welfare recipients are employed shortly after they leave the rolls, many families continue to face significant barriers to obtaining and keeping steady, well-paid work. These barriers are likely to retard income gains for the lowest-income fifth of families.

In addition, for those families who continue to receive cash assistance, the value of these benefits has fallen in a number of states. In the typical state, cash assistance benefits for a family of three with no other income fell by more than 18 percent between 1994 and 2003, after adjusting for inflation.

States can strengthen their social safety nets by providing low-wage workers with supportive services such as transportation, child care, and health coverage. They can also provide intensive case management and other services to help current and former welfare recipients maintain their present employment, move into better jobs, or obtain the education and training needed for career advancement.

In addition, states can improve coordination among the low-income programs they administer. By adopting simpler, more streamlined rules and procedures regarding applications, eligibility determination, and other matters, states can make these programs easier for eligible families to participate in and easier for states to administer.

States also can modify tax policies that influence the distribution of post-tax income. (The income inequality data in this report reflect the effects of federal taxes but not state taxes.) The overall effect of the federal income tax system is to narrow income inequalities (that is, the federal tax system is progressive), though the system has become less so over the past two decades as a result of changes such as those enacted in 2001. Nearly all state tax systems, in contrast, are regressive. Because states rely more on regressive sales taxes and user fees than on progressive income taxes, they take a larger percentage of income from low- and middle-income families than from the wealthy.

When many states cut taxes during the strong economy of the 1990s, nearly all chose to make the majority of the cuts in their income taxes. Yet states that raised taxes to address budget problems resulting from the recession of the early 1990s were more likely to raise sales and excises taxes than income taxes. Both of these actions rendered state tax systems even more regressive.

Now that economic growth has returned, state finances are improving. Despite the fact that most states have a long way to go before revenues and services are restored to pre-recession levels, some states are again beginning to consider tax reductions. There are many ways that states can improve the progressivity of their tax systems in a time when they may be considering tax reductions. For example, states can increase their reliance on income taxes rather than sales taxes (which place a disproportionate burden on low-income families) by cutting sales tax rates rather than income tax rates. Another way to lessen the negative impact of state tax systems on the poor is to broaden the sales tax base to include more services consumed by high-income families.

States also can enact tax credits targeted to low income taxpayers. For example, more states could follow the lead of the 17 states that have adopted state earned income tax credits. And states can improve the progressivity of their tax systems by restoring state estate taxes that were eliminated as a result of the phaseout of the federal estate tax.

State policies constitute only one of a range of factors that have contributed to the increasing disparities in incomes over the past decade. If low- and middle-income families are to stop receiving steadily smaller shares of the income pie, federal as well as state policies will have to play an important role.

TABLE A: TOP TEN STATES FOR SELECTED INCOME INEQUALITY MEASURES	
Greatest Income Inequality Between the Top and the Bottom, Early 2000s	**Greatest Income Inequality Between the Top and the Middle, Early 2000s**
1. New York	1. Texas
2. Texas	2. Kentucky
3. Tennessee	3. Florida
4. Arizona	4. Arizona
5. Florida	5. Tennessee
6. California	6. New York
7. Louisiana	7. Pennsylvania
8. Kentucky	8. North Carolina
9. New Jersey	9. New Mexico
10. North Carolina	10. California
Greatest Increases in Income Inequality Between the Top and the Bottom, Early 1980s to Early 2000s	**Greatest Increases in Income Inequality Between the Top and the Middle, Early 1980s to Early 2000s**
1. Arizona	1. Kentucky
2. New York	2. Pennsylvania
3. Massachusetts	3. West Virginia
4. Tennessee	4. Indiana
5. New Jersey	5. Hawaii
6. West Virginia	6. Texas
7. Connecticut	7. Tennessee
8. Hawaii	8. North Carolina
9. Kentucky	9. Arizona
10. South Carolina	10. New York
Greatest Increases in Income Inequality Between the Top and the Bottom, Early 1990s to Early 2000s	**Greatest Increases in Income Inequality Between the Top and the Middle, Early 1990s to Early 2000s**
1. Tennessee	1. Kentucky
2. Connecticut	2. Pennsylvania
3. Washington	3. North Carolina
4. North Carolina	4. Indiana
5. Utah	5. Tennessee
6. Texas	6. Texas
7. West Virginia	7. West Virginia
8. Pennsylvania	8. Vermont
9. Florida	9. New Jersey
10. Maine	10. Connecticut

II. Introduction

This report examines trends in the distribution of income from the early 1980s to the early 2000s in each of the 50 states. These time periods were chosen because they represent similar points in the economic cycle. The early 2000s — the most recent period for which state-by-state data are available — spans the lowest point of the most recent economic downturn. This period was compared to a similar low point in the national economy in the early 1980s. The report finds that the incomes of the country's richest families climbed substantially over the past two decades, while middle- and lower-income families saw only modest increases in income.

This trend of rising inequality has been well documented by data at the national level from the Congressional Budget Office and other sources. Few analyses, however, have focused on how income inequality has changed within the different states and regions of the country. This analysis finds that in the vast majority of states, the gap between the incomes of the highest-income families and the incomes of middle-class and poor families has grown by a large margin over the period.[2]

During the 1990s, the exceptionally low unemployment rates of the late 1990s did yield gains for low-wage workers and relatively broad-based wage growth, but income gaps continued to widen. This broad-based growth ended with the 2001 downturn. Real wages for low- and moderate-income families grew more slowly in 2002 and the first part of 2003 and then began to decline.

To a greater extent than in past recessions, the highest-income families also saw declines in real income during the 2001 downturn. These declines, which reflected the impact of the drop in the stock market, were short lived. Indications are that since 2002, the incomes of the richest families have rebounded strongly.

In contrast, the downturn's impact on low-and moderate-income families has lingered for longer than is typical. In particular, unemployment has not fallen far enough to generate the pattern of income gains among low- and middle-income families that was seen in the late 1990s. In addition,

[2] Families with income that fall in the bottom 20 percent of the income distribution are referred to as "poor" in this report. Approximately half of these families have incomes below the official poverty line.

Methodology

To assess how families at different income levels in each state have fared over the past two decades, this report measures income inequality at three points in time: the early 1980s, the early 1990s, and the early 2000s. These periods reflect comparable points in the economic cycle — namely, when the economy was in a recession. All families are ranked by family income (adjusted for family size) and then divided into five groups (or "quintiles"), each containing the same number of persons.[a] The average income of families in each quintile is then calculated for each of the three time periods.

The data source for this analysis is the Bureau of the Census's March Current Population Survey — a survey of a nationally representative sample of households conducted every year. The survey provides information on family income, which includes not only wages and salaries, but also other sources of cash income such as interest income and cash benefits, including veterans assistance, welfare payments, and child support income. The starting point is the official Census definition of cash income. This analysis then uses additional Census Bureau data to construct a more comprehensive measure of income. The measure used here accounts for the impact of the federal tax system (including the Earned Income Tax Credit) and the cash value of food stamps, subsidized school lunches, and housing vouchers. Income from capital gains is also included. The incomes shown are adjusted for inflation and expressed as their value in 2002 dollars. This income definition is different from the one used in previous editions of Pulling Apart. Thus, the figures in this report cannot be compared to those in the earlier reports.

This study is based on three year averages of income data for each of the states. The use of three year averages is necessary in order to have a large enough sample to accurately estimate average income for each of the five income groups for each state.

This Analysis Understates Growth in Inequality

For two main reasons, our results understate the magnitude of growth in inequality over the last two decades. First, the Census Bureau data do not capture trends among the top one percent of families. Data from other sources such as the Congressional Budget Office show that the growth in the incomes of the top quintile was especially rapid at the very top of the income scale. Second, this analysis found higher income growth for the bottom fifth than other studies of the last two decades. This results from the starting point for this trend over time — the average incomes for 1980, 1981 and 1982. These were particularly bad years for low-income families as they were hit harder by the economic downturn of the early 1980s than by subsequent recessions. The fact that we're starting our analysis of income growth from this uniquely low base means that we are likely to record particularly strong growth rates for the lowest-income families.

[a] The quintiles do not each contain an equal number of families.

recent federal tax cuts targeted primarily on wealthy families are helping widen the income gap between the wealthiest families and those with low and moderate incomes.

Why Growing Income Inequality Is a Problem

As this report demonstrates, inequality has been growing across the country since the early 1980s. This growing divide between the rich and the poor and the middle class deserves the attention of policymakers and the public.

The United States was built on the ideal that hard work should pay off, that individuals who contribute to the nation's economic growth should reap the benefits of that growth. Over the past two decades, however, the benefits of economic growth have been skewed in favor of the wealthiest members of society. The majority of Americans continue to believe that income differences are too large and that money and wealth should be more evenly distributed.[3] Economic forces and government actions, however, have resulted in growing inequality.

This problem is particularly notable in the current economy, as the gap between improvements in productivity (the amount of goods and services generated per hour worked) and real income growth for most families is the largest on record. Most economists consider productivity improvements to be synonymous with a broadly shared increase in living standards. Such was the case between the 1940s and the 1970s: the incomes of families at all levels grew at about the same rate over that period, as the rising tide of national productivity lifted all boats.

Over the last two decades, though, this pattern has changed. Productivity has continued to rise, but the lion's share of the benefits has gone to the richest families. This shows that improving productivity creates only the potential for increased living standards. When the rewards of productivity are channeled upwards, many families fail to benefit from overall economic growth.[4]

This trend has broad implications. A widening gulf between the rich on the one hand and the poor and middle class on the other hand can reduce social cohesion, trust in government and other institutions, and participation in the democratic process. Growing income inequality also has widened discrepancies in political influence — a particular problem given political candidates' heavy dependence on private contributions. This may have contributed to the increase in the number of Americans who feel that their elected officials do not care much about the views of ordinary citizens.

Also, as the divide grows among families at different income levels, families at the upper end of the income scale have less and less contact and familiarity with the problems faced by low- and middle- income families. For example, when income growth is concentrated at the top of the income scale, housing prices can be bid up beyond the reach of low- and moderate-income families, yet an upper-middle-income family living in the suburbs may have trouble understanding the extent of this problem. Similarly, wealthy families that can afford private schools for their children can lose sight of the need to support public schools. As a result, support for the taxes necessary to finance government programs declines, even as the nation's overall ability to pay taxes rises. The failure to invest adequately in programs that educate children, meet the health and housing needs of families at all income levels, and support low-wage workers can dampen the nation's future economic growth.

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[3] Leslie McCall and Julian Brash, "What Do Americans Think About Inequality? An Analysis of Polls and Media Coverage of Income Inequality," Demos, May 2004.

[4] This point was recently made in a study by a leading macroeconomist, Robert Gordon, who writes: "Our most surprising result is that over the entire period 1966-2001, as well as over 1997-2001, only the top 10 percent of the income distribution enjoyed a growth rate of real wage and salary income equal to or above the average rate of economy-wide productivity growth. Growing inequality is not just a matter of the rich having more capital income; the increasing skewness in wage and salary income is what drives our results. Italics in original. From Where Did the Productivity Growth Go?, by Ian Dew-Becker and Robert J. Gordon, forthcoming, Brookings Paper on Economic Activity.

In addition, there is evidence that income inequality causes direct harm to the poor. For example, a considerable body of research links income inequality to poor health outcomes. Further, a number of papers at a recent conference on income inequality sponsored by the Federal Reserve Bank of New York found a link between higher levels of inequality and poor schools, substandard housing, and higher levels of crime victimization.

The impact of inequality on public health has received considerable attention from researchers. A recent article summarized this research as follows: "Demographers and public health researchers have found mounting though controversial evidence that greater inequality can boost mortality rates and contribute to poor health. Countries and communities with above-average inequality have higher mortality rates than countries or communities with comparable incomes and poverty rates but lower inequality."[5] The United States has substantially greater inequality than nearly all other developed nations.

Income inequality also can have a direct effect on adequacy of housing, as noted above. Economic growth can lead to more demand for housing and consequently to higher housing prices. When the incomes of the poorest families grow slowly, they are less likely to be able to afford adequate housing and are at greater risk of becoming homeless.

Also, because school systems depend heavily on local funding, increased income disparities have led to increased disparities in the quality of schools, as wealthier families have moved to the suburbs. That makes it harder for poor children to acquire the skills they need to succeed.

Growing income inequality also threatens to undermine the much-heralded changes made to the welfare system in recent years. Current welfare policies are based on the assumption that a job will lead to self-sufficiency and to moving out of poverty. When former welfare recipients can only find jobs that do not pay enough to lift a family out of poverty, and when the real incomes of the poorest families grow only slowly (or not at all), the underpinnings and future success of policies that encourage work are called into question.

The slow growth in the incomes of the poorest families is particularly disturbing. Research has shown that poverty can have a substantial effect on child and adolescent well-being. Children who grow up in families with incomes below the poverty line have poorer health, higher rates of learning disabilities and developmental delays, and poorer school achievement than non-poor children. They also are far more likely to be unemployed as adults.[6]

Government at all levels has an important role to play in pushing back against the growth of income inequality. Through policies such as raising the minimum wage, implementing a wide range of supports for low-income working families, reforming regressive state tax systems, and strengthening unemployment insurance, state and federal lawmakers can help moderate the growing income divide. This report focuses on growing inequality in the states and on policies that states can adopt to mitigate these trends.

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[5] Gary Burtless, "Growing Income Inequality: Sources and Remedies" in Henry J. Aaron and Robert D. Reischauer, eds. Setting National Priorities, The 2000 Election and Beyond. Washington, DC: Brookings Institution Press, 1999.
[6] See, for example, Greg Duncan, Jeanne Brooks-Gunn, eds. The Consequences of Growing Up Poor. New York: Russell Sage Foundation, 1997.

III. The Long-Term Trend: The Early 1980s to the Early 2000s

Nationwide, income inequality increased significantly between the early 1980s and the early 2000s. Gaps in income between the richest families and the poorest families and between the richest families and middle-income families have widened across the United States. The incomes of the country's richest families climbed substantially over the past two decades, but middle- and lower-income families saw only modest increases in income. This trend is in marked contrast to the broadly shared increases in prosperity that prevailed between World War II and the 1970s. This chapter examines this long-term (two-decade) trend in income inequality, while trends over the past decade are examined in the next chapter.

To assess how families at different income levels have fared over the past two decades, this report measures income inequality at three points in time: the early 1980s, the early 1990s, and the early 2000s. These periods reflect comparable points in the economic cycle — namely, when the economy was in a recession. All families are ranked by family income (adjusted for family size) and then divided into five groups (or "quintiles"), each containing the same number of persons.[7] The average income of families in each quintile is then calculated for each of the three time periods.

The report first examines the changes in average income for each quintile over time to compare income growth among different income groups. It then examines the ratios of the average income of the highest-income quintile to the middle and bottom quintiles and looks at changes in these ratios over time.

Comparing Income Trends Among High- and Low-Income Families

Comparing the income trends of low- and high-income families over the last 20 years shows that while the average incomes of both groups grew, the pace of change for the two groups was markedly different.

[7] Please note that each quintile does not necessarily contain the same number of families. For more information, see the methodology section.

Since the early 1980s, the average incomes of the bottom fifth of families have grown in every state except one, as shown in Table 1. (In Arizona, the change in average income was not statistically significant.) Growth in the incomes of the poorest families is positive news. However, the magnitude of that growth was small, especially when compared to the jump in the incomes of the richest families.

In every state the incomes of the richest families have grown since the early 1980s; generally, this growth has far outpaced that experienced by the poorest families. In 38 states, the income of the top fifth of families grew faster than the income of the bottom fifth of families. In these 38 states, the incomes of the richest grew by an average of $45,800 (62 percent), while the incomes of the poorest grew by only $3,000 (21 percent).[8] In other words, the poorest families — who saw an increase in purchasing power of only $143 per year — have not fared nearly as well as the richest families during this period.

Within the top fifth of families, the wealthiest families enjoyed the largest income growth. The average income of the richest five percent of families grew 85 percent ($92,512) on average between the early 1980s and the early 2000s. In 11 large states where such a comparison is possible, the income of the top five percent of families grew significantly faster than the income of the bottom 20 percent of families (see Table 1A).[9] In four of these states (Massachusetts, Michigan, New Jersey, and Pennsylvania), incomes of the top five percent of families more than doubled, growing by more than $100,000. Meanwhile, the greatest income growth for the bottom 20 percent of families in any state took place in New Jersey, where the average incomes of the poorest families increased only $3,995 (24 percent) over 20 years.

Changes in Income Gaps Between High- and Low-Income Families

Another way to assess changes in income inequality over the last two decades is by calculating the income gap — the ratio between the average family income in the top fifth and the average family income in the bottom fifth — and examining changes in this ratio over time.

A snapshot of each state's top-to-bottom ratio in the early 2000s, as well as its corresponding national ranking, is shown in Table 2. In New York, which had the largest top-to-bottom ratio of any state, the average income of the top fifth of families was 8.1 times greater than the average income of the bottom fifth of families. For the nation as a whole, the average income gap was 7.3.

The ten states with the largest income gaps were New York, Texas, Tennessee, Arizona, Florida, California, Louisiana, Kentucky, New Jersey, and North Carolina. In these states the income gap between the top and bottom fifths of families was greater than the national average. Most of these states share another characteristic: in nine of these ten states, the average income of the bottom fifth was lower than the national average.

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[8] The average of the poorest families does not include Arizona.

[9] The analysis of the changes in the incomes of the top five percent was conducted on these eleven states (and the country as a whole), as they had sufficient observations in the Current Population Survey to allow the calculation of reliable estimates of the average income of the top five percent of families in the past as well as in the most recent surveys. We were able to calculate the ratio of incomes of the top 5% to the bottom fifth for all states for the early 2000s. (See Table 2a.)

