
PULLING APART

*A State-by-State Analysis
of Income Trends*

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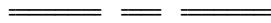
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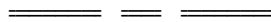


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Executive Summary

We have now reached – and passed – the peak of the economic expansion of the 1990s. Even before the recent economic downturn set in, there were troubling issues about the distribution of income growth in the last decades of the 20th century. Based on past history, we would have expected to find a decline in income inequality during the recent expansion. What we find instead is that the incomes of the country’s highest-income families climbed substantially over the past two decades, but middle- and lower-income families saw only modest increases in income.

The trend has been widespread. Income disparities between the top fifth of families and families at the bottom of the income distribution grew in all but five states over the past two decades. The gap between high-income and low-income families grew in over half the states during the 1990s and declined in only 6 states.

The gap between high-income and middle-income families also grew during the 1990s and over the last 20 years. The gap between high- and middle-income families grew in two-thirds of the states between the late 1980s and the late 1990s and declined in only one state. Since the late 1970s, this gap increased in all but 6 states.

Some progress has been made, however. The poorest families and middle-class families did benefit from economic growth, especially in the last few years of the 1990s. Exceptionally low unemployment rates brought gains to low-wage workers and fairly broad-based wage growth during the end of the 1990s. Still, high-income families gained the most in the 1990s, in part due to capital gains and other income sources such as large executive bonuses that are not fully captured by this analysis. (As the text box on the next page explains, this means that this report’s findings understate the growth in income inequality.) In addition, even the recent wage gains had only begun to offset two decades of eroding real wages and are now placed in great jeopardy by the current recession with the accompanying rise in unemployment.

Data Used in This Report

This report is based on before-tax income data for families — two or more related individuals residing together — from the Census Bureau’s March Current Population Survey public use files. All figures are expressed in 1999 dollars and have been adjusted for inflation. The report compares “pooled” data from the three most recent years for which data were available — 1998, 1999, and 2000 — to pooled data from the late 1970s and the late 1980s. The purpose of pooling these data was to increase the sample size of the data and hence their precision. Comparisons between the three time periods chosen are appropriate because they are similar points in the business cycle. (The late 1970s and late 1980s were the peaks of the previous two economic expansions and the late 1990s are the highest point of the most recent expansion for which state data are available.)

It should be noted that while the Census Bureau’s data are a widely-used and respected source of information on income and wages, they do have some shortcomings when used to measure changes in income inequality. Examination of other sources of data on changes in income show that Census data have tended to significantly underestimate the growth in income inequality, in large part because they fail to capture significant sources of income growth at the very top of the income spectrum. (For more detail, see the box on page 3 and the Methodological Appendix.) Even though the Census data understate income inequality, the level of detail provided by Census data make them the best information available on trends in income inequality in the states.

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 All States But Five Over the Last Two Decades

In 45 states, the gap between the incomes of the richest 20 percent of families and the incomes of the poorest 20 percent of families is wider than it was two decades ago.

- In five states high-income families got richer while the poor got poorer. In 39 states the incomes of high-income families grew faster than the incomes of low-income families.¹
- In all but one state — Montana — the average income of families in the top 20 percent of the income distribution grew, after adjustment for inflation, between

¹ Of the remaining six states, in four states — Arkansas, Mississippi, South Carolina and South Dakota — the incomes of the bottom fifth and the top fifth increased about the same amount; in Montana, the incomes of both the bottom fifth and the top fifth remained about the same and in the final state — Alaska — the income of low-income families grew at a faster rate than the income of high-income families.

the late 1970s and late 1990s. In 41 states, the incomes of the upper fifth of families jumped by over 30 percent over the past two decades.

- Incomes of the poorest fifth of families declined in five states — containing some 25 percent of the country's population — between the late 1970s and the late 1990s. In each of these states — Arizona, California, New York, Ohio and Wyoming — the poorest fifth of families experienced a decline in income of more than five percent. In four of these five states, all but Wyoming, the income of the richest fifth grew by more than 25 percent.

