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Wide and Growing Income Gaps in Most States, New Report Finds

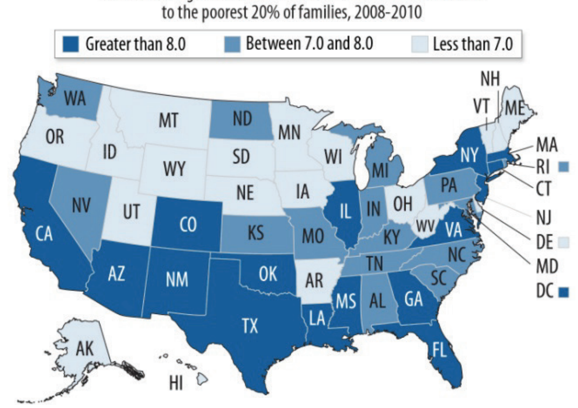
Rich Pulling Away from Low- and Middle-Income Households

The gaps between the incomes of the richest households and low- and middle-income households are wide and growing in most states, according to a major new report from the Center on Budget and Policy Priorities and the Economic Policy Institute that examines inequality at the state level.

Across all states, the average income of the richest fifth of households was eight times that of the poorest fifth as of the late 2000s. **New Mexico, Arizona, California, Georgia, New York, Louisiana, Texas, Massachusetts, Illinois, and Mississippi** face the largest gaps.

States Face Wide Income Gaps Between Rich and Poor

Ratio of average household income for richest 20% of families to the poorest 20% of families, 2008-2010



Economic Policy Institute/Center on Budget and Policy Priorities analysis of U.S. Census Bureau data.

"Prolonged growth in income inequality undermines the basic American belief that hard work should pay off," said Elizabeth McNichol, co-author of the report and senior fellow at the Center. "Anyone who contributes to the nation's economic growth should reap the benefits of that growth. But for decades now, those benefits have been skewed in favor of the wealthiest members of society."

Lost Decade for Low- and Middle-Income Households

The long-standing trend of growing income inequality continued between the late 1990s and the mid-2000s.

Incomes fell by close to 6 percent among the bottom fifth of households, on average, while rising by 8.6 percent among the top fifth, during this period. Incomes grew even faster — 14 percent — among the top 5 percent of households. For the middle fifth of households, incomes grew by just 1.2 percent.

In 45 states and the District of Columbia, gaps between the richest and the poorest households widened during this period and narrowed in none. Average incomes grew more quickly among the top fifth of households than among the bottom fifth in most states.

"For low- and middle-income families, the 2000s were a lost decade of falling incomes and economic insecurity," said Doug Hall, co-author of the report and Director of the Economic Analysis and Research Network (EARN) at the Economic Policy Institute. "That's not only harmful to these families, but it also threatens our future economic growth."

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Income Inequality on the Rise for Decades

Inequality has been growing for decades. Since the 1970s, rich households' incomes have grown much faster in *every* state than have the incomes of poor and middle-income households. In contrast, from World War II through the mid 1970s, the gains of economic growth were more evenly shared across the income scale.

The study, based on inflation-adjusted Census data, is one of the few to examine income inequality at the state level. It measured and compared income trends among the highest-, middle-, and lowest-income families in four periods — the late 1970s, the late 1990s, and the mid- and late 2000s. (If anything, the study understates inequality because it does not include income from capital gains, which go overwhelmingly to those at the top.)

Wage Inequality, Government Policies, Investment Income Contribute to Rising Inequality

Growth in wage inequality has been the biggest factor contributing to the large and growing income gaps in most states. Wages of the highest-paid employees have grown significantly. At the same time, wage growth at the bottom and middle of the wage scale has been stagnant or modest for a number of reasons, including long periods of high unemployment, more intense competition from foreign firms, a shift from manufacturing to service jobs, and a minimum wage that has not kept up with price increases. Government actions — and, in some cases, inaction — have contributed to the increase in wage and income inequality in most states.

The richest households also reaped the benefits of rising investment income in the form of dividends, rent, interest, and capital gains, which primarily accrue to those at the top.

States Can Mitigate the Harmful Growth in Inequality

The consequences of growing income inequality reach beyond individual families. For instance, in order to compete in the future economy, states and the nation as a whole need a highly-skilled workforce. But research shows that children from poor families don't perform as well in school and are likely to be less-prepared for the jobs of the future. Moreover, as income gaps widen, wealthy households become increasingly isolated from poor and middle-income communities. This hurts the nation's sense of community and shared interests, for example, undermining support for public schools and other building blocks of economic growth.

While inequality results to a significant degree from economic forces that are largely outside state policymakers' control, state policies can mitigate the effects of these outside forces. State options include:

- **Raise, and index, the minimum wage.** The purchasing power of the federal minimum wage is 13 percent lower than at the end of the 1970s, well short of the amount necessary to meet a family's needs.
- **Make state tax systems less regressive.** Nearly all state tax systems are regressive — that is, they widen income inequalities — because states rely more on sales taxes and user fees, which hit low-income households especially hard, than on progressive income taxes.
- **Strengthen supports for low-income workers.** Maintain or improve services such as child care, transportation, and health insurance that push back against growing inequality by helping low-wage workers move up the income ladder and shielding vulnerable citizens from poverty's long-term effects.
- **Strengthen, not weaken, the unemployment insurance system.** To strengthen the unemployment insurance system, states that have cut benefits should restore them and policymakers should build on recent efforts to fix outmoded rules that bar many unemployed workers from accessing benefits.

"As state policymakers plan their budgets for next year, they should pursue policies that push back against the trend of rising inequality," said McNichol. "States that narrow — rather than widen — income gaps will reap economic benefits in the long run."

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Table A: **Top Ten States For Selected Income Inequality Measures**	
Greatest Income Inequality Between the Top and the Bottom, Late-2000s	**Greatest Income Inequality Between the Top and the Middle, Late-2000s**
1. New Mexico	1. New Mexico
2. Arizona	2. California
3. California	3. Georgia
4. Georgia	4. Mississippi
5. New York	5. Arizona
6. Louisiana	6. New York
7. Texas	7. Texas
8. Massachusetts	8. Oklahoma
9. Illinois	9. Tennessee
10. Mississippi	10. Louisiana
Greatest Increases in Income Inequality Between the Top and the Bottom, Late 1990s to Mid-2000s	**Greatest Increases in Income Inequality Between the Top and the Middle, Late 1990s to Mid-2000s**
1. Mississippi	1. Mississippi
2. South Dakota	2. New Mexico
3. Connecticut	3. Illinois
4. Illinois	4. South Dakota
5. Alabama	5. Alabama
6. Indiana	6. Connecticut
7. Massachusetts	7. Missouri
8. Colorado	8. Colorado
9. Kentucky	9. Florida
10. New Mexico	10. Oregon
Greatest Increases in Income Inequality Between the Top and the Bottom, Late 1970s to Mid-2000s	**Greatest Increases in Income Inequality Between the Top and the Middle, Late 1970s to Mid-2000s**
1. Connecticut	1. Connecticut
2. Massachusetts	2. California
3. New York	3. Oklahoma
4. Kentucky	4. New York
5. Illinois	5. New Mexico
6. California	6. Illinois
7. West Virginia	7. Oregon
8. Colorado	8. Texas
9. Rhode Island	9. Massachusetts
10. Mississippi	10. Rhode Island

The full report, *Pulling Apart: A State-by-State Analysis of Income Trends*, and state-specific infographics is available at http://www.cbpp.org/cms/index.cfm?fa=view&id=3860.

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

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