TABLE 1: DOLLAR AND PERCENT CHANGE IN AVERAGE INCOME OF BOTTOM AND TOP FIFTHS OF FAMILIES
'80-82 to '01-03 (2002 Dollars)

	Bottom Fifth				Top Fifth		
State	**Dollar Change**		**Percent Change**		**Dollar Change**		**Percent Change**
38 States Where the Income of the Top Fifth Grew Faster Than the Income of the Bottom Fifth^							
Alabama	3,043	*	26.0%		39,459	*	59.9%
Arizona	854		5.7%		44,501	*	58.1%
Arkansas	2,864	*	26.0%		36,508	*	60.9%
California	1,721	*	11.4%		42,472	*	49.9%
Colorado	2,931	*	18.3%		45,075	*	53.1%
Connecticut	2,433	*	13.1%		58,170	*	67.0%
Florida	2,460	*	19.0%		45,218	*	62.8%
Hawaii	2,504	*	14.9%		53,856	*	67.4%
Illinois	3,063	*	20.5%		41,689	*	51.1%
Indiana	4,212	*	29.3%		52,665	*	80.4%
Kansas	2,145	*	13.3%		47,399	*	65.6%
Kentucky	2,678	*	22.1%		46,454	*	70.7%
Louisiana	1,423	*	11.9%		25,654	*	33.9%
Maine	1,911	*	13.6%		38,034	*	57.8%
Maryland	5,323	*	32.9%		60,989	*	65.1%
Massachusetts	2,752	*	16.2%		62,890	*	77.1%
Michigan	3,415	*	23.5%		46,519	*	62.8%
Minnesota	7,171	*	46.5%		60,499	*	85.3%
Mississippi	2,428	*	22.0%		31,064	*	48.3%
Montana	1,502	*	11.3%		20,805	*	31.3%
Nevada	3,383	*	21.5%		33,987	*	43.3%
New Hampshire	6,382	*	38.1%		61,176	*	79.7%
New Jersey	3,995	*	24.4%		67,560	*	78.7%
New York	1,901	*	13.4%		51,205	*	64.6%
North Carolina	2,235	*	17.7%		43,283	*	64.7%
Ohio	3,186	*	21.2%		42,884	*	57.6%
Oregon	2,379	*	15.9%		39,942	*	57.2%
Pennsylvania	3,381	*	22.3%		56,098	*	76.6%
Rhode Island	4,563	*	31.8%		60,133	*	88.5%
South Carolina	2,730	*	22.3%		45,291	*	76.7%
Tennessee	2,246	*	18.6%		45,809	*	70.9%
Texas	1,446	*	10.9%		36,718	*	44.6%
Utah	4,251	*	27.7%		42,987	*	60.3%
Vermont	4,043	*	27.3%		47,191	*	72.3%
Virginia	3,434	*	23.4%		50,920	*	63.8%
Washington	1,887	*	12.6%		42,750	*	53.7%
West Virginia	1,275	*	10.7%		35,813	*	62.9%
Wisconsin	2,519	*	14.3%		36,000	*	48.2%
1 State Where the Income of the Bottom Fifth Grew Faster Than the Income of the Top Fifth#							
Alaska	4,078	*	24.8%		10,327	*	9.6%
11 States Where the Incomes of the Bottom Fifth and the Top Fifth Increased at About the Same Rate							
Delaware	4,637	*	29.7%		33,300	*	39.3%
Georgia	3,209	*	24.4%		27,155	*	35.4%
Idaho	4,446	*	33.2%		34,077	*	51.6%
Iowa	3,952	*	27.2%		27,969	*	38.7%
Missouri	4,811	*	35.2%		36,193	*	48.6%
Nebraska	5,189	*	36.9%		37,228	*	53.3%
New Mexico	1,794	*	15.0%		24,644	*	33.0%
North Dakota	3,438	*	25.7%		21,404	*	29.3%
Oklahoma	2,085	*	15.6%		19,796	*	25.4%
South Dakota	6,238	*	51.5%		32,800	*	51.4%
Wyoming	1,877	*	11.5%		18,199	*	24.1%
District of Columbia	382		3.1%		70,362	*	80.6%
Total U.S.	**2,664**	*****	**18.9%**		**45,101**	*****	**58.5%**

*Dollar changes marked with an asterisk are "statistically significant." That is, according to a commonly-used statistical test, we are 95 percent certain that the direction of the change noted (i.e. the increase in income) is correct. For example, in Arizona, we cannot say with 95 percent certainty that the $854 increase in average income of the bottom fifth reflects a true income increase. However, we can say with 95 percent certainty that the $44,501 gain in the income of the top fifth does reflect a true gain. The test is important since this income data is based on samples of the population in each state.

^ For the states in this group, the income of the top fifth grew by a larger percentage than the income of the bottom fifth and this difference was statistically significant.

For the state in this group, the income of the bottom fifth grew by a larger percentage than the income of the top fifth and this difference was statistically significant.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 1A: DOLLAR AND PERCENT CHANGE IN AVERAGE INCOME OF BOTTOM FIFTH AND TOP 5% OF FAMILIES '80-82 to '01-03 (2002 Dollars)							
	Bottom Fifth				Top 5%		
State	Dollar Change		Percent Change		Dollar Change		Percent Change
11 Large States Where the Income of the Top 5% Grew Faster Than the Income of the Bottom Fifth ^							
California	1,721	*	11.4%		87,694	*	73.3%
Florida	2,460	*	19.0%		95,555	*	91.6%
Illinois	3,063	*	20.5%		88,699	*	77.0%
Massachusetts	2,752	*	16.2%		119,517	*	105.2%
Michigan	3,415	*	23.5%		102,034	*	103.3%
New Jersey	3,995	*	24.4%		152,949	*	131.9%
New York	1,901	*	13.4%		104,927	*	94.4%
North Carolina	2,235	*	17.7%		85,089	*	86.7%
Ohio	3,186	*	21.2%		91,608	*	88.5%
Pennsylvania	3,381	*	22.3%		123,590	*	124.1%
Texas	1,446	*	10.9%		80,448	*	65.6%
Total U.S.	**2,664**	*	**18.9%**		**92,512**	*	**84.7%**

*Dollar changes marked with an asterisk are "statistically significant." The direction of the change is known with 95 percent certainty. See the footnote in Table 1 for details.

^ For the states in this group, the income of the top 5% grew by a larger percentage than the income of the bottom fifth and this difference was statistically significant.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

The ten states with the smallest income gaps were Utah, Minnesota, Alaska, North Dakota, Idaho, Nebraska, Wisconsin, Iowa, South Dakota, and Wyoming. In all of these states, the average income of the bottom fifth of families was greater than the national average.

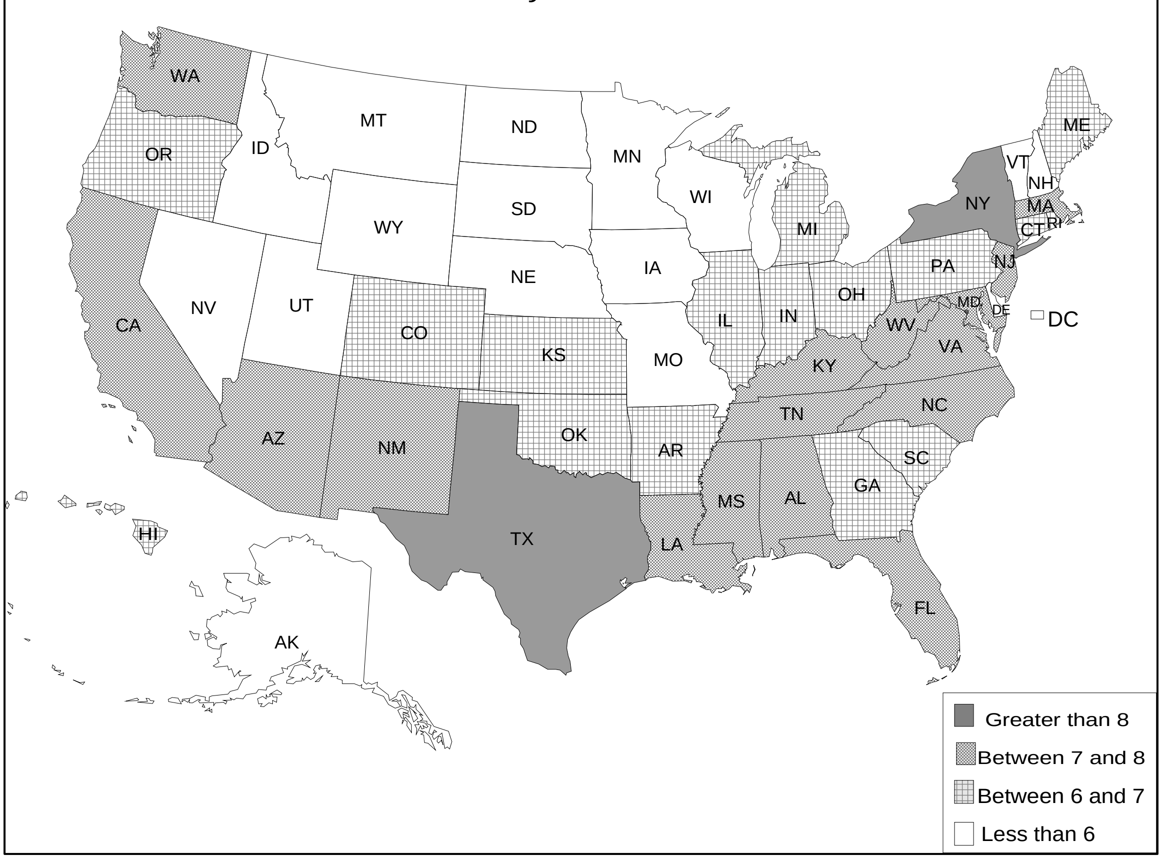
States in the Southeast and Southwest had greater income inequality, as measured by the top-to-bottom ratio (see Map 1). Income was distributed relatively more equally in the Midwest, Great Plains, and Mountain states.

Table 2A shows the ratios of the incomes of the richest five percent of families to the incomes of the bottom fifth. By the early 2000s, the average incomes of the top five percent of families were 12 times the average incomes of the bottom 20 percent. The states with the largest such gap were Arizona, Texas, New York, New Jersey, Kentucky, Tennessee, Florida, California, North Carolina, and Pennsylvania.

Table 3 compares the top-to-bottom ratios of the early 1980s and early 2000s to see how this gap has changed over time in each of the states. In 39 states, it has grown larger. That is, over the last 20 years the gap in incomes between the top and bottom fifths of families has grown significantly in 39 states. In the remaining 11 states, there has been no statistically significant change in the income gap. The rank of each state shows how the growth in inequality in that state compares to the growth in inequality in other states.

In the early 1980s, Alaska had the nation's greatest income inequality, as the income of the top fifth of families was 6.6 times larger than the income of the bottom fifth of families. By the early 2000s, more than half of the states had larger top-to-bottom ratios than 6.6, and the average gap in the nation as whole had risen to 7.3.

Map 1- Ratio of Income of Top Fifth of Families to Income of Bottom Fifth
Early 2000s



The five states with the largest increases in income inequality over the last 20 years were Arizona, New York, Massachusetts, Tennessee, and New Jersey. In the early 1980s, the richest fifth of families in Arizona had about five times the income of the poorest fifth of families. By the early 2000s, the richest fifth of Arizona families had over seven and a half times the income of the poorest fifth of families. Over the last 20 years, the incomes of the bottom fifth of Arizona families increased by only $854 (from $14,865 to $15,719), while the incomes of the richest fifth of families increased by $44,501 (from $76,635 to $121,135).

Comparing the changing income gap between the top five percent (instead of the top fifth) of families to the bottom 20 percent of families shows an even more dramatic increase (see Table 3A). Among the 11 large states analyzed, all experienced a significant increase in income inequality. In the early 1980s, none of these states had a top-five-percent-to-bottom-20-percent ratio greater than 9.2; by the early 2000s, all of them did. Even in Ohio, the state with the least unequal distribution of income of these states in the early 2000s, the average income of the top five percent of families was more than ten times the average income of the bottom 20 percent of families.

Of these 11 states, New Jersey had the largest increase in income inequality. In the early 1980s, the richest five percent of families had about seven times the income of the poorest 20 percent of families. By the early 2000s, the richest five percent had about 13 times the income of the poorest 20 percent of families — almost double the earlier income gap. Over the last two decades, the

TABLE 2: RATIO OF INCOMES OF TOP AND BOTTOM FIFTHS OF FAMILIES 2001-2003 (2002 Dollars)				
State	**Rank**	**Average income of bottom fifth of families**	**Average income of top fifth of families**	**Top-to-bottom ratio***
New York	1	16,076	130,431	8.1
Texas	2	14,724	118,971	8.1
Tennessee	3	14,303	110,429	7.7
Arizona	4	15,719	121,135	7.7
Florida	5	15,396	117,171	7.6
California	6	16,773	127,564	7.6
Louisiana	7	13,347	101,354	7.6
Kentucky	8	14,814	112,201	7.6
New Jersey	9	20,391	153,362	7.5
North Carolina	10	14,884	110,180	7.4
Massachusetts	11	19,690	144,412	7.3
Washington	12	16,911	122,304	7.2
New Mexico	13	13,748	99,254	7.2
Virginia	14	18,110	130,744	7.2
Maryland	15	21,480	154,614	7.2
Alabama	16	14,765	105,337	7.1
Mississippi	17	13,456	95,406	7.1
West Virginia	18	13,208	92,711	7.0
South Carolina	19	14,957	104,378	7.0
Pennsylvania	20	18,548	129,371	7.0
Arkansas	21	13,888	96,435	6.9
Hawaii	22	19,294	133,772	6.9
Connecticut	23	21,003	144,960	6.9
Colorado	24	18,983	130,028	6.8
Illinois	25	18,032	123,231	6.8
Rhode Island	26	18,916	128,071	6.8
Michigan	27	17,927	120,629	6.7
Kansas	28	18,284	119,639	6.5
Maine	29	15,975	103,785	6.5
Ohio	30	18,216	117,277	6.4
Indiana	31	18,590	118,140	6.4
Georgia	32	16,345	103,793	6.4
Oregon	33	17,367	109,712	6.3
Oklahoma	34	15,483	97,680	6.3
Missouri	35	18,482	110,613	6.0
Vermont	36	18,846	112,505	6.0
New Hampshire	37	23,128	137,905	6.0
Montana	38	14,788	87,230	5.9
Nevada	39	19,143	112,445	5.9
Delaware	40	20,225	118,096	5.8
Utah	41	19,594	114,238	5.8
Minnesota	42	22,608	131,460	5.8
Alaska	43	20,533	118,392	5.8
North Dakota	44	16,805	94,449	5.6
Idaho	45	17,847	100,067	5.6
Nebraska	46	19,242	107,123	5.6
Wisconsin	47	20,197	110,653	5.5
Iowa	48	18,503	100,291	5.4
South Dakota	49	18,353	96,625	5.3
Wyoming	50	18,171	93,773	5.2
District of Columbia		12,703	157,699	12.4
Total U.S.		16,778	122,152	7.3

*Rankings based on unrounded numbers.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 2A: RATIO OF INCOMES OF TOP 5 PERCENT AND BOTTOM FIFTHS OF FAMILIES 2001-2003 (2002 Dollars)				
State	Rank	Average income of bottom fifth of families	Average income of top 5 percent of families	Top-to-bottom ratio*
Arizona	1	15,719	223,081	14.2
Texas	2	14,724	203,174	13.8
New York	3	16,076	216,061	13.4
New Jersey	4	20,391	268,889	13.2
Kentucky	5	14,814	193,766	13.1
Tennessee	6	14,303	187,026	13.1
Florida	7	15,396	199,892	13.0
California	8	16,773	207,363	12.4
North Carolina	9	14,884	183,253	12.3
Pennsylvania	10	18,548	223,152	12.0
Massachusetts	11	19,690	233,108	11.8
Maryland	12	21,480	253,923	11.8
Arkansas	13	13,888	163,908	11.8
Alabama	14	14,765	172,029	11.7
Washington	15	16,911	195,170	11.5
Louisiana	16	13,347	153,334	11.5
Kansas	17	18,284	209,125	11.4
New Mexico	18	13,748	157,011	11.4
Colorado	19	18,983	215,109	11.3
Illinois	20	18,032	203,876	11.3
Michigan	21	17,927	200,814	11.2
West Virginia	22	13,208	147,434	11.2
Virginia	23	18,110	200,191	11.1
Connecticut	24	21,003	231,928	11.0
Mississippi	25	13,456	145,342	10.8
Hawaii	26	19,294	208,340	10.8
Ohio	27	18,216	195,175	10.7
Rhode Island	28	18,916	200,859	10.6
South Carolina	29	14,957	157,634	10.5
Indiana	30	18,590	195,217	10.5
Maine	31	15,975	164,232	10.3
Oregon	32	17,367	175,976	10.1
Minnesota	33	22,608	223,411	9.9
Utah	34	19,594	192,142	9.8
New Hampshire	35	23,128	226,178	9.8
Georgia	36	16,345	158,382	9.7
Oklahoma	37	15,483	150,011	9.7
Missouri	38	18,482	176,320	9.5
Nevada	39	19,143	180,521	9.4
Vermont	40	18,846	176,291	9.4
Delaware	41	20,225	188,435	9.3
Montana	42	14,788	135,164	9.1
Idaho	43	17,847	162,923	9.1
North Dakota	44	16,805	147,519	8.8
Alaska	45	20,533	180,148	8.8
Wisconsin	46	20,197	174,919	8.7
South Dakota	47	18,353	155,427	8.5
Iowa	48	18,503	155,722	8.4
Nebraska	49	19,242	160,862	8.4
Wyoming	50	18,171	145,587	8.0
District of Columbia		12,703	278,276	21.9
Total U.S.		16,778	201,707	12.0