The differences in income growth since the late 1970s between high- and low- income families are seen to be even more pronounced when families in the top five percent of the income distribution are compared to the bottom fifth.

- In the eleven large states analyzed, the incomes of the top five percent of families increased by 35 percent or more between the late 1970s and the late 1990s. By contrast, in five of these eleven states the incomes of the bottom fifth of families either declined or grew very little between the late 1970s and late 1990s.²
- In the eleven large states analyzed, the increases in the average income of families in the top five percent of the income distribution ranged from \$61,000 to over \$129,000. In five states — Massachusetts, Michigan, New Jersey, New York, and Pennsylvania — the increase was larger than \$100,000. By contrast, the largest increase in average income for the bottom fifth of families in these states was only \$3,000. In New York, for example, the average income of the top five percent of families grew by \$108,000 while the average income of the bottom 20 percent dropped by \$800.

Middle-income families also lost ground. In 44 states, the gap between the average income of middle-income families and the average income of the richest 20 percent of families widened. In eight of these states, income in the middle fifth grew less than 10 percent while the top fifth grew more than 20 percent.

² 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.

Gap Between High-Income Families and the Poor and Middle-Class is Wide

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

- In the United States as a whole, the poorest 20 percent of families had an average income of \$14,620 in the late 1990s, while the average income of families in the top 20 percent of the income distribution was \$145,990, or 10 times as large. There were eleven states — New York, Louisiana, Texas, California, Massachusetts, Tennessee, Kentucky, Alabama, Arizona, North Carolina and Oregon — where the average income of the richest fifth of families was ten or more times as great as the average income of the bottom fifth of families.
- In the late 1970s, there was no state where high income families had average income that was as much as 9.5 times larger than the average income of low-income families. By the late 1990s, 16 states had "top-to-bottom" ratios of 9.5 or greater. The increase in income disparities between the top and bottom fifths of families was greatest in New York, Oregon, Massachusetts, California, Ohio, Connecticut, Kentucky, North Carolina, West Virginia and Arizona.

The gaps between the incomes of high-income families and middle-income families also were not always as large as they are in the 1990s.

- In the late 1970s, there was not a single state where the average income of families in the top quintile of the distribution was as much as 2.7 times as great as the average income of families in the middle quintile. By the late 1990s, there were 30 states where the gap was this wide.
- In the late 1990s, the gap between high-income and middle class families was the widest in seven states — Tennessee, New York, California, Texas, Louisiana, Arizona, and Oklahoma — where the average income of the richest fifth of families was at least three times as large as the average income of the middle fifth of families.

The Economic Prosperity of the 1990s Was Not Shared Equally

The long-term trend toward increasing inequality has continued over the past decade despite the economic growth of recent years. In only a handful of states was progress made toward reducing income inequality between the late 1980s and the late 1990s. This is the conclusion shown by the Census data despite the fact that it fails to capture much of the income growth at the very top of the income spectrum in the 1990s.

- In over half the states, the gap in incomes between the top 20 percent of families and the bottom 20 percent of families grew between the late 1980s and the late 1990s. In 19 states, the average income of families in the bottom fifth of the distribution did not change or fell while the incomes of those in the top fifth grew.
- By contrast, the gap in income between the top 20 percent of families and the bottom 20 percent narrowed significantly in only six states — Alaska, Georgia, Indiana, Louisiana, Mississippi, and South Carolina.

Since the late 1980s, the incomes of very high income families — the richest five percent of families — grew dramatically. In eight of the 11 large states analyzed, income inequality grew as the incomes of the richest five percent of families grew substantially faster than the incomes of the poorest fifth. In a ninth state, Massachusetts, the incomes of the poorest fifth declined while the incomes of the richest five percent grew.

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

- In two-thirds of the states, the ratio of the incomes of the top fifth of families compared to the middle fifth of families increased between the late 1980s and the late 1990s. Income disparities between the top and middle fifths of families increased most in Oregon followed by New York, Nevada, Maryland, Connecticut, Maine, Iowa, Tennessee, New Jersey, and Kentucky. By contrast, the top to middle ratio declined significantly in only one state — New Mexico.