*Rankings based on unrounded numbers.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 3: CHANGE IN RATIO OF INCOMES OF TOP AND BOTTOM FIFTHS OF FAMILIES '80-82 to '01-03					
State	**Rank**	**Top-to-bottom ratio '80-82**	**Top-to-bottom ratio '01-03**	**Change in top-to-bottom ratio+**	
Arizona	1	5.2	7.7	2.6	*
New York	2	5.6	8.1	2.5	*
Massachusetts	3	4.8	7.3	2.5	*
Tennessee	4	5.4	7.7	2.4	*
New Jersey	5	5.2	7.5	2.3	*
West Virginia	6	4.8	7.0	2.3	*
Connecticut	7	4.7	6.9	2.2	*
Hawaii	8	4.8	6.9	2.2	*
Kentucky	9	5.4	7.6	2.2	*
South Carolina	10	4.8	7.0	2.1	*
Pennsylvania	11	4.8	7.0	2.1	*
North Carolina	12	5.3	7.4	2.1	*
Kansas	13	4.5	6.5	2.1	*
Florida	14	5.6	7.6	2.0	*
Rhode Island	15	4.7	6.8	2.0	*
California	16	5.7	7.6	2.0	*
Washington	17	5.3	7.2	1.9	*
Texas	18	6.2	8.1	1.9	*
Maine	19	4.7	6.5	1.8	*
Indiana	20	4.6	6.4	1.8	*
Virginia	21	5.4	7.2	1.8	*
Oregon	22	4.7	6.3	1.7	*
Michigan	23	5.1	6.7	1.6	*
Vermont	24	4.4	6.0	1.6	*
Colorado	25	5.3	6.8	1.6	*
Alabama	26	5.6	7.1	1.5	*
Arkansas	27	5.4	6.9	1.5	*
Ohio	28	4.9	6.4	1.5	*
Maryland	29	5.8	7.2	1.4	*
Illinois	30	5.4	6.8	1.4	*
New Hampshire	31	4.6	6.0	1.4	*
Mississippi	32	5.8	7.1	1.3	*
Wisconsin	33	4.2	5.5	1.3	*
Louisiana	34	6.3	7.6	1.2	*
Minnesota	35	4.6	5.8	1.2	*
Utah	36	4.6	5.8	1.2	*
New Mexico	37	6.2	7.2	1.0	*
Montana	38	5.0	5.9	0.9	*
Nevada	39	5.0	5.9	0.9	*
Alaska	40	6.6	5.8	n/a	
Delaware	40	5.4	5.8	n/a	
Georgia	40	5.8	6.4	n/a	
Idaho	40	4.9	5.6	n/a	
Iowa	40	5.0	5.4	n/a	
Missouri	40	5.4	6.0	n/a	
Nebraska	40	5.0	5.6	n/a	
North Dakota	40	5.5	5.6	n/a	
Oklahoma	40	5.8	6.3	n/a	
South Dakota	40	5.3	5.3	n/a	
Wyoming	40	4.6	5.2	n/a	
District of Columbia		7.1	12.4	5.3	*
Total U.S.		5.5	7.3	1.8	*

*The direction of the changes in the top-to-bottom ratio marked with an asterisk are statistically significant at the 95 percent level of confidence. That is, one can say with 95 percent certainty that the increases shown in the table are true increases in income inequality. Those changes that are not statistically significant are listed as n/a.
+Change in top-to-bottom ratio may not match calculated difference due to rounding. Rankings are based on unrounded numbers.
Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 3A: CHANGE IN RATIO OF INCOMES OF TOP 5% AND BOTTOM FIFTH OF FAMILIES				
State	Top 5%-to-bottom ratio '80-82	Top 5%-to-bottom ratio '01-03	Change in top 5%-to-bottom ratio+	
California	8.0	12.4	4.4	*
Florida	8.1	13.0	4.9	*
Illinois	7.7	11.3	3.6	*
Massachusetts	6.7	11.8	5.1	*
Michigan	6.8	11.2	4.4	*
New Jersey	7.1	13.2	6.1	*
New York	7.8	13.4	5.6	*
North Carolina	7.8	12.3	4.6	*
Ohio	6.9	10.7	3.8	*
Pennsylvania	6.6	12.0	5.5	*
Texas	9.2	13.8	4.6	*
Total U.S.	7.7	12.0	4.3	*

*The direction of the changes in the top 5%-to-bottom ratio marked with an asterisk are statistically significant at the 95 percent level of confidence. That is, one can say with 95 percent certainty that the increases shown in the table are true increases in income inequality.

+Change in top 5%-to-bottom ratio may not match calculated difference due to rounding.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

incomes of the poorest fifth of families in New Jersey increased by $3,995 (from $16,397 to $20,291), while the incomes of the richest five percent more than doubled, increasing by $152,949 (from $115,939 to $268,889).

Comparing Income Trends Among High- and Middle-Income Families

The poorest families were not the only ones that did not fare as well as those at the top of the income distribution. Those in the middle class also failed to match the income growth at the top.

In every state, the average incomes of the middle and top fifths of families increased over the last 20 years (see Table 4). In 39 states, however, incomes grew significantly faster at the top. On average, the incomes of the richest families in these 39 states grew twice as fast as the incomes of the middle fifth — by some 61 percent compared to 30 percent. In many states, the growth was even more unequal. In Pennsylvania, for example, average incomes grew by 77 percent ($56,098) among the top fifth of families, compared to 31 percent ($11,344) for the middle fifth of families.

In the 11 remaining states, incomes of the middle fifth and the top fifth of families grew at about the same rate.

Changes in Income Gaps Between High- and Middle-Income Families

The top-to-middle income ratios for each state in the early 2000s are presented in Table 5. Texas had the nation's highest income gap between the top and middle fifths of families: the average income of the top fifth of families was almost three times that of the middle fifth. The other states

TABLE 4: DOLLAR AND PERCENT CHANGE IN AVERAGE INCOME OF MIDDLE AND TOP FIFTHS OF FAMILIES '80-82 to '01-03 (2002 Dollars)

	Middle Fifth				Top Fifth		
State	**Dollar Change**		**Percent Change**		**Dollar Change**		**Percent Change**
39 States Where the Income of the Top Fifth Grew Faster Than the Income of the Middle Fifth^							
Alabama	11,929	*	39.3%		39,459	*	59.9%
Arizona	8,575	*	24.2%		44,501	*	58.1%
Arkansas	8,482	*	30.2%		36,508	*	60.9%
California	9,181	*	23.6%		42,472	*	49.9%
Colorado	10,352	*	25.7%		45,075	*	53.1%
Connecticut	14,228	*	31.7%		58,170	*	67.0%
Florida	10,139	*	31.5%		45,218	*	62.8%
Hawaii	10,530	*	24.0%		53,856	*	67.4%
Idaho	8,206	*	24.9%		34,077	*	51.6%
Illinois	8,853	*	21.5%		41,689	*	51.1%
Indiana	11,987	*	34.4%		52,665	*	80.4%
Kansas	12,232	*	33.7%		47,399	*	65.6%
Kentucky	7,263	*	22.1%		46,454	*	70.7%
Louisiana	6,011	*	18.1%		25,654	*	33.9%
Maryland	17,651	*	41.3%		60,989	*	65.1%
Massachusetts	16,772	*	40.3%		62,890	*	77.1%
Michigan	10,293	*	26.3%		46,519	*	62.8%
Minnesota	18,847	*	48.9%		60,499	*	85.3%
Mississippi	8,179	*	28.2%		31,064	*	48.3%
Montana	3,008	*	8.5%		20,805	*	31.3%
Nevada	6,222	*	15.9%		33,987	*	43.3%
New Hampshire	20,113	*	52.6%		61,176	*	79.7%
New Jersey	17,784	*	42.2%		67,560	*	78.7%
New York	10,817	*	28.7%		51,205	*	64.6%
North Carolina	9,011	*	27.8%		43,283	*	64.7%
Ohio	10,305	*	27.6%		42,884	*	57.6%
Oregon	7,878	*	21.1%		39,942	*	57.2%
Pennsylvania	11,344	*	30.5%		56,098	*	76.6%
Rhode Island	16,607	*	46.2%		60,133	*	88.5%
South Carolina	13,269	*	45.1%		45,291	*	76.7%
Tennessee	10,180	*	33.1%		45,809	*	70.9%
Texas	5,315	*	14.9%		36,718	*	44.6%
Utah	12,912	*	35.8%		42,987	*	60.3%
Vermont	14,781	*	43.4%		47,191	*	72.3%
Virginia	16,628	*	44.0%		50,920	*	63.8%
Washington	9,956	*	25.7%		42,750	*	53.7%
West Virginia	5,841	*	19.3%		35,813	*	62.9%
Wisconsin	9,343	*	23.4%		36,000	*	48.2%
Wyoming	3,504	*	8.7%		18,199	*	24.1%
11 States Where the Incomes of the Middle Fifth and the Top Fifth Increased at About the Same Rate							
Alaska	8,832	*	19.6%		10,327	*	9.6%
Delaware	11,276	*	28.4%		33,300	*	39.3%
Georgia	9,149	*	26.2%		27,155	*	35.4%
Iowa	10,936	*	30.1%		27,969	*	38.7%
Maine	12,322	*	38.2%		38,034	*	57.8%
Missouri	13,470	*	38.9%		36,193	*	48.6%
Nebraska	14,509	*	41.4%		37,228	*	53.3%
New Mexico	6,009	*	19.2%		24,644	*	33.0%
North Dakota	8,731	*	25.3%		21,404	*	29.3%
Oklahoma	5,304	*	15.4%		19,796	*	25.4%
South Dakota	15,071	*	48.9%		32,800	*	51.4%
District of Columbia	9,859	*	30.8%		70,362	*	80.6%
Total U.S.	10,218	*	27.9%		45,101	*	58.5%

*Dollar changes marked with an asterisk are "statistically significant." The direction of the change is known with 95 percent certainty. See the footnote in Table 1 for details.

^For the states in this group, the income of the top fifth grew by a larger percentage than the income of the middle fifth and this difference was statistically significant.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 5: RATIO OF INCOMES OF TOP AND MIDDLE FIFTHS OF FAMILIES 2001-2003 (2002 Dollars)

State	Rank	Average income of middle fifth of families	Average income of top fifth of families	Top-to-middle ratio*
Texas	1	41,015	118,971	2.9
Kentucky	2	40,105	112,201	2.8
Florida	3	42,277	117,171	2.8
Arizona	4	43,978	121,135	2.8
Tennessee	5	40,919	110,429	2.7
New York	6	48,531	130,431	2.7
Pennsylvania	7	48,543	129,371	2.7
North Carolina	8	41,448	110,180	2.7
New Mexico	9	37,369	99,254	2.7
California	10	48,108	127,564	2.7
Arkansas	11	36,608	96,435	2.6
Louisiana	12	39,146	101,354	2.6
Colorado	13	50,595	130,028	2.6
West Virginia	14	36,090	92,711	2.6
Mississippi	15	37,162	95,406	2.6
Maryland	16	60,400	154,614	2.6
New Jersey	17	59,929	153,362	2.6
Indiana	18	46,831	118,140	2.5
Washington	19	48,706	122,304	2.5
Alabama	20	42,281	105,337	2.5
Massachusetts	21	58,383	144,412	2.5
Nevada	22	45,463	112,445	2.5
Kansas	23	48,560	119,639	2.5
Oklahoma	24	39,654	97,680	2.5
Illinois	25	50,032	123,231	2.5
Ohio	26	47,692	117,277	2.5
Hawaii	27	54,495	133,772	2.5
Connecticut	28	59,111	144,960	2.5
South Carolina	29	42,682	104,378	2.4
Michigan	30	49,481	120,629	2.4
Rhode Island	31	52,538	128,071	2.4
Idaho	32	41,122	100,067	2.4
Oregon	33	45,293	109,712	2.4
Virginia	34	54,412	130,744	2.4
New Hampshire	35	58,367	137,905	2.4
Georgia	36	44,014	103,793	2.4
Utah	37	48,970	114,238	2.3
Maine	38	44,575	103,785	2.3
Delaware	39	50,945	118,096	2.3
Vermont	40	48,801	112,505	2.3
Missouri	41	48,140	110,613	2.3
Minnesota	42	57,413	131,460	2.3
Montana	43	38,329	87,230	2.3
Wisconsin	44	49,327	110,653	2.2
Alaska	45	53,814	118,392	2.2
North Dakota	46	43,294	94,449	2.2
Nebraska	47	49,557	107,123	2.2
Wyoming	48	43,820	93,773	2.1
Iowa	49	47,311	100,291	2.1
South Dakota	50	45,888	96,625	2.1
District of Columbia		41,917	157,699	3.8
Total U.S.		46,875	122,152	2.6

*Rankings based on unrounded numbers.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

in the top five were Kentucky, Florida, Arizona, and Tennessee.[10] In all of these states, the average income of the middle fifth of families was below the U.S. average.

The five states with the smallest top-to-middle ratios in the early 2000s were all Midwest and Mountain states: North Dakota, Nebraska, Wyoming, Iowa, and South Dakota.

These income gaps were not always as large. Between the early 1980s and the early 2000s, the income gap between middle- and high-income families grew significantly in 39 states (see Table 6). The greatest such increase was in Kentucky, followed by Pennsylvania, West Virginia, Indiana, and Hawaii. In the early 1980s, no state had a top-to-middle ratio greater than 2.4; by the early 2000s, more than half of the states did.

Furthermore, the income gap between the top five percent and the middle 20 percent of families is even wider (see Table 6A). In the 11 states where the top five percent of families could be measured, income inequality between these two income groups increased most in Pennsylvania, followed by New Jersey.

Without Government Programs the Income Gap Would Be Even Wider

Rather than using the standard Census definition of income in this report, we have adjusted it to account for the impact of the federal tax system (including the Earned Income Tax Credit) and have included the cash value of food stamps, subsidized school lunches, and housing vouchers. Income from capital gains is also included.[11] It was particularly important to make these adjustments to the Census definition of income because of the time period we are analyzing in this report. The bursting of the stock market bubble had a large impact on high income families in the early 2000s. Changes in federal taxes affected families at both ends of the income scale. Earned income tax credit expansions boosted the incomes of low- and moderate-income working families and federal tax cuts disproportionately benefited the wealthy.

An examination of income trends using the official Census definition of income shows an even sharper divergence in income in any particular year. Table 7 shows the top-to-bottom ratio for the early 2000s using the official pre-tax Census definition of income. On average, the incomes of the top fifth of families were more than ten times greater than the incomes of the bottom fifth. That is substantially larger than the top-to-bottom ratio under the definition of income used in this report (i.e., one that includes the effect of federal taxes and near-cash government transfer programs), which was 7.3 on average.

Table 8 shows the growth in income for the poorest and richest quintiles of families between the early 1980s and the early 2000s using the official Census definition of pre-tax income. In some 38 states, the incomes of the top fifth grew faster than the incomes of the poorest fifth of families.

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[10] Arizona and Tennessee were also ranked in the top five of those states having the highest top-to-bottom income ratios in the early 2000s.
[11] These adjustments were made using Census data as well. See the methodological appendix for more details.

TABLE 6: CHANGE IN RATIO OF INCOMES OF TOP AND MIDDLE FIFTHS OF FAMILIES '80-82 to '01-03					
State	Rank	Top-to-middle ratio '80-82	Top-to-middle ratio '01-03	Change in top-to-middle ratio+	
Kentucky	1	2.0	2.8	0.8	*
Pennsylvania	2	2.0	2.7	0.7	*
West Virginia	3	1.9	2.6	0.7	*
Indiana	4	1.9	2.5	0.6	*
Hawaii	5	1.8	2.5	0.6	*
Texas	6	2.3	2.9	0.6	*
Tennessee	7	2.1	2.7	0.6	*
North Carolina	8	2.1	2.7	0.6	*
Arizona	9	2.2	2.8	0.6	*
New York	10	2.1	2.7	0.6	*
Oregon	11	1.9	2.4	0.6	*
Rhode Island	12	1.9	2.4	0.5	*
Michigan	13	1.9	2.4	0.5	*
Florida	14	2.2	2.8	0.5	*
New Jersey	15	2.0	2.6	0.5	*
Connecticut	16	1.9	2.5	0.5	*
Massachusetts	17	2.0	2.5	0.5	*
Arkansas	18	2.1	2.6	0.5	*
Illinois	19	2.0	2.5	0.5	*
Kansas	20	2.0	2.5	0.5	*
Nevada	21	2.0	2.5	0.5	*
Ohio	22	2.0	2.5	0.5	*
California	23	2.2	2.7	0.5	*
Colorado	24	2.1	2.6	0.5	*
Washington	25	2.1	2.5	0.5	*
Minnesota	26	1.8	2.3	0.4	*
South Carolina	27	2.0	2.4	0.4	*
Idaho	28	2.0	2.4	0.4	*
Montana	29	1.9	2.3	0.4	*
Vermont	30	1.9	2.3	0.4	*
Wisconsin	31	1.9	2.2	0.4	*
Maryland	32	2.2	2.6	0.4	*
New Hampshire	33	2.0	2.4	0.4	*
Utah	34	2.0	2.3	0.4	*
Mississippi	35	2.2	2.6	0.3	*
Alabama	36	2.2	2.5	0.3	*
Louisiana	37	2.3	2.6	0.3	*
Virginia	38	2.1	2.4	0.3	*
Wyoming	39	1.9	2.1	0.3	*
Alaska	40	2.4	2.2	n/a	
Delaware	40	2.1	2.3	n/a	
Georgia	40	2.2	2.4	n/a	
Iowa	40	2.0	2.1	n/a	
Maine	40	2.0	2.3	n/a	
Missouri	40	2.1	2.3	n/a	
Nebraska	40	2.0	2.2	n/a	
New Mexico	40	2.4	2.7	n/a	
North Dakota	40	2.1	2.2	n/a	
Oklahoma	40	2.3	2.5	n/a	
South Dakota	40	2.1	2.1	n/a	
District of Columbia		2.7	3.8	1.0	*
Total U.S.		2.1	2.6	0.5	*

*The direction of the changes in the top-to-middle ratio marked with an asterisk are statistically significant at the 95 percent level of confidence. That is, one can say with 95 percent certainty that the increases shown in the table are true increases in income inequality. Those changes that are not statistically significant are listed as n/a.

+Change in top-to-middle ratio may not match calculated difference due to rounding. Rankings are based on unrounded numbers.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 6A: CHANGE IN RATIO OF INCOMES OF TOP 5% AND MIDDLE FIFTH OF FAMILIES '80-82 to '01-03

State	Top 5%-to-middle ratio '80-82	Top 5%-to-middle ratio '01-03	Change in top 5%-to-middle ratio+	
California	3.1	4.3	1.2	*
Florida	3.2	4.7	1.5	*
Illinois	2.8	4.1	1.3	*
Massachusetts	2.7	4.0	1.3	*
Michigan	2.5	4.1	1.5	*
New Jersey	2.8	4.5	1.7	*
New York	2.9	4.5	1.5	*
North Carolina	3.0	4.4	1.4	*
Ohio	2.8	4.1	1.3	*
Pennsylvania	2.7	4.6	1.9	*
Texas	3.4	5.0	1.5	*
Total U.S.	3.0	4.3	1.3	*

*The direction of the changes in the top 5%-to-middle ratio marked with an asterisk are statistically significant at the 95 percent level of confidence. That is, one can say with 95 percent certainty that the increases shown in the table are true increases in income inequality.

+Change in top 5%-to-middle ratio may not match calculated difference due to rounding.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

These pre-tax data show larger income gaps than the after-tax data that are the main focus of this report. This demonstrates that while recent changes in a number of government policies have served to widen income gaps further, the overall effect of government policies – such as the progressive federal tax structure and supports for low-income families – is to reduce income gaps.

TABLE 7: (PRE-TAX) RATIO OF INCOMES OF TOP AND BOTTOM FIFTHS OF FAMILIES 2001-2003 (2002 DOLLARS, CENSUS PRE-TAX INCOME)				
State	Rank	Average income of bottom fifth of families	Average income of top fifth of families	Top-to-bottom ratio*
New York	1	14,185	178,789	12.6
Texas	2	13,337	163,170	12.2
Louisiana	3	11,526	134,662	11.7
Arizona	4	14,369	165,119	11.5
Tennessee	5	12,881	146,989	11.4
Arkansas	6	11,499	127,795	11.1
Mississippi	7	11,615	127,877	11.0
California	8	15,748	173,328	11.0
Kentucky	9	13,416	147,605	11.0
Florida	10	14,431	158,566	11.0
Alabama	11	12,762	140,056	11.0
North Carolina	12	13,478	147,125	10.9
New Mexico	13	12,070	129,159	10.7
New Jersey	14	20,259	214,853	10.6
Massachusetts	15	18,993	199,341	10.5
Washington	16	15,816	163,309	10.3
South Carolina	17	13,316	136,705	10.3
West Virginia	18	11,572	118,616	10.2
Hawaii	19	18,142	184,091	10.1
Maryland	20	22,026	218,674	9.9
Pennsylvania	21	17,870	175,018	9.8
Illinois	22	17,000	165,640	9.7
Michigan	23	17,026	164,039	9.6
Virginia	24	18,127	174,159	9.6
Colorado	25	18,355	176,189	9.6
Connecticut	26	20,558	197,012	9.6
Rhode Island	27	17,972	171,069	9.5
Maine	28	14,665	135,525	9.2
Georgia	29	15,087	137,905	9.1
Ohio	30	17,407	158,574	9.1
Kansas	31	17,757	161,583	9.1
Oklahoma	32	14,241	127,824	9.0
Oregon	33	16,315	146,013	8.9
Indiana	34	18,029	158,533	8.8
Montana	35	13,182	115,469	8.8
Missouri	36	17,641	148,523	8.4
Nevada	37	18,428	153,355	8.3
Vermont	38	18,020	148,738	8.3
New Hampshire	39	23,338	191,487	8.2
Alaska	40	19,593	158,955	8.1
Utah	41	19,193	154,932	8.1
Minnesota	42	22,547	181,674	8.1
North Dakota	43	15,534	125,087	8.1
Delaware	44	20,036	159,935	8.0
Idaho	45	16,698	132,281	7.9
Nebraska	46	18,425	142,788	7.7
Wisconsin	47	19,423	149,529	7.7
Iowa	48	18,076	136,163	7.5
South Dakota	49	17,601	129,369	7.4
Wyoming	50	17,692	126,070	7.1
District of Columbia		9,481	215,503	22.7
Total U.S.		15,702	165,269	10.5

*Rankings based on unrounded numbers.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 8: (PRE-TAX) DOLLAR AND PERCENT CHANGE IN AVERAGE INCOME OF BOTTOM AND TOP FIFTHS OF FAMILIES '80-82 TO '01-03 (2002 DOLLARS, CENSUS PRE-TAX INCOME)

	Bottom Fifth				Top Fifth		
State	Dollar Change		Percent Change		Dollar Change		Percent Change
38 States Where the Income of the Top Fifth Grew Faster Than the Income Of the Bottom Fifth^							
Alabama	2,824	*	28.4%		51,148	*	57.5%
Arizona	(577)		-3.9%		57,645	*	53.6%
Arkansas	2,046	*	21.6%		46,655	*	57.5%
California	919	*	6.2%		53,559	*	44.7%
Colorado	1,632	*	9.8%		58,231	*	49.4%
Connecticut	1,506		7.9%		73,190	*	59.1%
Florida	2,139	*	17.4%		59,809	*	60.6%
Hawaii	2,163	*	13.5%		72,408	*	64.8%
Illinois	2,455	*	16.9%		50,809	*	44.2%
Indiana	3,746	*	26.2%		68,799	*	76.7%
Kansas	1,356	*	8.3%		61,642	*	61.7%
Kentucky	2,287	*	20.6%		57,434	*	63.7%
Maine	1,113		8.2%		47,188	*	53.4%
Maryland	5,723	*	35.1%		87,295	*	66.4%
Massachusetts	2,141	*	12.7%		86,575	*	76.8%
Michigan	3,109	*	22.3%		61,268	*	59.6%
Minnesota	6,789	*	43.1%		82,591	*	83.4%
Mississippi	2,281	*	24.4%		38,712	*	43.4%
Montana	(278)		-2.1%		22,881	*	24.7%
Nevada	1,959	*	11.9%		42,236	*	38.0%
New Hampshire	6,089	*	35.3%		84,874	*	79.6%
New Jersey	3,792	*	23.0%		94,042	*	77.8%
New York	1,042	*	7.9%		69,591	*	63.7%
North Carolina	1,713	*	14.6%		55,399	*	60.4%
Ohio	2,687	*	18.3%		54,396	*	52.2%
Oregon	1,723	*	11.8%		48,554	*	49.8%
Pennsylvania	3,079	*	20.8%		74,135	*	73.5%
Rhode Island	4,388	*	32.3%		79,147	*	86.1%
South Carolina	2,216	*	20.0%		58,112	*	73.9%
Tennessee	2,804	*	27.8%		57,760	*	64.7%
Texas	791	*	6.3%		46,962	*	40.4%
Utah	3,631	*	23.3%		57,024	*	58.2%
Vermont	3,339	*	22.7%		57,884	*	63.7%
Virginia	3,790	*	26.4%		63,579	*	57.5%
Washington	704		4.7%		54,296	*	49.8%
West Virginia	835		7.8%		42,193	*	55.2%
Wisconsin	1,439	*	8.0%		44,228	*	42.0%
Wyoming	228		1.3%		22,684	*	21.9%
12 States Where the Incomes of the Bottom Fifth and the Top Fifth Increased at About the Same Rate							
Alaska	3,010	*	18.1%		10,708		7.2%
Delaware	4,971	*	33.0%		43,311	*	37.1%
Georgia	2,867	*	23.5%		32,630	*	31.0%
Idaho	3,728	*	28.7%		41,960	*	46.5%
Iowa	3,388	*	23.1%		35,860	*	35.8%
Louisiana	1,509	*	15.1%		30,701	*	29.5%
Missouri	4,375	*	33.0%		45,110	*	43.6%
Nebraska	4,467	*	32.0%		45,068	*	46.1%
New Mexico	1,224	*	11.3%		26,955	*	26.4%
North Dakota	1,822	*	13.3%		23,154	*	22.7%
Oklahoma	778		5.8%		18,818	*	17.3%
South Dakota	6,202	*	54.4%		41,489	*	47.2%
District of Columbia	(1,275)	*	-11.9%		90,009	*	71.7%
Total U.S.	2,127	*	15.7%		58,063	*	54.2%

*Dollar changes marked with an asterisk are "statistically significant." The direction of the change is known with 95 percent certainty. See footnote in Table 1 for details.

^ For the states in this group, the income of the top fifth grew by a larger percentage than the income of the bottom fifth and this difference was statistically significant.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

IV. Recent Trends: From the Early 1990s to the Present

Income gaps continued to widen during the 1990s, but the trend towards growing income inequality moderated somewhat compared to the 1980s, as the exceptionally low unemployment rates of the late 1990s brought gains to low-wage workers and relatively broad-based wage growth.

This broad-based wage growth ended with the 2001 downturn, however. Real wages for low- and moderate-income families grew more slowly in 2002 and the first part of 2003 and then began to decline.

To a greater extent than in past recessions, the highest-income families saw declines in real income during the 2001 downturn. These declines, which reflected the impact of the drop in the stock market, were short lived. Indications are that since 2002, the incomes of the richest families have rebounded strongly.

In contrast, the downturn's impact on low-and moderate-income families has lingered for longer than is typical. In particular, unemployment has not fallen far enough to generate the pattern of income gains among low- and middle-income families that was seen in the late 1990s. In addition, recent federal tax cuts targeted primarily on wealthy families are helping widen the income gap between the wealthiest families and those with low and moderate incomes.

This chapter examines trends in state income inequality during the second half of the period covered in the last chapter: the decade between the economic trough of the early 1990s and the low point of the recession of the early 2000s. It then looks at some national-level data on income trends following the recent recession.

Comparing Income Trends Between High- and Low-Income Families

Between the early 1990s and early 2000s, the average incomes of both the bottom and top fifths of families increased in nearly every state (see Table 9). In 21 states, though, the incomes of the top fifth of families increased faster than the incomes of the bottom fifth, and in four of these 21 states, the incomes of the bottom fifth did not change significantly. For example, in Connecticut, incomes

TABLE 9: DOLLAR AND PERCENT CHANGE IN AVERAGE INCOME OF BOTTOM AND TOP FIFTHS OF FAMILIES '90-92 to '01-03 (2002 Dollars)

	Bottom Fifth			Top Fifth		
State	Dollar Change		Percent Change	Dollar Change		Percent Change
21 States Where the Income of the Top Fifth Grew Faster Than the Income of the Bottom Fifth^						
Connecticut	(22)		-0.1%	35,093	*	31.9%
Florida	1,619	*	11.8%	27,851	*	31.2%
Hawaii	243		1.3%	18,809	*	16.4%
Indiana	4,484	*	31.8%	38,431	*	48.2%
Iowa	1,914	*	11.5%	23,246	*	30.2%
Kansas	2,527	*	16.0%	31,422	*	35.6%
Kentucky	3,209	*	27.7%	34,564	*	44.5%
Maine	1,087		7.3%	23,624	*	29.5%
Massachusetts	2,353	*	13.6%	27,932	*	24.0%
New Jersey	2,066	*	11.3%	32,891	*	27.3%
New York	1,501	*	10.3%	25,163	*	23.9%
North Carolina	1,170	*	8.5%	26,702	*	32.0%
Ohio	2,952	*	19.3%	27,906	*	31.2%
Pennsylvania	2,370	*	14.7%	35,388	*	37.7%
South Carolina	1,696	*	12.8%	24,188	*	30.2%
Tennessee	1,211	*	9.3%	33,496	*	43.5%
Texas	1,386	*	10.4%	27,637	*	30.3%
Utah	2,085	*	11.9%	34,343	*	43.0%
Vermont	2,742	*	17.0%	30,258	*	36.8%
Washington	(102)		-0.6%	23,465	*	23.7%
West Virginia	1,195	*	9.9%	23,166	*	33.3%
1 State Where the Income of the Bottom Fifth Grew Faster Than the Income of the Top Fifth#						
Georgia	3,618	*	28.4%	9,566		10.2%
28 States Where the Incomes of the Bottom Fifth and the Top Fifth Increased at About the Same Rate						
Alabama	2,602	*	21.4%	27,993	*	36.2%
Alaska	2,725	*	15.3%	11,086	*	10.3%
Arizona	2,268	*	16.9%	24,792	*	25.7%
Arkansas	1,664	*	13.6%	19,871	*	26.0%
California	2,290	*	15.8%	19,350	*	17.9%
Colorado	3,532	*	22.9%	31,910	*	32.5%
Delaware	2,574	*	14.6%	22,487	*	23.5%
Idaho	2,989	*	20.1%	25,431	*	34.1%
Illinois	3,052	*	20.4%	20,829	*	20.3%
Louisiana	2,614	*	24.4%	8,052		8.6%
Maryland	4,114	*	23.7%	43,323	*	38.9%
Michigan	3,486	*	24.1%	24,238	*	25.1%
Minnesota	6,492	*	40.3%	36,081	*	37.8%
Mississippi	2,627	*	24.3%	26,593	*	38.6%
Missouri	4,769	*	34.8%	21,317	*	23.9%
Montana	1,059		7.7%	13,334	*	18.0%
Nebraska	2,341	*	13.9%	26,214	*	32.4%
Nevada	4,237	*	28.4%	19,130	*	20.5%
New Hampshire	4,794	*	26.2%	39,122	*	39.6%
New Mexico	2,124	*	18.3%	13,792	*	16.1%
North Dakota	2,068	*	14.0%	14,221	*	17.7%
Oklahoma	2,563	*	19.8%	17,233	*	21.4%
Oregon	1,306		8.1%	20,895	*	23.5%
Rhode Island	2,053	*	12.2%	29,253	*	29.6%
South Dakota	3,056	*	20.0%	24,235	*	33.5%
Virginia	1,941	*	12.0%	24,833	*	23.4%
Wisconsin	2,984	*	17.3%	20,182	*	22.3%
Wyoming	2,297	*	14.5%	7,048		8.1%
District of Columbia	1,166		10.1%	29,733	*	23.2%
Total U.S.	2,326	*	16.1%	25,746	*	26.7%

*Dollar changes marked with an asterisk are "statistically significant." The direction of the change is known with 95 percent certainty. See the footnote in Table 1 for details.
^For the states in this group, the income of the top fifth grew by a larger percentage than the income of the bottom fifth and this difference was statistically significant.
#For the state in this group, the income of the bottom fifth grew by a larger percentage than the income of the top fifth and this difference was statistically significant.
Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 9A: DOLLAR AND PERCENT CHANGE IN AVERAGE INCOME OF BOTTOM FIFTH AND TOP 5% OF FAMILIES '90-92 TO '01-03 (2002 DOLLARS)							
	Bottom Fifth				**Top 5%**		
State	**Dollar Change**		**Percent Change**		**Dollar Change**		**Percent Change**
8 Large States Where the Income of the Top 5% Grew Faster Than the Income of the Bottom Fifth^							
Florida	1,619	*	11.8%		60,443	*	43.3%
Massachusetts	2,353	*	13.6%		50,710	*	27.8%
New Jersey	2,066	*	11.3%		81,496	*	43.5%
New York	1,501	*	10.3%		56,178	*	35.1%
North Carolina	1,170	*	8.5%		59,628	*	48.2%
Ohio	2,952	*	19.3%		57,003	*	41.3%
Pennsylvania	2,370	*	14.7%		78,732	*	54.5%
Texas	1,386	*	10.4%		61,586	*	43.5%
3 Large States Where the Incomes of the Bottom Fifth and Top 5% Increased at About the Same Rate							
California	2,290	*	15.8%		34,856	*	20.2%
Illinois	3,052	*	20.4%		40,357	*	24.7%
Michigan	3,486	*	24.1%		57,842	*	40.5%
Total U.S.	2,326	*	16.1%		52,539	*	35.2%

*Dollar changes marked with an asterisk are "statistically significant." The direction of the change is known with 95 percent certainty. See the footnote in Table 1 for details.

^ For the states in this group, the income of the top 5% grew by a larger percentage than the income of the bottom fifth and this difference was statistically significant.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

did not change significantly among the bottom fifth but grew by about 32 percent ($35,093) among the top fifth.

In 28 other states, incomes generally grew at about the same rate for both the poorest and richest fifths of families. In only one state — Georgia — did incomes grow more quickly among the bottom fifth than among the top fifth. In Georgia, the poorest fifth increased their incomes by 28 percent during this period, while the richest fifth saw no changes in their real incomes.

The incomes of the very richest families — the top five percent — grew considerably faster than the incomes of the poorest 20 percent of families in eight of the 11 states where there is sufficient data to make the comparison (see Table 9a). In these eight states, incomes grew two to four times more quickly among the richest families than among the poorest families. The largest increase in inequality between the top five percent and the bottom 20 percent occurred in North Carolina: the bottom fifth of families saw an increase in incomes of 8.5 percent ($1,170), while the top five percent of families saw an increase of 48.2 percent ($59,628).

Changes in Income Gaps Between High- and Low-Income Families

As discussed above, examining income gaps — the average income of the top fifth of families divided by the average income of the bottom fifth of families — can demonstrate changes in income inequality over time.

During the 1990s, the gap between the richest and poorest fifths of families grew significantly wider in almost half of the states (see Table10). Tennessee's top-to-bottom ratio grew the most: in the early 1990s, the income of the richest fifth of Tennessee families was 5.9 times the income of the poorest fifth, but by the early 2000s, that ratio had grown to 7.7.

There are no clear regional patterns in the changes in income inequality during the 1990s, although states on the east and west coasts were more likely to face increased inequality. The states in which income gaps grew the most were Tennessee, Connecticut, Washington, North Carolina, and Utah.

The income gap between the top five percent of families and the poorest 20 percent of families grew in eight of the 11 states where this comparison was possible; in the remaining three states, this gap remained about the same (see Table 10A). The increase was most dramatic in North Carolina, the state that had the smallest income gap of the 11 large states in the early 1990s. At that time, the income of the top five percent of North Carolina families was nine times greater than the income of the bottom 20 percent of families. Ten years later, this ratio had increased to 12.3.

Also, in the early 1990s, only one of the 11 large states, California, had a top-five-percent-to-bottom-20-percent ratio of more than 11. By the early 2000s, 10 of the 11 large states did.