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 declined 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 globalization, the decline of manufacturing jobs and the expansion of low-wage service jobs, immigration, and the weakening of labor market institutions — 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 — approximately the lowest-earning 75 percent of the workforce.

In the latter half of the 1990s, persistent low unemployment, an increase in the minimum wage and fast productivity growth have fueled real wage gains at the bottom. However, even the recent wage growth for low-wage workers has not been sufficient to counteract the two-decade long pattern of growing inequality; income inequality is greater today than it was 20 years ago or ten years ago.

Another factor that explains some of the increased income inequality is the increase in the number of families headed by a single person. These families generally have lower income than two-earner families, and so the increase in single-parent families can exacerbate wage erosion among low-income families.

Besides wages, the other major source of income is investment income such as dividends, rent, interest and capital gains. Since investment income primarily accrues to those at the top of the income structure, recent expansions of investment income have led to greater income inequality. (This report captures only some of the effects of these investment income trends because the income measure used in this report includes only a portion of investment earnings. It does not include income from capital gains.)

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 the social safety net, the failure to have effective labor laws regulating the right to collective bargaining, and a minimum wage that despite the latest increase (in 1997) has declined in real terms 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 rather than moderated 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. However, state government policies can serve to mitigate the effects of increasing inequality and push back against rather than worsen the trend towards increasing inequality.

States have long played a major role in the establishment of labor market policies such as rules governing the formation of unions, the design of the unemployment insurance system, and the establishment of state minimum wages, all of which affect income inequality.

The minimum wage, for example, has a direct bearing on individual earnings. The value of the federal minimum wage has fallen considerably since the late 1970s, and has not been adjusted at all for almost five years. One way that policymakers could help reverse or moderate the decline in wages for workers at the bottom of the pay scale would be to enact a higher minimum wage. Eleven states and the District of Columbia have compensated for the decline in the value of the federal minimum wage by establishing higher state-level minimum wage standards.

During the 1980s, unemployment insurance protection eroded as a result of both federal and state-level cutbacks. The proportion of jobless workers receiving unemployment insurance benefits remains lower than it was at the end of the 1970s. These cutbacks have affected both middle- and low-income families. Efforts to strengthen the unemployment insurance system

both at the national level and in many states are warranted in order to broaden the receipt of unemployment insurance among unemployed workers.

Changes in programs that provide assistance to low-income families have contributed to the increase in income inequality and will likely continue to exacerbate the trend towards increasing inequality in the coming years. In the typical state, cash assistance benefits for a family of three with no other income fell 30 percent between 1980 and 2000, after adjusting for inflation. In addition, in every state during the economic expansion, receipt of cash assistance declined dramatically. This decline in the rolls has begun to reverse or slow in most states as a result of the recession. Nevertheless, many former welfare recipients remain off the rolls. Studies indicate that between one-half and three-quarters of former welfare recipients are employed shortly after they leave the rolls. However, significant barriers to obtaining and keeping steady work remain for many families, and these barriers are likely to retard income gains for the lowest income fifth of families.

There are a host of options state policymakers can consider to strengthen their social safety nets including the provision of supportive services such as transportation, child care, and health insurance coverage to low-wage workers. States can also provide intensive case management and a range of services to help current and former welfare recipients to maintain their present employment, move into better jobs, or obtain the education and training needed for career advancement.

The analysis presented here uses pre-tax income. It does not reflect the effects of tax policies that influence the distribution of post-tax income. Nevertheless, federal and state tax policies influence how much income families have to spend and how disposable income is distributed. The overall effect of the federal income tax system is to narrow income inequalities. In recent years, expansions in the earned income tax credit have helped to increase the after-tax income of low-income families with children. However, the tax system more generally has become less progressive over the past two decades; changes to the federal tax code made in 1997 exacerbated this trend, as did the 2001 tax bill. The latest available data indicate that even after federal taxes are considered, income is more unevenly distributed than at any time since 1941.

While the federal tax system as a whole remains progressive, nearly all state tax systems are regressive. States rely more on regressive sales taxes and user fees than on progressive income taxes and, therefore, take a larger percentage of income from low- and middle-income families than from the wealthy. In the past few years, when many states have cut taxes, nearly all chose to make the majority of the cuts in their progressive income taxes, rendering their tax systems even more regressive. Now many states are considering raising revenues to address budget problems resulting from the recession.

In order to narrow the gap between high- and low-income families, states can institute tax reforms that are progressive in nature and improve the after-tax distribution of income. For example, to the extent that states raise revenues to address the current state fiscal crisis, they can

Table A

<p><u>Ten States where Income Inequality Between the Top and the Bottom Was Greatest, Late 1990s</u></p>	<p><u>Ten States where Income Inequality Between the Top and the Middle was Greatest, Late 1990s</u></p>
<p>New York Louisiana Texas California Massachusetts Tennessee Kentucky Alabama Arizona North Carolina</p>	<p>Tennessee New York California Texas Louisiana Arizona Oklahoma Oregon Nevada Florida</p>
<p><u>Ten States where Income Inequality Between the Top and the Bottom Grew Most, 1970s - 1990s</u></p>	<p><u>Ten States where Income Inequality Between the Top and the Middle Grew Most, 1970s - 1990s</u></p>
<p>New York Oregon Massachusetts California Ohio Connecticut Kentucky North Carolina West Virginia Arizona</p>	<p>Oregon Tennessee New York Kentucky California West Virginia Nevada Iowa New Jersey Texas</p>
<p><u>Ten States where Income Inequality Between the Top and the Bottom Grew Most, 1980s - 1990s</u></p>	<p><u>Ten States where Income Inequality Between the Top and the Middle Grew Most, 1980s - 1990s</u></p>
<p>Connecticut Oregon New York Massachusetts Nevada Wisconsin Kansas Delaware Rhode Island North Carolina</p>	<p>Oregon New York Nevada Maryland Connecticut Maine Iowa Tennessee New Jersey Kentucky</p>

increase their reliance on income taxes rather than sales taxes by raising income tax rates rather than sales or excise tax rates. States that choose to raise regressive taxes can mitigate the impact on low-wage workers by enacting tax credits targeted to low-income taxpayers such as state earned income tax credits. States can also act to prevent a reduction in revenue from the estate

tax — one of the most progressive elements of their tax systems — by not conforming to the new federal tax law enacted last year.

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, state as well as federal policies will have to play an important role.

I. Introduction

This report examines trends in the distribution of income from the late 1970s to the late 1990s — the peak of the expansion of last decade — in each of the 50 states. It finds that even before the recent economic downturn set in, there were troubling issues about the distribution of income growth in the last decades of the 20th century. The incomes of the country’s highest-income families climbed substantially over the past two decades, but middle- and lower-income families saw only modest increases in income.

This trend of rising inequality in the United States as a whole 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.³ In fact, this report understates the extent of income growth at the very top of the income spectrum, particularly during the 1990s. If a more comprehensive data source of state-by-state income than the one used in this report were available it would show a greater widening of income gaps.⁴

³ Families with incomes that fall in the bottom 20 percent of the income distribution are referred to as “poor” in this report. The vast majority of these families have incomes below the official poverty line.

⁴ As discussed in the text box on pages 3-4, using Internal Revenue Service data that are not publicly available, the Congressional Budget Office compiled data that show considerably more growth in inequality over the 1990s than do our Census data, primarily because CBO counts all income while the Census uses “top codes” and places limits on the amount of income it records. Moreover, CBO data include realized capital gains as income, while Census does not. See also the Methodology Appendix to this report.

The report finds that the trend towards growing income inequality generally prevailed in both the 1980s and the 1990s. An analysis of the changes in income inequality in the more recent decade shows that in more than half the states, the gap between high-income and low-income families continued to grow. Moreover, the gap between high-income and middle-income families increased since the late 1980s in two-thirds of the states.