Comparing Income Trends Among High- and Middle-Income Families

Between the early 1990s and the early 2000s, income inequality grew not only between low- and high-income families but also between middle-income and high-income families. In 19 states, the incomes of the top fifth of families grew faster than the incomes of the middle fifth (see Table 11). In Kentucky, for example, middle-income families saw their average income increase by 16 percent ($5,553) over this period, while families in the top fifth saw their income rise by more than 44 percent ($34,564). In the other 31 states, the incomes of the middle and top fifths of families increased at about the same rate.

Many middle-income families saw significant income gains during the 1990s. In 16 states, the average incomes of families in the middle fifth increased by more than 20 percent. However, the average incomes of high-income families increased by more than 20 percent in even more states — 41 of them.

Changes in Income Gaps Between High- and Middle-Income Families

The ratio of the average incomes of the top fifth of families to the average incomes of the middle fifth of families grew significantly in 21 states during the 1990s (see Table 12). Kentucky saw the largest increase in income inequality, followed by Pennsylvania, North Carolina, Indiana, and Tennessee. In the 29 remaining states there was no statistically significant change in income inequality.

TABLE 10: CHANGE IN RATIO OF INCOMES OF TOP AND BOTTOM FIFTHS OF FAMILIES '90-92 TO '01-03					
State	**Rank**	**Top-to-bottom ratio '90-92**	**Top-to-bottom ratio '01-03**	**Change in top-to-bottom ratio+**	
Tennessee	1	5.9	7.7	1.8	*
Connecticut	2	5.2	6.9	1.7	*
Washington	3	5.8	7.2	1.4	*
North Carolina	4	6.1	7.4	1.3	*
Utah	5	4.6	5.8	1.3	*
Texas	6	6.8	8.1	1.2	*
West Virginia	7	5.8	7.0	1.2	*
Pennsylvania	8	5.8	7.0	1.2	*
Florida	9	6.5	7.6	1.1	*
Maine	10	5.4	6.5	1.1	*
New Jersey	11	6.6	7.5	0.9	*
Kansas	12	5.6	6.5	0.9	*
South Carolina	13	6.0	7.0	0.9	*
Rhode Island	14	5.9	6.8	0.9	*
Hawaii	15	6.0	6.9	0.9	*
New York	16	7.2	8.1	0.9	*
Kentucky	17	6.7	7.6	0.9	*
Vermont	18	5.1	6.0	0.9	*
Oregon	19	5.5	6.3	0.8	*
Iowa	20	4.6	5.4	0.8	*
Indiana	21	5.7	6.4	0.7	*
Massachusetts	22	6.7	7.3	0.6	*
Ohio	23	5.9	6.4	0.6	*
Alabama	24	6.4	7.1	n/a	
Alaska	24	6.0	5.8	n/a	
Arizona	24	7.2	7.7	n/a	
Arkansas	24	6.3	6.9	n/a	
California	24	7.5	7.6	n/a	
Colorado	24	6.4	6.8	n/a	
Delaware	24	5.4	5.8	n/a	
Georgia	24	7.4	6.4	n/a	
Idaho	24	5.0	5.6	n/a	
Illinois	24	6.8	6.8	n/a	
Louisiana	24	8.7	7.6	n/a	
Maryland	24	6.4	7.2	n/a	
Michigan	24	6.7	6.7	n/a	
Minnesota	24	5.9	5.8	n/a	
Mississippi	24	6.4	7.1	n/a	
Missouri	24	6.5	6.0	n/a	
Montana	24	5.4	5.9	n/a	
Nebraska	24	4.8	5.6	n/a	
Nevada	24	6.3	5.9	n/a	
New Hampshire	24	5.4	6.0	n/a	
New Mexico	24	7.4	7.2	n/a	
North Dakota	24	5.4	5.6	n/a	
Oklahoma	24	6.2	6.3	n/a	
South Dakota	24	4.7	5.3	n/a	
Virginia	24	6.6	7.2	n/a	
Wisconsin	24	5.3	5.5	n/a	
Wyoming	24	5.5	5.2	n/a	
District of Columbia		11.1	12.4	n/a	
Total U.S.		6.7	7.3	0.6	*

*The direction of the changes in the top-to-bottom ratio marked with an asterisk are statistically significant at the 95 percent level of confidence. That is, one can say with 95 percent certainty that the increases or decreases shown in the table are true increases or decreases in income inequality. Those changes that are not statistically significant are listed as n/a.
+Change in top-to-bottom ratio may not match calculated difference due to rounding. Rankings are based on unrounded numbers.
Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 10A: CHANGE IN RATIO OF INCOMES OF TOP 5% AND BOTTOM FIFTH OF FAMILIES '90-92 to '01-03				
State	**Top 5%-to-bottom ratio '90-92**	**Top 5%-to-bottom ratio '01-03**	**Change in top 5%-to-bottom ratio+**	
California	11.9	12.4	n/a	
Florida	10.1	13.0	2.9	*
Illinois	10.9	11.3	n/a	
Massachusetts	10.5	11.8	1.3	*
Michigan	9.9	11.2	n/a	
New Jersey	10.2	13.2	3.0	*
New York	11.0	13.4	2.5	*
North Carolina	9.0	12.3	3.3	*
Ohio	9.1	10.7	1.7	*
Pennsylvania	8.9	12.0	3.1	*
Texas	10.6	13.8	3.2	*
Total U.S.	10.3	12.0	1.7	*

*The direction of the changes in the top 5%-to-bottom ratio marked with an asterisk are statistically significant at the 95 percent level of confidence. That is, one can say with 95 percent certainty that the increases shown in the table are true increases in income inequality. Those changes that are not statistically significant are listed as n/a.

+Change in top 5%-to-bottom ratio may not match calculated difference due to rounding. Rankings are based on unrounded numbers.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

Income Trends Following the 2001 Downturn

In summary, the state results for the 1990s show, at best, a slowing of the growth in inequality compared to the previous decade: inequality grew in fewer states during the 1990s than during the 1980s. However, inequality did continue to grow in more than half of the states. In only one state did the income gap narrow somewhat.

By the low point of the 2001 recession, therefore, income gaps in the vast majority of states were wider than they had been two decades before. Unfortunately, indications are that even the slowing of the growth of inequality during the 1990s was temporary; widespread growth in income inequality appears to have returned as the economy recovers from the recession.

The state-level family income data analyzed in this report are not available beyond 2002 (actually, pooled data from 2001-2003, centered in 2002). However, a number of national-level wage and income series covering more recent years provide some indication of changes in inequality during the economic recovery that began in 2001. While these data do not address the recovery's impact on inequality in the states, the state patterns should be similar to the national trends shown in these data.

TABLE 11: DOLLAR AND PERCENT CHANGE IN AVERAGE INCOME OF MIDDLE AND TOP FIFTHS OF FAMILIES '90-92 TO '01-03 (2002 DOLLARS)

	Middle Fifth				Top Fifth		
State	**Dollar Change**		**Percent Change**		**Dollar Change**		**Percent Change**
19 States Where the Income of the Top Fifth Grew Faster Than the Income of the Middle Fifth^							
Connecticut	7,515	*	14.6%		35,093	*	31.9%
Florida	6,592	*	18.5%		27,851	*	31.2%
Idaho	6,361	*	18.3%		25,431	*	34.1%
Indiana	9,653	*	26.0%		38,431	*	48.2%
Kansas	8,667	*	21.7%		31,422	*	35.6%
Kentucky	5,553	*	16.1%		34,564	*	44.5%
New Hampshire	10,144	*	21.0%		39,122	*	39.6%
New Jersey	5,816	*	10.7%		32,891	*	27.3%
New York	5,729	*	13.4%		25,163	*	23.9%
North Carolina	4,434	*	12.0%		26,702	*	32.0%
Ohio	5,956	*	14.3%		27,906	*	31.2%
Pennsylvania	6,954	*	16.7%		35,388	*	37.7%
South Carolina	6,208	*	17.0%		24,188	*	30.2%
Tennessee	7,788	*	23.5%		33,496	*	43.5%
Texas	5,000	*	13.9%		27,637	*	30.3%
Utah	9,609	*	24.4%		34,343	*	43.0%
Vermont	6,895	*	16.5%		30,258	*	36.8%
Washington	4,303	*	9.7%		23,465	*	23.7%
West Virginia	4,577	*	14.5%		23,166	*	33.3%
31 States Where the Incomes of the Middle Fifth and the Top Fifth Increased at About the Same Rate							
Alabama	8,981	*	27.0%		27,993	*	36.2%
Alaska	5,915	*	12.3%		11,086	*	10.3%
Arizona	6,136	*	16.2%		24,792	*	25.7%
Arkansas	4,738	*	14.9%		19,871	*	26.0%
California	6,371	*	15.3%		19,350	*	17.9%
Colorado	8,683	*	20.7%		31,910	*	32.5%
Delaware	6,688	*	15.1%		22,487	*	23.5%
Georgia	7,669	*	21.1%		9,566		10.2%
Hawaii	3,594	*	7.1%		18,809	*	16.4%
Illinois	7,283	*	17.0%		20,829	*	20.3%
Iowa	8,984	*	23.4%		23,246	*	30.2%
Louisiana	5,363	*	15.9%		8,052		8.6%
Maine	6,967	*	18.5%		23,624	*	29.5%
Maryland	10,744	*	21.6%		43,323	*	38.9%
Massachusetts	8,448	*	16.9%		27,932	*	24.0%
Michigan	7,619	*	18.2%		24,238	*	25.1%
Minnesota	15,803	*	38.0%		36,081	*	37.8%
Mississippi	8,623	*	30.2%		26,593	*	38.6%
Missouri	9,644	*	25.1%		21,317	*	23.9%
Montana	4,072	*	11.9%		13,334	*	18.0%
Nebraska	10,454	*	26.7%		26,214	*	32.4%
Nevada	3,430	*	8.2%		19,130	*	20.5%
New Mexico	3,512	*	10.4%		13,792	*	16.1%
North Dakota	6,776	*	18.6%		14,221	*	17.7%
Oklahoma	5,780	*	17.1%		17,233	*	21.4%
Oregon	5,178	*	12.9%		20,895	*	23.5%
Rhode Island	8,645	*	19.7%		29,253	*	29.6%
South Dakota	11,037	*	31.7%		24,235	*	33.5%
Virginia	9,312	*	20.6%		24,833	*	23.4%
Wisconsin	6,126	*	14.2%		20,182	*	22.3%
Wyoming	3,219	*	7.9%		7,048		8.1%
District of Columbia	7,069	*	20.3%		29,733	*	23.2%
Total U.S.	6,588	*	16.4%		25,746	*	26.7%

*Dollar changes marked with an asterisk are "statistically significant." The direction of the change is known with 95 percent certainty. See the footnote in Table 1 for details.

^For the states in this group, the income of the top fifth grew by a larger percentage than the income of the middle fifth and this difference was statistically significant.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

TABLE 12: CHANGE IN RATIO OF INCOMES OF TOP AND MIDDLE FIFTHS OF FAMILIES '90-92 to '01-03

State	Rank	Top-to-middle ratio '90-92	Top-to-middle ratio '01-03	Change in top-to-middle ratio+	
Kentucky	1	2.2	2.8	0.6	*
Pennsylvania	2	2.3	2.7	0.4	*
North Carolina	3	2.3	2.7	0.4	*
Indiana	4	2.1	2.5	0.4	*
Tennessee	5	2.3	2.7	0.4	*
Texas	6	2.5	2.9	0.4	*
West Virginia	7	2.2	2.6	0.4	*
Vermont	8	2.0	2.3	0.3	*
New Jersey	9	2.2	2.6	0.3	*
Connecticut	10	2.1	2.5	0.3	*
Maryland	11	2.2	2.6	0.3	*
Ohio	12	2.1	2.5	0.3	*
New Hampshire	13	2.0	2.4	0.3	*
Utah	14	2.0	2.3	0.3	*
Idaho	15	2.1	2.4	0.3	*
Washington	16	2.2	2.5	0.3	*
Florida	17	2.5	2.8	0.3	*
Nevada	18	2.2	2.5	0.3	*
Kansas	19	2.2	2.5	0.3	*
South Carolina	20	2.2	2.4	0.2	*
New York	21	2.5	2.7	0.2	*
Alabama	22	2.3	2.5	n/a	
Alaska	22	2.2	2.2	n/a	
Arizona	22	2.5	2.8	n/a	
Arkansas	22	2.4	2.6	n/a	
California	22	2.6	2.7	n/a	
Colorado	22	2.3	2.6	n/a	
Delaware	22	2.2	2.3	n/a	
Georgia	22	2.6	2.4	n/a	
Hawaii	22	2.3	2.5	n/a	
Illinois	22	2.4	2.5	n/a	
Iowa	22	2.0	2.1	n/a	
Louisiana	22	2.8	2.6	n/a	
Maine	22	2.1	2.3	n/a	
Massachusetts	22	2.3	2.5	n/a	
Michigan	22	2.3	2.4	n/a	
Minnesota	22	2.3	2.3	n/a	
Mississippi	22	2.4	2.6	n/a	
Missouri	22	2.3	2.3	n/a	
Montana	22	2.2	2.3	n/a	
Nebraska	22	2.1	2.2	n/a	
New Mexico	22	2.5	2.7	n/a	
North Dakota	22	2.2	2.2	n/a	
Oklahoma	22	2.4	2.5	n/a	
Oregon	22	2.2	2.4	n/a	
Rhode Island	22	2.3	2.4	n/a	
South Dakota	22	2.1	2.1	n/a	
Virginia	22	2.3	2.4	n/a	
Wisconsin	22	2.1	2.2	n/a	
Wyoming	22	2.1	2.1	n/a	
District of Columbia		3.7	3.8	n/a	
Total U.S.		2.4	2.6	0.2	*

*The direction of the changes in the top-to-middle ratio marked with an asterisk are statistically significant at the 95 percent level of confidence. That is, one can say with 95 percent certainty that the increases or decreases shown in the table are true increases or decreases in income inequality. Those changes that are not statistically significant are listed as n/a.
+Change in top-to-middle ratio may not match calculated difference due to rounding. Rankings are based on unrounded numbers.
Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

In general, recent national-level data show growing inequality reasserting itself in the 2000s. The decade began with the bursting of stock and high-tech bubbles, both of which were quite costly to the highest-income families. In place of the capital gains that many high-income families enjoyed in the 1990s, the rapid decline in the value of stocks and bonds of 2001 brought capital losses. These losses led to a decline in the share of national income going to the richest families, and, by definition, an increase in the share of national income going to other groups. But once the stock market "correction" was complete, the set of factors responsible for growing inequality (see Chapter IV) once again became operative, and the distribution of income and wages appeared to begin widening once again.

The following table shows changes in family income, as defined by the Census Bureau, from 2000 to 2004. (Note that this income measure differs from the measure used elsewhere in this report in that it is pretax, post-cash transfer income, not adjusted for family size.) While incomes fell significantly for the top five percent of families (-3.5 percent), they fell the most for the bottom fifth of families (-8.3 percent), by intermediate amounts for quintiles two through four.

REAL CHANGES IN FAMILY INCOME, 2000-2004, CENSUS BUREAU DATA	
Bottom Fifth	-8.3%
Second Fifth	-4.6%
Middle Fifth	-2.6%
Next to Top Fifth	-1.2%
Families in 80th to 95th Percentile	-0.7%
Top 5%	-3.5%

The 2000-2004 time period included both the recession of 2001 and the recovery that began late that year. While the large capital losses associated with the stock market bubble drove inequality down in the first few years of the recovery, there is evidence that this trend began to reverse in 2003. The following table shows the most recent year of comprehensive data from the Congressional Budget Office; its income measure more closely resembles the income measure used in this report. (That is, it includes capital gains and losses, as well as the cash value of in-kind benefits, though unlike the measure used in this report, the CBO measure also includes the in-kind value of publicly provided health care.)

CHANGE IN REAL POST-TAX HOUSEHOLD INCOME, 2002-2003, COMPREHENSIVE CBO DATA	
Bottom Fifth	-1.4%
Second Fifth	0.3%
Middle Fifth	0.7%
Next to Top Fifth	1.6%
Highest Fifth	3.9%
All Quintiles	2.1%
Top 10%	5.1%
Top 5%	6.3%
Top 1%	8.2%

These comprehensive data reveal a clear pattern of income inequality, with losses at the low end and gains that increase in magnitude as income increases. In this one-year period, real incomes grew 8.2 percent for the top one percent of households.

Part of this trend toward greater inequality in the 2000s reflects the unequal growth of wages. As discussed earlier, the tight job market of the latter 1990s ensured that wage growth was broadly shared; that pattern prevailed through 2003, as shown in the table below. (Typically, wage trends respond to a slackening of the job market only after a considerable lag.) But by 2003, nominal wage growth began to slow, especially for lower-wage workers and inflation began to accelerate due largely to rising energy costs. The result was falling real wages at the low end of the wage scale, stagnant earnings at the 80th percentile, and growing earnings only at the top. Again, we see a clear pattern of inequality returning to the wage structure.[12]

REAL GROWTH OF HOURLY WAGES BY PERCENTILE, 2000-2005*					
	Wage Percentile				
Annual Growth	10th	20th	Median	80th	90th
2000-03	1.3%	0.7%	1.4%	1.3%	1.3%
2003-05	-1.7%	-0.9%	-0.7%	-0.4%	0.9%
*2005 data are through November.					

In sum, recent national data suggest that the pattern of widening income gaps has returned following a brief interruption during the downturn. The economy is clearly expanding, but wage and income growth is once again accruing largely to families at the top of the income scale.

[12] Wage percentiles are a summary measure similar to medians. For example, the 80th percentile wage is a relatively high wage. The wages of 80 percent of workers are less than the 80th percentile wage and 20 percent of workers have wages above the 80th percentile.

V. Causes and Cures: State Policy Options

Income inequality has grown over the last 20 years mainly as a result of economic trends and government policies. In particular, the growth of income inequality is primarily due to the growth in wage inequality.

A variety of factors explain the growth of wage inequality, including long periods of high unemployment, globalization, the shrinkage of manufacturing jobs and the expansion of low-wage service jobs, and immigration as well as the lower real value of the minimum wage and fewer and weaker unions. These factors have led to an erosion of wages for workers with less than a college education, who make up approximately the lowest-earning 70 percent of the workforce. More recently, even those with college educations have experienced real wage declines, in part due to the bursting of the tech bubble in high-wage industries, but also due to the downward pressure on wage growth from offshore competition.

Only in the later part of the 1990s was there a modest improvement in this picture. Persistent low unemployment, an increase in the minimum wage, and rapid productivity growth fueled real wage gains at the bottom and middle of the income scale. Yet those few years of more broadly shared growth were not sufficient to counteract the two-decade-long pattern of growing inequality. Today, inequality between low- and high-income families and between middle- and high-income families is greater than it was 20 years or ten years ago.

Government policies — both what governments have done and what they have not done — have contributed to the increase in income inequality over the past two decades in most states. For instance, deregulation and trade liberalization, the weakening of certain aspects of the social safety net, the lack of effective labor laws regulating the right to collective bargaining, and the declining real value of the minimum wage have all contributed to growing wage inequality. In addition, changes in federal, state, and local tax structures and benefit programs have, in many cases, accelerated the trend toward growing inequality emerging from the labor market.[13]

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[13] Many of the effects of changes in federal, state, and local policies are not shown in our data. The impact of state and local taxes, for example, is not reflected in the income figures. The analysis does take into account the impact of federal taxes; however, many of the tax reductions for high-income families were not fully in effect by 2003, the last year of data

Recent state policy decisions have played a role in widening the already growing gaps in the distribution of income. Supports for low-income families such as child care assistance and health insurance were cut during the recent economic downturn, tax actions in good times and bad have increased the regressivity of state tax systems. If they so choose, however, states can chart a different course. States can enact policies that improve the distribution of income, such as raising their minimum wage, widening the range of supports for low-income working families (and improving access to these supports), and reforming their unemployment insurance system. In addition, states can pursue tax policies that can, in part, offset the growing inequality of pre-tax incomes.

This chapter gives a brief overview of the factors that researchers have identified as underlying the growth in income disparities. It then examines state policies that could mitigate this trend.

Economic Trends

Increasing income inequality results initially from changes in the wages paid by private employers and from the growth of investment and capital income. Government policies also affect income inequality, both directly (by redistributing income through the tax system and through benefit programs such as welfare) and indirectly (through the rules and regulations they set for the operation of private markets, such as minimum wages, tariffs, and the rules governing the formation of unions). Demographic factors, such as the growth in the number of families headed by a single person, have also played a role.

The growing wage gap is the major factor explaining the growth in income inequality. Wages are a key factor because they constitute about three-fourths of total family income. Wages at the bottom and middle of the wage scale have been stagnant or have declined over much of the last two decades. The wages of the very highest-paid employees, however, have grown significantly. The 1996-2002 period was the only time during the last two decades that real wages grew significantly for workers at all levels, including those at the lower end of the income distribution.

Several fundamental changes in the United States economy have contributed to increasing disparities in the wages paid to low- and middle-income workers relative to highly skilled, highly paid workers. The economy's shift from manufacturing to services has led to an increase in the number of low-paying jobs and a decline in higher-paying jobs for workers with less than a college education. Between 1979 and 2003, employment in manufacturing fell 25 percent, while employment in services rose 115 percent (and employment in retail trade, a sub-sector within services, rose 46 percent). The services and retail trade industries accounted for 79 percent of net job growth between 1979 and 2000. These service sector jobs tend to be lower paid than comparable manufacturing jobs. For example, in 2002, average annual pay for an employee working the equivalent of full time in the retail trade industry was just 55 percent of that of the manufacturing industry.

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available for states at the time of this analysis. For more information on the effect of the changes in federal taxes see Larry Mishel, Jared Bernstein and Sylvia Allegretto, *The State of Working America, 2004-2005*, pp. 77-86 and William G. Gale and Peter R. Orzag, "Bush Administration Tax Policy: Distributional Effects," Urban Brookings Tax Policy Center, 2004.

Increasing international trade also plays an important role in rising wage inequality. As more goods are produced overseas and imported, the number of higher-wage manufacturing jobs available to non-college-educated workers has declined in the United States. In addition, workers in the United States may agree to wage concessions in response to employers' threats of moving production facilities to other countries.[14] Research has generally found that the growth in international trade has played an important role in the decline in relative earnings of non-college-educated workers and can explain about 15 percent to 25 percent of rising wage inequality.[15]

Labor-market policies have had a major impact on wage inequality. The real value of the minimum wage has declined considerably since its high point in the late 1960s. In fact, the value of the minimum wage dropped 30 percent between 1979 and 1989, after accounting for inflation. Despite legislated increases in the minimum wage in 1990, 1991, 1996, and 1997, the value of the minimum wage in 2005 was still 28 percent less than in 1979. The impact of this reduction in the minimum wage on wage inequality has been, by many accounts, very substantial, especially for low-wage women workers.[16]

In addition, the continued decline in the percentage of workers who are union members has contributed to increased wage inequality. Unions have historically been successful in raising wages and benefits by standardizing compensation across competing employers. Non-unionized workers typically are paid lower wages, have less job security, receive fewer benefits, and are more likely to work part time than union members. Between 1979 and 2003, the percentage of workers belonging to unions dropped from 24 percent to 13 percent. Economic analysis confirms that the decline in union participation during the 1980s contributed to the increase in earnings inequality during that decade.[17]

It has been suggested that advancements in technology have fed the growth of wage inequality. Manufacturing has become more automated, so the demand for high-skilled jobs has increased while the demand for low-skilled manufacturing jobs has declined. In addition, new technologies such as personal computers and improved communications have increased the demand for skilled workers in all industries. In theory, these changes should exacerbate wage inequality by placing a premium on highly skilled, high-wage workers over unskilled workers.

There is little direct evidence that technological change has affected wage inequality — in part because it is difficult to measure changes in technology.[18] Moreover, technological change that favors skilled over unskilled labor has been going on for many decades, even as the education and skill levels of the workforce have grown.

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[14] Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004-2005*, Cornell University Press.

[15] Report of the United States Trade Deficit Review Commission, November 2000.

[16] Mishel, Bernstein, and Allegretto, The State of Working America 2004-2005, David Lee, *"Inequality in the United States During the 1980s: Rising Dispersion or Falling Minimum Wage?"* Quarterly Journal of Economics, 1999, 114(3), 977-1023.

[17] See, for example, Richard Freeman, "Is Declining Unionization of the U.S. Good, Bad or Irrelevant?" in Unions and Economic Competitiveness. Armonk, NY: Economic Policy Institute Series, 1992; Richard Freeman, "How Much Has De-Unionization Contributed to the Rise in Male Earnings Inequality" in Sheldon Danziger and Peter Gottschalk, Uneven Tides. New York, NY: Russell Sage Foundation, 1993.

[18] Gary Burtless, "Technological Change and International Trade: How Well Do They Explain the Rise in U.S. Income Inequality?" in James A. Auerback and Richard S. Belous, eds., The Inequality Paradox: Growth of Income Disparity. Washington, DC: National Policy Association, 1998.

The issue, then, is whether the pace of technological change has accelerated in recent decades to the point where the demand for skilled workers has outpaced the supply, thereby expanding the wage gap between skilled and unskilled labor. A recent analysis found that the overall impact of technology on the wage and employment structure was no greater in the 1980s and 1990s than in earlier periods, when inequality was not growing; this suggests that technological change has played only a small role in increasing wage inequality.[19]

Finally, immigration has been identified as a potential cause of rising wage inequality. That could happen if the growing number of immigrants increases the supply of low-wage workers, thereby lowering wages at the bottom of the wage scale.

The role of immigration in wage inequality is a subject of much research and debate. A recent report by the Congressional Budget Office reviewed the research in this area and concluded, "The arrival of large numbers of immigrants with little education probably slows the growth of the wages of native-born high school dropouts, at least initially, but the ultimate impact on wages is difficult to quantify."[20]

The impact of immigration on wage inequality will likely differ depending on the region of the country. For example, a study of income inequality in California — a state with a large number of immigrants — found that immigration explains between 17 percent and 40 percent of the rise in male wage inequality in the state since the late 1960s.[21] The impact of immigration will likely be smaller in areas with fewer immigrants as they make up a smaller share of the workforce and, thus will have less influence on wage levels.

Besides wages, the other major source of income is investments that yield dividends, rent, interest, and capital gains. Since investment income primarily accrues to those at the top of the income structure, any expansion of investment income — as occurred during the 1990s — will lead to greater income inequality.

Between 1979 and 1999, income derived from capital — such as rent, dividends, interest payments, and capital gains — increased as a share of personal income from 18.7 percent to 26.9 percent. Over the same period, total labor income — wages, salaries, and fringe benefits — fell from 75.8 percent of personal income to 71.8 percent.[22] Between 2000 and 2003, the stock market decline resulted in a drop in the share of income derived from capital to 20.8 percent; however, that share remained higher than in 1979 and has begun to resume its growth with the recovery of the stock market. Indeed, the share of national income growth going to corporate profits during this recovery has been considerably higher than average.

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19 Mishel, Bernstein, and Allegretto, The State of Working America 2004-2005.

20 Congressional Budget Office, The Role of Immigrants in the U.S. Labor Market, November 2005.

21 Deborah Reed, California's Rising Income Inequality: Causes and Concerns. San Francisco, CA: Public Policy Institute of California, 1999.

22 These figures are based on an Economic Policy Institute analysis of National Income and Product Accounts (NIPA) and Internal Revenue Service (IRS) data.

Do Low-Income Families Move Quickly Up the Economic Ladder?

As this analysis shows, income inequality has increased substantially in the majority of states over the past two business cycles. In many states, the average income of the poorest fifth of families grew only modestly since the early 1980s.

Some families, however, have low incomes for only a few years and quickly move into the middle class. For example, the parents of a young child may be working part time while finishing college. The family's income might be very low for a few years, but after both parents graduate from college and obtain well paying jobs, the family's income could increase substantially.

Nevertheless, studies of income mobility show that most low-income families have low incomes for many years. Recent studies have found that in the short term, workers in the bottom fifth of the income distribution experience very little income mobility. In the early 1990s, for example, 75 percent of individuals who were in the bottom fifth in year one were still in the bottom fifth the next year.[a]

Income mobility improves somewhat when a longer period of time is analyzed. During the 1970s-1990s, about half of the individuals who started in the bottom fifth had moved up the income ladder after ten years. However, the rest of the individuals remained in the bottom fifth, and many of those who did move up the income ladder did not move far: half of them rose only to the second-lowest quintile.[b]

It should be noted that race is an important factor in determining which individuals move up the income ladder and how far: studies show that the income mobility of black families is half that of white families.[c]

Researchers have also examined whether income mobility has changed over time. Faster movement up the economic ladder could offset the problems of greater income inequality. On the other hand, if income mobility has remained about the same or declined since the 1970s, then the increases in income inequality over that time would worsen the effects of increasing inequality. In fact, recent research, including a Federal Reserve Study has shown that income mobility in the United States declined in the 1980s and the 1990s.[d]

[a]Peter Gottschalk,, "Family Income Mobility - How Much Is There, and Has It Changed?" in James A. Auerback, and Richard S. Belous, eds., *The Inequality Paradox: Growth of Income Disparity.* Washington, DC: National Policy Association, 1998.

[b]Larry Mishel, Jared Bernstein, and Sylvia Allegretto; State of Working America; 2004-2005.

[c] Tom Hertz, "Rags, Riches and Race – The Intergenerational Economic Mobility of Black and White Families in the United States", in *Unequal Choices: Family Background and Economic Success,* ed. Samuel Bowles, Herbert Gintis, and Melissa Osborn, Princeton University Press, 2005.

[d]See Daniel Aaronson and Bhashkar Mazumber, "Intergenerational Economic Mobility in the United States, 1940 to 2000," Federal Reserve Bank of Chicago, Working paper 2005-12, November 2005; and Katherine Bradbury and Jane Katz, "Are Lifetime Incomes Growing More Unequal?," Regional Review, Fourth Quarter, 2002.

Higher-income families benefit disproportionately from the increase in the importance of investment income, as this type of income makes up a larger share of their total income. Some 86 percent of all capital gains income is realized by families in the top five percent of the income distribution.[23]

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[23] Urban-Brookings Tax Policy Center, May 2005.

Demographic Trends

Another possible contributor to the growing income gap is changes in the composition of the population. The past two decades have been marked by significant demographic changes: the population has grown steadily older, the education level of family heads has increased, and the share of minorities in the population has expanded. Yet a number of analysts have found that these factors have played a minimal role in increasing income inequality. For example, Lynn Karoly of the RAND Corporation finds that changes in the age and educational make-up of the population have actually reduced inequality[24] and that the increase in the share of the population consisting of minorities has increased inequality by only a small amount.[25]

One demographic trend has had some impact on the rise in income inequality among families.[26] Over the last two decades, the percentage of households composed of single individuals increased from 22 percent to 26 percent, while the percentage of families headed by a woman increased from 14 percent to 18 percent. These trends have reduced incomes at the low end of the income scale because both single individual families and female-headed families are generally lower-income families. This report analyzes the income of families — that is, two or more related individuals — so the changes in inequality reflected here are not the result of the increase in families composed of single individuals, but to some degree they do reflect the increase in families headed by a single woman.

Another significant demographic trend, the increase in husband-wife families in which the wife works outside the home, has lessened income inequality among families. During the 1970s and 1980s, increasing numbers of women entered the workforce, in part to help stem the decline in family incomes that resulted from the fall in average male earnings. In addition, family members increased their hours of work. However, there is a point at which families can no longer increase their work effort to offset declining wages, and the United States may be approaching that limit. In the 1990s, wives' hours of work grew much more slowly than in the 1980s.[27] Between 2000 and 2003, wives' hours of work declined as a result of the weak labor market.

Future Trends in Wage Growth

While this report focuses on past rather than future events, it is relevant to examine the likely path of wage growth in the aftermath of the 2001 recession.

No one can predict with certainty where future wage growth is heading. Nevertheless, there are good reasons to be concerned that the broad-based wage growth of the late 1990s, which led to gains for low- and middle-income workers, has ended. Wages continued to grow faster than

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[24] Karoly examined changes in income inequality for subsets of the population with different education levels and different ages. If the composition of the population had shifted towards groups with higher levels of inequality, this would have accelerated the growth in income inequality. Karoly found that the net result of changes in age or education groups was a reduction in inequality. That is, if the age and educational composition of the population had been held constant at the 1975 level, inequality would have been higher in 1993 than the level actually observed.
[25] Lynn A. Karoly, "Growing Economic Disparity in the U.S.: Assessing the Problem and the Policy Options" in *The Inequality Paradox: Growth of Income Disparity,* Washington, National Policy Association, 1998.
[26] Ibid.
[27] Mishel, Bernstein and Allegretto, *The State of Working America 2004-2005.*

inflation into 2002 despite the onset of the recession in 2001, but beginning in 2003, real wages for low- and middle-income workers began to decline, and growing wage inequality has resumed.[28]

The question for the future is whether the conditions that led to shrinking inequality at the end of the 1990s can be replicated in the future. A number of important and related phenomenon occurred in the latter half of the 1990s which helped to boost the incomes of low- and moderate- income families. Economic growth sped up, and productivity and average real wages grew more quickly. This meant that the economic "pie" was growing faster. Yet this by itself does not imply that larger slices will necessarily be cut for low- and middle- income families; i.e., faster growth does not necessarily translate into higher wages. For that to happen, we needed the historically tight labor markets that also prevailed over this period. The full employment characterizing the latter 1990s meant that for the first time in decades, lower wage workers gained the ability to push for a larger share of the growth which took place over the period. In addition, government policies served to increase the wages of low-income workers. The federal minimum wage was increased in 1996 and 1997 and the earned income tax credit was expanded. But in the aftermath of the recession, we have left full employment behind and wage inequality has begun to grow again as it did over the 1980s and early 1990s.

Policies to Reduce Inequality

A significant amount of increasing income inequality results from economic forces that are largely outside the control of state policymakers. However, states can adopt policies that mitigate the effects of increasing inequality. By improving the economic well-being of the working poor and assisting in the transition from welfare to work, states can provide economic opportunity for everyone struggling to make ends meet, including workers on the lowest rung of the wage ladder, recent immigrants, and workers who are temporarily unemployed. In addition, state tax systems can be modified so that they moderate rather than exacerbate the growth in the income gap between rich families and poor and middle-income families. Several kinds of policy improvements are discussed below.

Minimum Wage

One way policymakers can help reverse or moderate the decline in wages for workers at the bottom of the pay scale is to enact a higher minimum wage. The federal minimum wage has remained at $5.15 an hour since 1997; after adjusting for inflation, it is lower than in any year between 1961 and 1984. Its purchasing power is about 28 percent below its value at the end of the1970s. In the last few years Congress has considered several bills to phase in an increase in the minimum wage, but it has not enacted any of them.

Because prospects for passage of an increase in the federal minimum wage are uncertain, increases in state minimum wages should be considered. Since 1981, a number of states have raised their minimum wages to offset the decline in the value of the federal minimum wage. As of January 2006, 17 states and the District of Columbia had minimum wages that were higher than the federal minimum wage.[29]

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[28] *State of Working America 2004-2005.*

[29] The seventeen states are Alaska at $7.15, California at $6.75, Connecticut at $7.40, Delaware at $6.15, Florida at $6.40,

A higher minimum wage could serve to reduce income inequality significantly. Each 25-cent increase in the minimum wage would boost the earnings of a full time minimum-wage worker by $520 per year.[30] Contrary to the popular stereotype, the majority of minimum-wage workers are adults, not teenagers. Minimum-wage earners contribute an average of 54 percent of their families' weekly earnings.[31]

One of the principal arguments against raising the minimum wage is the claim that it would price many workers out of the job market. Some argue that an increase in the state minimum wage would result in a loss of jobs to neighboring states with lower minimum wages. These concerns are not borne out by the research. A number of studies have found that increases in state minimum wages did not have a negative impact on employment, even relative to neighboring states with lower minimum wages.[32]

A related way to assist low-wage workers is to enact a living wage ordinance, which typically requires private contractors performing services for a city or other local government to pay their workers a minimum hourly wage that is higher than the minimum wage. These ordinances affect fewer workers than a state minimum wage because they are enacted at the local rather than state level and apply only to employers who receive public funds.