This trend is particularly troubling because we have now reached — and passed — the peak of the economic expansion of the 1990s. Based on past history, we would have expected to find a decline in income inequality during this expansion. What this report finds, however, is that the gap between high-income and low- and middle-income families instead hit historically high levels. The poorest families and middle-class families did benefit from economic growth, especially in the last few years of the 1990s. Exceptionally low unemployment rates brought gains to low-wage workers and fairly broad-based wage growth. Still, high-income families gained the most in the 1990s, in part due to capital gains and other income sources such as large executive bonuses that are not fully captured by this analysis.

The relatively broad-based wage gains of the late 1990s, moreover, have been placed in jeopardy by the downturn and the accompanying rise in unemployment. With the onset of recession in 2001, the full-employment labor market of the late 1990s disappeared, and, by the end of 2001, wages were already beginning to grow in a more unequal pattern than they had over the 1995-2000 period.⁵ Based on conventional growth forecasts, moreover, the recovery is unlikely to be strong enough over the next several years to drive unemployment back down to the four percent range needed to generate the pattern of income gains among low- and middle income families seen in the late 1990s.⁶

Why Growing Income Inequality is a Problem

As this report demonstrates, inequality has grown in virtually every state in the United States since the late 1970s. This growing divide between the rich and the poor and the middle class deserves the attention of policymakers and the public.

⁵ See QWES (2001) <http://www.epinet.org/qwes/qwes.html>.

⁶ See Mishel, Lawrence, Jared Bernstein, and Thacher Tiffany. 2002. *It Ain't Over Till It's Really over: Slow growth will lead to rising unemployment in 2002 and high unemployment in 2003*. Washington, DC: Economic Policy Institute.

Census Data Significantly Underestimate Growth in Income Inequality

This report on trends in state income inequality is based on income data collected each year by the Census Bureau. This is a widely-used and respected source of information on income and wages. It is also the only source of data on state-specific trends in income for all fifty states.

However, the Census Bureau data on income do have some shortcomings when used to measure changes in income inequality. Examination of other sources of data on changes in income show that the Census data have tended to underestimate the growth in income inequality, in large part because they fail to capture significant sources of income growth at the very top of the income spectrum. Thus, the results in this report provide a conservative estimate of the actual magnitude of the problem of growing income inequality at the state level.

At the national level, the Congressional Budget Office provides an alternative source of data on trends in income that combines the Census Bureau data with Internal Revenue Service data to produce a more comprehensive measure of income for both high-income and low-income households.

The Congressional Budget Office data provide information on income and income trends among the top one percent of the population. The Census Bureau has acknowledged that it lacks reliable data on the incomes of those at the top of the income scale for two main reasons. First, the Census Bureau's official measure of income does not include income from capital gains — one of the main sources of income growth for high income households during the recent economic expansion.

In addition, for confidentiality reasons, the Census Bureau sets a maximum amount — a “top code” — for certain types of income presented in the data. Income that exceeds the top code is not shown, reducing the amount of income attributed to individuals at very high income levels.^a CBO resolves this problem by supplementing Census data with data from the Internal Revenue Service's “Statistics of Income” series, which represents actual income gathered from tax returns, without any limit.

^a In addition, there are other reasons income growth among higher-income individuals may be underestimated in this analysis. At various times, the Census Bureau has made changes in the size of the top codes. This creates potential problems in comparing changes in income for the highest income families over time. Some of what appears to be an increase in income may result from the increase in the amount of income that appears in the data as the top code increases. As the methodological appendix to this paper explains in more detail, these data have been adjusted to remove the effect of increasing top codes from the changes in income shown. In attempting to avoid overestimating growth at the top of the income scale, however, this adjustment likely results in an underestimate of the rate of income growth experienced by high-income individuals and undervalues their average incomes in the late 1990s.

The strong level of overall economic growth that dominated much of the 1980s and the 1990s resulted from the contributions of people in all walks of life, from laborers to corporate executives. It is a problem when everyone does not share in the resulting prosperity.