Unemployment Insurance

The incomes of many workers over the course of a year are often reduced because they experience a spell of unemployment. In states that have a high level of seasonal unemployment, such as in agriculture or tourism, intermittent unemployment can cause many workers to fall into poverty.

The unemployment insurance system, administered jointly by the federal and state governments, is designed to help workers in such situations. Unemployment insurance replaces a portion of workers' former earnings while they look for new jobs or wait to be called back to their old jobs; frequently it prevents the unemployed from falling into poverty or needing to rely on welfare. The recent recession demonstrated the critical importance of unemployment insurance as a part of the national safety net for low-wage workers.

Hawaii at $6.75, Illinois at $6.50, Maine at $6.50, Massachusetts at $6.75, Minnesota at $6.15, New Jersey at 6.15, New York at $6.75, Oregon at $7.50, Rhode Island at $6.75, Vermont at $7.25, Washington at $7.63, and Wisconsin at $5.70. An eighteenth state — Maryland — has adopted a minimum wage of $6.15 as of February 2006. The minimum wage in the District of Columbia is $7.00.

[30] For someone working 40 hours per week and 52 weeks per year at the minimum wage, a 25 cent increase would yield a gross annual wage increase of $0.25 times 2,080, or $520. After payroll taxes of 7.65 percent are deducted, the net gain is $480.

[31] These figures reflect workers affected by the 1996 increase in the minimum wage from $4.25 an hour to $5.15 an hour. They include workers with hourly wages in this range and salaried workers whose hourly wage equivalent (weekly earnings divided by number of hours worked) falls within this range. From Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America, 2004-2005.*

[32] Jared Bernstein and John Schmitt, Making Work Pay: *The Impact of the 1996-97 Minimum Wage Increase,* Economic Policy Institute, 1998; David Card, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage," *Industrial and Labor Relations Review,* October 1992; Lawrence Katz and Alan Krueger, "The Effect of the Minimum Wage on the Fast Food Industry," *Industrial and Labor Relations Review,* October 1992; David Card, "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-89," *Industrial and Labor Relations Review,* October 1992; and David Card and Alan Krueger, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economic Review,* Volume 84, Number 4, September 1994.

Unfortunately, unemployed workers are much less likely to receive unemployment insurance benefits than they were a few decades ago. At the end of the recession in 1975, three-quarters of unemployed workers were receiving unemployment insurance benefits.[33] By 2003, that number had declined to only 41 percent.[34] This decline occurred despite the fact that the share of workers who are potentially eligible for unemployment insurance coverage increased from 1975 to 2001. Since unemployment insurance benefits go disproportionately to lower-income workers, the decline in the share of workers who receive these benefits has likely had a substantial impact on income inequality.

The decline in unemployment insurance receipt partly reflects economic trends, such as the increase in low-paid, intermittent jobs (primarily in the growing service sector).[35] It also reflects changes in government policies. The federal government and a number of states have enacted changes that have made the unemployment insurance program less accessible. For example, when state unemployment insurance costs rose due to a lengthy period of high unemployment in the early 1980s, a number of states reacted by making eligibility rules more restrictive.

Another problem with the unemployment insurance system is that unemployment benefits are increasingly inadequate. In 2003, unemployment insurance benefits replaced only 47 percent of an average worker's lost earnings.

There are a number of ways in which states can expand unemployment insurance coverage among low wage workers.

- **Extend benefits to workers who have recently joined the workforce.** Unemployment insurance benefits are based in part on a person's earnings history. In most states, however, the most recent earnings used in determining those benefits are from jobs held from three to six months prior to the time a person applies for benefits.

  States could alter their unemployment insurance eligibility rules to allow a person's most recent earnings to be considered in the determination of unemployment insurance benefits. Nineteen states plus DC currently have such provisions.[36]

- **Broaden "good cause" exceptions for voluntarily leaving work.** Generally, workers who leave a job voluntarily are not eligible for unemployment benefits. Nevertheless, all states have rules that allow some workers who leave a job voluntarily with "good cause" to be eligible for benefits.[37] As welfare-reform efforts lead to an increase in the number of working single

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[33] 1975 *Green Book,* Background material and data on programs within the jurisdiction of the Committee on Ways and Means.

[34] Economic Policy Institute calculation.

[35] Compared with manufacturing, service jobs are lower-paid and much more likely to be part-time or intermittent, making it more difficult for workers to build up sufficient earnings to qualify for unemployment benefits if they lose a job. Service workers also are less likely to receive unemployment insurance because they are less likely to be in a union than are manufacturing workers. Unions typically help their members apply for unemployment compensation.

[36] These are Connecticut, the District of Columbia, Georgia, Hawaii, Illinois, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Rhode Island, Vermont, Virginia, Washington and Wisconsin.

[37] See, for example, Gary L. Siegel and L. Anthony Loman, *Child Care and AFDC Recipients in Illinois: Patterns, Problems, and Needs,* Institute of Applied Research, St. Louis, Missouri, September 1991, or Stephanie Seguino, *Living on the Edge: Women Working and Providing for Families in the Maine Economy, 1979-1993,* Margaret Chase Smith Center for Public Policy, 1995.

parents, states should consider broadening the list of reasons that qualify as "good cause" for leaving a job voluntarily to include such reasons as lack of child care or transportation problems.

- **Permit workers available only for part-time work to qualify for benefits.** One fundamental requirement for eligibility for unemployment compensation is that a person be available for work. In recognition of parents' need to balance work and child rearing, states can modify their eligibility provisions so that a person who looks only for part-time work or work on certain shifts is considered "available" for work.[38]

- **Provide extended benefits during periods of high unemployment.** In most states, unemployed workers are eligible for basic unemployment benefits for a maximum of 26 weeks. When a state's unemployment rises substantially, such as during a recession, the state may qualify under federal rules to pay "extended benefits" beyond 26 weeks to unemployed workers.

  In 1993 Congress established a new optional formula, or "trigger mechanism," under which states could qualify for the extended benefits program.[39] Adopting this alternate trigger would allow many more states to qualify for extended benefits during an economic downturn than under the standard trigger.[40]

- **Eliminate restrictions on seasonal workers.** Some states treat seasonal workers differently — and more harshly — than other workers in determining eligibility for unemployment insurance. Some 15 states either exclude the earnings a worker accrues in seasonal labor when determining eligibility or benefit levels for unemployment insurance benefits in the off-season, or otherwise restrict eligibility for unemployment insurance for seasonal workers.[41] These states could join the majority of states and eliminate these exclusions.

Income Support Programs

Changes in programs that assist low income families also have contributed to the increase in income inequality and will likely continue to exacerbate this trend in coming years.

Among these changes are those in the cash assistance programs serving needy families with children. Since enactment of the 1996 welfare-reform bill, these programs have placed an increasing emphasis on helping families find employment and on reducing the number of families receiving cash assistance. The number of families receiving cash assistance has fallen significantly — much more than the poverty rate. Nationally, the number of welfare cases dropped by more than 57 percent from its peak of 5 million in the early 1990s to 2.2 million in 2000. Studies conducted during this period showed that between half and three-quarters of former welfare recipients were employed shortly after they left the rolls.

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38 For more information, see Rebecca Smith, Rick McHugh and Andrew Sttetner; *Between a Rock and a Hard Place: Confronting the Failure of State UI Systems to Serve Women and Working Families;* July, 2003. Available at www.nelp.org/iu/initiatives/family/between.cfm

39 The federal government pays 50 percent of the cost of these extended benefits.

40 For more information, see National Employment Law Project website, www.nelp.org.

41 These states are Arkansas, Colorado, Delaware, Indiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, North Carolina, Ohio, Pennsylvania, South Dakota, West Virginia, and Wisconsin.

For many former recipients who have found jobs, however, the move from reliance on public assistance to reliance on a paycheck has not meant an escape from poverty. A report by the U.S. Department of Health and Human Services released in 2000 reviewed a number of state-level studies and found that welfare recipients who find work earn an average of $2,200 to $3,400 per quarter, or $8,800 to $13,600 per year. By comparison, the poverty line for a family of three in 2000 was $13,738; for a family of four, it was $17,603.[42]

Despite rising poverty, caseloads continued to edge down nationally between 2001 and 2004. For families who continued to receive cash assistance, the value of those benefits fell in the majority of states. In the typical state, benefits for a family of three with no other income fell by more than 18 percent between 1994 and 2003 after adjusting for inflation.

The 1996 welfare-reform bill also imposed stricter eligibility criteria for children in the Supplemental Security Income program, which provides cash assistance to elderly and disabled poor. As a result, thousands of low income disabled children were disqualified from the program. This further reduced the incomes of low income families with children.

In addition, in the early 1990s, many states eliminated or substantially cut their general assistance programs for individuals and families that do not qualify for federal assistance under SSI or TANF. This contributed to income inequality in those states as well. (As noted, this report looks only at families of two or more people, so its findings show the effect of general-assistance cuts on families but not on individuals.)

There are a host of options state policymakers can consider to strengthen their social safety nets to assist both families who leave welfare for work and low-wage workers who have never received cash assistance.[43] States can establish state earned income tax credits based on the federal Earned Income Tax Credit (EITC) to supplement the earnings of low-income, working parents. (This option is described further in the section on taxes below.) They also can establish worker stipends, or payments to parents who work but earn too little to meet their families' basic needs, and policies that allow workers to retain some assistance until their income rises to specified levels.

In addition, states can assist low-wage workers by providing key work supports. States can provide housing assistance to low-income families, enabling them to live closer to jobs. States can improve the child care system by providing child care subsidies with affordable co-payments, by improving resource and referral services, and by providing enhanced reimbursement rates to centers that provide care during non-standard hours. States can also expand health insurance among low-wage workers by providing Medicaid coverage to low income working parents.

Intensive case management and a range of supportive services can be provided to help current and former welfare recipients maintain their present employment, move into better jobs, or obtain the education and training needed for career advancement. States can help low-income families obtain work supports such as food stamps, medical coverage, and child care by explaining what

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[42] U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *A Cross-State Examination of Families Leaving Welfare: Findings from the ASPE-Funded Leavers Studies,* November 2000. (http:aspe.hhs.gov/hsp/leavers99/cross-state00/index.htm#employment).

[43] For additional information on the policy options summarized below, see Elizabeth McNichol and John Springer, *State Policies to Assist Working Poor Families,* Center on Budget and Policy Priorities, December 2004. Available at http://www.cbpp.org/12-10-04sfp.htm.

benefits these families are eligible for and helping them to apply. In addition, states can help ensure that families receiving Medicaid and food stamps do not inappropriately lose these benefits when they start to work.

The lack of coordination among the core benefit programs states administer can make it difficult for eligible families to participate in more than one program. This is especially true for low-income working families who are struggling to juggle work and family obligations. States can adopt a simpler, more streamlined structure for low-income programs, making them easier for eligible families to participate in and easier for states to administer.[44]

Tax Reform

Virtually all state tax systems collect a larger share of the incomes of poor families than of high income families. State taxes also generally collect a larger share of the incomes of middle-class families than of high-income families. This widens the after tax income gap, exacerbating the trends in income detailed in this report which include the effect of federal taxes but not state taxes.

Further, many states have made their tax systems less progressive in recent years. When states raised taxes to meet recession induced shortfalls in the early 1990s, they predominantly raised those taxes that fall most heavily on low- and moderate- income households. When a stronger economy allowed taxes to be reduced, however, much of the benefit was targeted on higher income families. As a result, state taxes appear to have become relatively more burdensome to low- and moderate-income families than they were in the late 1980s.[45] And, early indications are that states are repeating the patterns of the 1990s in the current decade.

State finances have begun to rebound after the fiscal crisis triggered by the national economic downturn of 2001. The recent spurt of growth follows several years of falling or stagnant revenues, during which states cut back on services, drew down rainy day funds, enacted temporary revenues, and used an array of fiscal gimmicks. As a result, state fiscal conditions are considerably weaker than they were before the last recession.

Yet, despite their underlying fiscal problems and the need to restore budgets to pre-recession levels, states are beginning to consider tax reductions. There are many ways that states can improve the progressivity of their tax systems at a time when they may be considering tax reductions. For example, sales taxes place a disproportionate burden on low-income families, largely because lower-income families must spend most or all of their income, while higher-income families do not pay sales taxes on portions of their incomes that are saved and invested. By increasing its reliance on income taxes relative to sales taxes, a state generally can reduce the tax burden on lower-income families.

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[44] For more information, see Sharon Parrott and Stacy Dean, *Aligning Policies and Procedures in Benefit Programs: An Overview of the Opportunities and Challenges Under Current Federal Laws and Regulations,* January 2004. Available at www.cbpp.org/1-6-04wel.pdf.

[45] Between 1994 and 2001, states lowered personal income taxes, which are the major taxes paid by upper income families, and other progressive taxes by nearly $28 billion, an amount equal to about 6.5 percent of annual state tax revenues. Those reductions far exceeded the increases in progressive taxes states enacted in the early 1990s, which total about 3.7 percent of state revenues. By contrast, the sales and excise tax reductions of the last eight years have totaled just over $1 billion or about 0.3 percent of state tax revenue — just a small fraction of the 4.1 percent of state revenues by which sales and excise taxes were increased in the early 1990s.

During both the last two recessions, states that raised taxes relied more on increases in sales and excise taxes and fees than on increases in income taxes. The regressive impact of these changes will be worsened if states turn to income tax reductions now that times are getting better. On the other hand, if a state reduces sales tax rates rather than income tax rates, after-tax income disparities generally would be reduced.

Another way to lessen the negative impact of state tax systems on the poor is to broaden the sales tax base to include more services consumed by high-income families. In addition, if states choose to cut taxes as the economy improves, they can target some of these cuts on low- and moderate-income families by making their income taxes more progressive, such as by enacting tax credits targeted to low income taxpayers or by raising personal exemptions or standard deductions.

Because most state tax systems are tied to federal definitions of income and other provisions, cuts in federal taxes often reduce state revenues. States can protect themselves against these revenue losses cuts by removing those linkages to the federal tax code.

For example, the federal tax-cut package of 2001 called for gradually eliminating the federal estate tax over ten years, with full repeal in 2010. As a part of these changes, the federal credit for state estate and inheritance tax payments was phased out more quickly, by 2005. At the time of passage of the federal bill, most state estate taxes — known as "pickup taxes" — were based on the amount of this credit. As a result, they have now been eliminated unless the state acted to retain its tax. Prior to the federal tax cuts of June 2001, states would have received approximately $7 billion in 2007 as a result of the federal credit; some $3 billion of this amount has been retained by the 17 states and the District of Columbia that have "decoupled" from the federal changes. States that have not yet decoupled can restore their estate tax and retain this progressive tax by breaking the automatic connection between the amount of the state estate tax credit in the federal law and the amount of tax an estate owes the state.

Similarly, the federal corporate tax bill passed in 2004 included a new tax deduction for corporations, known as the Qualified Production Activities Income deduction. This deduction reduces state tax collections in states that are linked to the federal corporate income tax. Many states have acted to decouple from this federal provision, and more could follow suit.[46]

State Earned Income Tax Credits

One direct way that states can use tax policies to boost the incomes of their poorest working residents is to enact a state earned income tax credit. In recent years, several states have created earned income tax credits to build on the strengths of the federal Earned Income Tax Credit. The federal EITC is a tax credit for low- and moderate- income working people that is designed to offset the sizable burden of the Social Security payroll tax on low wage workers, supplement the earnings of low- and moderate- income families, and complement efforts to help families make the transition from welfare to work.

[46] For more information see Nicholas Johnson and Elizabeth McNichol, *States Are Decoupling From The Federal "Qualified Production Activities Income" Deduction.* Available at www.cbpp.org/9-14-05sfp.htm.

Many families with working parents remain poor even when their federal EITC benefits are considered. In addition, low-income families pay a substantial share of their incomes in state and local taxes, particularly sales and excise taxes. Partly as a result of these factors, 17 states plus the District of Columbia have established their own EITCs.[47] State EITCs can boost the incomes of a state's poorest working families and reduce the gap between the state's poorest and richest residents.[48]

Better Information on the Impact of State Tax Changes

In most states, tax reductions or increases are considered without much information or debate on the impacts of the proposed changes on various income groups. Only a few states have the capacity — in either their executive budget offices or legislative fiscal offices — to analyze these impacts on a routine basis and disseminate this information in a timely manner. Even states that have such a capacity do not necessarily produce and disseminate analyses throughout the legislative session, when critical decisions are being made. Nor is it common for states to analyze the impact on various income groups of tax changes that have already been enacted. Thus, policymakers in most states do not have access to analytic information describing the impact on families at different income levels of decisions they have made or might make.

In order for state policymakers to fashion tax reforms that reduce rather than increase after tax inequality, they must have access to consistent, timely information about the distributional impact of their tax systems. Minnesota routinely produces such information, and more recently, Texas and Maine have begun to provide comprehensive information on the impact of their tax systems and proposed tax changes. This type of information can help the public participate in tax debates and help policymakers make informed decisions.[49]

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[47] Colorado, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Oregon, Rhode Island, Vermont, Virginia, and Wisconsin

[48] For more information on state earned income tax credits see "A Hand Up" available at cbpp.org.

[49] For more information see Michael Mazerov, *Developing the Capacity to Analyze the Distributional Impact of State and Local Taxes: Issues and Options for States,* Center on Budget and Policy Priorities, January, 2002.

VI. Conclusion

Over the course of the two decades since the early 1980s, few states have experienced broadly-shared growth. While overall the economy of the United States has grown over the period, most of the benefits of that growth have accrued to families at the top of the income distribution. Lower-income families and families in the middle of the income distribution have seen their incomes grow only slowly. At the same time, incomes at the top of the distribution have increased substantially, thereby widening the gap in income between high-income families and poor and middle-class families.

Even the more broadly shared growth of the late 1990s has not reversed this long-term trend. In well over half the states, families at the bottom and the middle of the income distribution have failed to keep pace with the gains made by the richest fifth of families over the past decade, and consequently, in most states, the gap between high-income families and the middle-class and the poor has widened.

The increase in income inequality has resulted from a number of factors, including both economic trends and government policy. Both federal and state policies have contributed to the increasing gap in income, and both federal and state policies can be used to help mitigate or even reverse this trend in the future.

Methodological Appendix

The March Current Population Survey

The data source for this analysis is the Bureau of the Census' March Current Population Survey (CPS) — a survey of a nationally representative sample of households conducted every year. Each March, approximately 70,000 households (earlier years had smaller samples) are asked questions about their prior year's incomes from a wide variety of sources (the income data in the 2003 March CPS refers to 2002).[50] The survey provides information on family income, which includes not only wages and salaries, but also other sources of cash income such as interest income and cash benefits, including veterans' assistance, welfare payments, and child support income.

In addition, the Census Bureau provides an extensive set of imputations of variables needed to take a more comprehensive look at income trends, including tax liabilities and credits, realized capital gains and losses, and the market value of near-cash benefits. We use these variables to construct the income measure on which we focus most closely: post-tax and transfer income. We do not, however, include the imputed cash value of publicly-provided health care benefits, like Medicare and Medicaid, because of the lack of a generally — accepted method for accounting for medical benefits or expenditures.

One problem with using these data for inequality analysis is that in earlier years—covering the first two time periods of our study — Census income data are topcoded to protect the identity of the wealthiest Americans. To a lesser degree, the incomes of families in the bottom fifth of the income distribution are also understated due to under-reporting of cash benefits such as welfare payments.

In order to take into account this top-coding and still be able to make accurate comparisons over time, we use a common method to impute the average value of the relevant variable above the top-code. Note that this method only applies to our first two time periods, because starting in 1998, Census provided the actual mean values above the topcodes for the relevant variable we use in our study. Note that only a very small share of families, typically under 1%, have income levels above the topcode.

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[50] In earlier years, sample sizes reached 65,000 (1980-81).

Prior to 1998, on the CPS public use data, individuals with income above the top-code value were coded as having that value for their income. For example, in 1981, the top-code for earnings from primary job was $75,000 (in 1981 dollars.) An individual with a salary of $100,000 was therefore coded as having earnings of $75,000 — $25,000 less than his or her true income from that job.

Over time, the top-codes have lifted to accommodate the fact that nominal and real wage growth eventually renders the old top-codes too low. For example, the top-coded value for "earnings from longest job" was increased from $50,000 in 1979 to $99,999 in 1989.[51]

For data from the early 1980s and 1990s, we impute the average value above the top-code for the key components of income using the assumption that the tails of these distributions follow a Pareto distribution.[52] We apply this technique to four key variables: earnings from longest job, interest, dividend, and rental income. Since the upper tails of empirical income distributions closely follow the general shape of the Pareto, this imputation method is commonly used for dealing with top-coded data (West, undated). The estimate uses the shape of the upper part of the distribution (in our case, the top 20 percent) to extrapolate to the part that is unobservable due to the top-codes. Intuitively, if the shape of the observable part of the distribution suggests that the tail above the top-code is particularly long, implying a few cases with very high income values, the imputation will return a high mean relative to the case where it appears that the tail above the top-code is rather short.

Polivka (1998), using an uncensored data set (i.e., without top-codes), shows that the Pareto procedure effectively replicates the mean above the top-code. For example, her analysis of the use of the technique to estimate usual weekly earnings from the earnings files of the CPS yield estimates that are generally within less than one percent of the true mean.

The imputed mean is then assigned to every case above the top-code. Ideally, we would like to make these imputations at the state level so as to capture regional variations in the values above the top codes. For example, dividend income in the early 1990s is top-coded at $99,999. It is reasonable to suspect that an individual with dividend income above this amount in New York has higher dividend income than a top-coded case in a state where dividend income is less common. However, even with the three years of pooled data there were not enough cases to reliably estimate Pareto means by state. In fact, for unearned income, we were unable to go below the national level. For earnings from longest job (the primary income source for most families) we were able to generate four different Pareto estimates for four groups of states (three groups of 13 states and one of 12), sorted by the share of top-coded cases. Thus, we calculated one Pareto mean for the 13 states with the largest share of top-coded cases, another for the states with the next largest share, etc. We would expect these values to fall monotonically and this is generally the case (actual values available from authors).

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[51] Given the growth of earnings over this period, we did not judge this change (or any others in the income-component variables) to create inconsistencies in the trend comparisons between these two time periods.

[52] The Pareto distribution is defined as c/(x^(a+1)) where c and a are positive constants which we estimate using the top 20 percent of the empirical distribution (more precisely, c is a scale parameter assumed known; a is the key parameter for estimation).

Other Relevant Data Issues

In order to have enough cases to generate reliable estimates of income by quintile by state, we pooled income data for three consecutive years. For each time period, all families are ranked by income adjusted for family size. There are various methods to make such an adjustment; we choose to mimic the CBO and divide income by the square root of family size. This method creates a so-called "equivalence scale" designed to make incomes across families of different sizes more comparable. For example, with no adjustment a family of four with $40,000 is assumed to be equally well-off as a family of two with that same income level. But with the adjustment, the smaller family is actually considered to have 41% more income than the four-person family (because (square rt(4)/square rt(2))=1.41). Using these adjusted cutoffs, we then use average income of families in each quintile to calculate the values shown in the report.

Since family size can differ by income level, we structure the analysis such that quintiles each contain the same number of persons, not the same number of families.

The income data presented in this report are adjusted for inflation to reflect 2002 dollars. The adjustment was made using the Consumer Price Index Research Series (CPI-RS). This series adjusts the historical CPI-U from 1978 to 2005 to include improvements made to the CPI over that time period. The CPI-U shows higher inflation than does the CPI-RS across the entire post-1978 time period, however the difference in the growth rates was largest prior to 1982. The use of the CPI-RS rather than the CPI-U will not affect estimates of income inequality within each time period.

APPENDIX TABLE: AVERAGE INCOMES OF FIFTHS OF FAMILIES IN '80-'82 THROUGH '01-'03, BY STATE (IN 2002 DOLLARS)

	Bottom 20%				2nd 20%		
State	**80-'82**	**90-'92**	**01-'03**		**80-'82**	**90-'92**	**01-'03**
Alabama	11,722	12,163	14,765		20,641	23,169	28,143
Alaska	16,454	17,808	20,533		31,752	32,213	37,194
Arizona	14,865	13,451	15,719		26,272	27,055	30,090
Arkansas	11,024	12,224	13,888		20,387	22,785	25,192
California	15,053	14,483	16,773		26,862	28,149	31,884
Colorado	16,052	15,451	18,983		29,717	29,356	35,204
Connecticut	18,570	21,026	21,003		33,575	38,590	40,952
Delaware	15,588	17,651	20,225		28,360	31,662	37,167
Florida	12,936	13,777	15,396		23,084	25,009	28,423
Georgia	13,136	12,727	16,345		23,760	24,608	30,638
Hawaii	16,790	19,051	19,294		32,178	35,266	37,546
Idaho	13,400	14,857	17,847		24,136	25,635	31,146
Illinois	14,969	14,981	18,032		29,702	29,793	34,576
Indiana	14,378	14,106	18,590		25,183	26,709	33,349
Iowa	14,551	16,589	18,503		27,363	29,235	34,262
Kansas	16,139	15,757	18,284		26,999	29,335	34,602
Kentucky	12,137	11,605	14,814		22,346	22,139	28,460
Louisiana	11,924	10,733	13,347		22,210	21,617	26,041
Maine	14,064	14,887	15,975		24,078	27,728	29,935
Maryland	16,157	17,366	21,480		31,125	34,737	41,221
Massachusetts	16,938	17,337	19,690		30,882	34,735	39,104
Michigan	14,512	14,441	17,927		28,393	29,550	34,551
Minnesota	15,437	16,116	22,608		28,437	30,204	41,684
Mississippi	11,029	10,829	13,456		19,760	19,329	25,308
Missouri	13,671	13,713	18,482		24,486	25,667	33,166
Montana	13,286	13,729	14,788		25,219	24,009	27,087
Nebraska	14,053	16,901	19,242		25,218	29,477	34,756
Nevada	15,760	14,905	19,143		29,107	28,877	32,444
New Hampshire	16,747	18,334	23,128		29,517	36,262	42,582
New Jersey	16,397	18,326	20,391		31,179	37,870	40,177
New Mexico	11,953	11,623	13,748		22,367	23,082	25,851
New York	14,175	14,575	16,076		26,077	28,641	32,124
North Carolina	12,650	13,714	14,884		22,890	25,428	28,255
North Dakota	13,367	14,737	16,805		25,291	27,607	32,589
Ohio	15,030	15,264	18,216		28,120	29,599	33,660
Oklahoma	13,398	12,920	15,483		24,583	24,180	29,070
Oregon	14,988	16,061	17,367		27,255	29,253	31,337
Pennsylvania	15,167	16,178	18,548		27,904	30,158	34,170
Rhode Island	14,353	16,863	18,916		26,223	31,286	35,356
South Carolina	12,227	13,261	14,957		21,339	24,983	29,581
South Dakota	12,115	15,297	18,353		22,403	25,324	33,809
Tennessee	12,057	13,091	14,303		21,408	23,247	27,911
Texas	13,278	13,338	14,724		25,079	25,008	27,822
Utah	15,343	17,510	19,594		27,333	30,168	36,564
Vermont	14,803	16,104	18,846		25,669	29,717	34,676
Virginia	14,676	16,169	18,110		26,891	31,327	37,492
Washington	15,024	17,012	16,911		28,617	32,691	33,176
West Virginia	11,933	12,013	13,208		21,870	21,585	24,684
Wisconsin	17,677	17,213	20,197		30,956	31,300	35,775
Wyoming	16,295	15,874	18,171		30,732	29,259	32,126
District of Columbia	12,321	11,538	12,703		21,541	22,701	26,659
Total U.S.	14,114	14,452	16,778		26,125	27,701	31,931

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

APPENDIX TABLE: AVERAGE INCOMES OF FIFTHS OF FAMILIES IN '80-'82 THROUGH '01-'03, BY STATE (IN 2002 DOLLARS) CONT'D							
	Middle 20%				4th 20%		
State	**80-'82**	**90-'92**	**01-'03**		**80-'82**	**90-'92**	**01-'03**
Alabama	30,353	33,300	42,281		40,276	45,059	58,865
Alaska	44,982	47,900	53,814		63,503	65,511	72,495
Arizona	35,403	37,842	43,978		47,667	51,908	60,845
Arkansas	28,125	31,869	36,608		37,328	43,833	51,471
California	38,927	41,736	48,108		52,189	59,316	69,116
Colorado	40,242	41,912	50,595		53,237	56,477	70,376
Connecticut	44,883	51,595	59,111		54,884	66,986	79,551
Delaware	39,670	44,257	50,945		53,112	59,920	68,145
Florida	32,138	35,686	42,277		42,869	49,889	60,032
Georgia	34,865	36,345	44,014		47,254	52,947	60,409
Hawaii	43,965	50,901	54,495		55,112	68,783	74,432
Idaho	32,916	34,761	41,122		39,762	44,996	54,681
Illinois	41,179	42,749	50,032		52,729	57,726	67,473
Indiana	34,844	37,178	46,831		44,460	49,608	62,449
Iowa	36,375	38,327	47,311		46,160	49,059	60,896
Kansas	36,328	39,893	48,560		46,362	53,190	64,959
Kentucky	32,842	34,553	40,105		43,893	49,275	58,192
Louisiana	33,135	33,784	39,146		46,101	47,774	56,814
Maine	32,253	37,608	44,575		41,395	50,968	59,110
Maryland	42,749	49,656	60,400		58,071	65,791	82,574
Massachusetts	41,612	49,935	58,383		53,297	66,977	77,757
Michigan	39,188	41,863	49,481		49,651	57,656	67,901
Minnesota	38,567	41,610	57,413		48,484	54,843	73,265
Mississippi	28,983	28,539	37,162		39,688	40,199	53,982
Missouri	34,669	38,496	48,140		46,232	52,258	62,863
Montana	35,322	34,257	38,329		44,861	45,969	51,901
Nebraska	35,048	39,104	49,557		45,604	50,137	62,889
Nevada	39,241	42,033	45,463		50,877	56,268	61,897
New Hampshire	38,254	48,223	58,367		47,972	60,944	75,372
New Jersey	42,145	54,113	59,929		55,731	71,859	82,370
New Mexico	31,361	33,858	37,369		45,147	47,840	52,563
New York	37,714	42,803	48,531		49,009	59,533	69,180
North Carolina	32,436	37,014	41,448		43,035	51,017	57,980
North Dakota	34,563	36,518	43,294		44,910	47,238	56,596
Ohio	37,387	41,736	47,692		48,891	54,258	65,198
Oklahoma	34,350	33,874	39,654		46,537	49,082	54,125
Oregon	37,415	40,115	45,293		47,850	52,923	60,679
Pennsylvania	37,200	41,589	48,543		47,020	55,180	66,624
Rhode Island	35,931	43,893	52,538		45,296	58,051	72,078
South Carolina	29,413	36,474	42,682		37,961	50,209	60,210
South Dakota	30,817	34,851	45,888		40,500	45,459	56,977
Tennessee	30,739	33,131	40,919		40,949	46,872	57,999
Texas	35,700	36,015	41,015		47,336	52,303	59,982
Utah	36,057	39,360	48,970		44,500	53,083	64,120
Vermont	34,020	41,907	48,801		44,033	54,787	64,828
Virginia	37,785	45,100	54,412		50,118	60,492	73,954
Washington	38,749	44,403	48,706		48,249	59,478	67,559
West Virginia	30,249	31,513	36,090		38,441	43,993	49,978
Wisconsin	39,984	43,201	49,327		49,903	54,969	65,203
Wyoming	40,316	40,601	43,820		49,756	51,613	57,386
District of Columbia	32,058	34,848	41,917		43,927	53,098	66,377
Total U.S.	36,657	40,287	46,875		48,096	55,245	65,380

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.

APPENDIX TABLE: AVERAGE INCOMES OF FIFTHS OF FAMILIES IN '80-'82 THROUGH '01-'03, BY STATE (IN 2002 DOLLARS) CONT'D

	Top 20%				Top 5%*		
State	**80-'82**	**90-'92**	**01-'03**		**80-'82**	**90-'92**	**01-'03**
Alabama	65,878	77,345	105,337		n/a	n/a	172,029
Alaska	108,065	107,306	118,392		n/a	n/a	180,148
Arizona	76,635	96,343	121,135		n/a	n/a	223,081
Arkansas	59,927	76,565	96,435		n/a	n/a	163,908
California	85,093	108,214	127,564		119,668	172,507	207,363
Colorado	84,953	98,118	130,028		n/a	n/a	215,109
Connecticut	86,789	109,867	144,960		n/a	n/a	231,928
Delaware	84,796	95,610	118,096		n/a	n/a	188,435
Florida	71,953	89,320	117,171		104,336	139,449	199,892
Georgia	76,639	94,227	103,793		n/a	n/a	158,382
Hawaii	79,915	114,963	133,772		n/a	n/a	208,340
Idaho	65,990	74,636	100,067		n/a	n/a	162,923
Illinois	81,542	102,402	123,231		115,176	163,519	203,876
Indiana	65,475	79,709	118,140		n/a	n/a	195,217
Iowa	72,322	77,044	100,291		n/a	n/a	155,722
Kansas	72,241	88,217	119,639		n/a	n/a	209,125
Kentucky	65,746	77,637	112,201		n/a	n/a	193,766
Louisiana	75,700	93,302	101,354		n/a	n/a	153,334
Maine	65,751	80,161	103,785		n/a	n/a	164,232
Maryland	93,625	111,290	154,614		n/a	n/a	253,923
Massachusetts	81,522	116,480	144,412		113,591	182,399	233,108
Michigan	74,111	96,392	120,629		98,780	142,972	200,814
Minnesota	70,961	95,379	131,460		n/a	n/a	223,411
Mississippi	64,342	68,813	95,406		n/a	n/a	145,342
Missouri	74,421	89,296	110,613		n/a	n/a	176,320
Montana	66,425	73,896	87,230		n/a	n/a	135,164
Nebraska	69,894	80,909	107,123		n/a	n/a	160,862
Nevada	78,458	93,315	112,445		n/a	n/a	180,521
New Hampshire	76,729	98,783	137,905		n/a	n/a	226,178
New Jersey	85,802	120,471	153,362		115,939	187,393	268,889
New Mexico	74,610	85,462	99,254		n/a	n/a	157,011
New York	79,227	105,268	130,431		111,134	159,883	216,061
North Carolina	66,897	83,478	110,180		98,164	123,625	183,253
North Dakota	73,045	80,228	94,449		n/a	n/a	147,519
Ohio	74,394	89,371	117,277		103,567	138,172	195,175
Oklahoma	77,883	80,447	97,680		n/a	n/a	150,011
Oregon	69,769	88,817	109,712		n/a	n/a	175,976
Pennsylvania	73,273	93,983	129,371		99,562	144,420	223,152
Rhode Island	67,937	98,818	128,071		n/a	n/a	200,859
South Carolina	59,086	80,190	104,378		n/a	n/a	157,634
South Dakota	63,826	72,391	96,625		n/a	n/a	155,427
Tennessee	64,620	76,933	110,429		n/a	n/a	187,026
Texas	82,253	91,333	118,971		122,727	141,588	203,174
Utah	71,251	79,895	114,238		n/a	n/a	192,142
Vermont	65,314	82,247	112,505		n/a	n/a	176,291
Virginia	79,824	105,911	130,744		n/a	n/a	200,191
Washington	79,554	98,839	122,304		n/a	n/a	195,170
West Virginia	56,898	69,545	92,711		n/a	n/a	147,434
Wisconsin	74,653	90,472	110,653		n/a	n/a	174,919
Wyoming	75,574	86,725	93,773		n/a	n/a	145,587
District of Columbia	87,337	127,967	157,699		n/a	n/a	278,276
Total U.S.	77,051	96,405	122,152		109,195	149,168	201,707

*n/a signifies that the state did not have sufficient observations in the Current Population Survey to allow for the calculation of reliable estimates of average family income.

Source: Economic Policy Institute/Center on Budget and Policy Priorities' analysis of data from the U.S. Census Bureau's Current Population Survey.