Census Data Significantly Underestimate Growth in Income Inequality

(continued)

At the other end of the income scale, the Census data used in this report include cash assistance but do not include in-kind or non-cash assistance income, such as income from food stamps, housing assistance, and health insurance coverage, or the earned income tax credit. The CBO data do include non-cash food stamps, housing assistance, and health insurance benefits.

An examination of trends in income growth using the CBO data shows significantly greater increases in income inequality during the 1980s and, especially, the 1990s than the increases shown by the Census Bureau data.^b For example, the Census data in this report show a smaller growth in income for the top five percent of households during the 1990s despite the fact that they include two more years of growth (the CBO data now only go through 1997). In addition, the data in this report show a significantly lower average income for the top five percent of households. The CBO data also show slower growth in income for the lowest fifth of households.^c

The comparison with the CBO data demonstrates that the trends shown in this report underestimate the actual growth in income inequality that is occurring at the national level and the same is likely true for individual states. Unfortunately, state-level data comparable to the CBO data do not exist. Therefore, the Census data provide the best information on trends in income inequality in the states.

^b See, for example, "Pathbreaking CBO Study Shows Dramatic Increases in Income Disparities in 1980s and 1990s," Isaac Shapiro, Robert Greenstein and Wendell Primus, May 31, 2001, Center on Budget and Policy Priorities.

^c See the Methodological Appendix for a more detailed comparison of the CBO data and the Census data.

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 some of the benefits of that growth.

And for many years, they did. Over the past two decades, however, the benefits of economic growth have been skewed in favor of the wealthiest members of society. If everyone's income grew along with the economy but the incomes of some grew a little faster than others, that would be far less of a problem. But since the late 1970s, the incomes of the wealthiest grew much more rapidly than the incomes of the poor and the middle class. It is not that the poor and middle class are simply getting a slightly smaller share of the growth; it is that the lion's share of the growth is going to the top end.

Continuing growth in income inequality could also undercut the basis of the much-heralded changes made to the welfare system in recent years. Current policy is based on the assumption that a job is the first step 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 the real incomes of the poorest families grow only slowly if at all over time, the underpinnings and future success of policies that encourage work are called into question.

The slow growth — and in some states declines — 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. They are far more likely to be unemployed as adults than children who were not poor.⁷

Moreover, there is evidence that income inequality in and of itself results in problems for society. For example, there is a considerable body of research linking income inequality to poor health outcomes. A number of papers at a recent conference on income inequality sponsored by the Federal Reserve Bank of New York discussed the association between higher levels of inequality and poor schools, substandard housing, and higher levels of crime victimization.⁸

- The impact of inequality on public health in particular has received considerable attention from researchers. A recent article on income inequality 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.”⁹

While numerous studies have documented this link between income inequality and poor health, the causes of this link are not entirely clear.¹⁰ A leading

⁷ See, for example, Greg Duncan, Jeanne Brooks-Gunn, eds. *The Consequences of Growing Up Poor*. New York: Russell Sage Foundation, 1997.

⁸ Timothy Smeeding, “General Commentary,” *Federal Reserve Bank of New York Economic Policy Review*, September, 1999.

⁹ 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.

¹⁰ See, for example, Ichiro Kawachi, Sol Levine, S. Michael Miller, Kathryn Lasch, and Benjamin Amick, *Income Inequality and Life Expectancy - Theory, Research and Policy*, Society and Health Working Paper Series No 94-2, 1994.

explanation is that individuals who feel their income and social status are below what they expect based on their observation of the status of others experience high levels of stress. There is a well-documented link between stress and poor health.

- Income inequality can have a direct effect on adequacy of housing. Economic growth can lead to more demand for housing and consequently to higher housing prices. When the incomes of the poorest families fail to grow with the economy, they are less likely to be able to afford adequate housing, leading to increased homelessness.
- In the United States, increased disparities in income have led to geographic disparities as wealthier families move to the suburbs. Because school systems depend heavily on local funding, this has led to increased disparities in the quality of schools. Poor schools make it harder for poor children to acquire the skills they need to succeed.

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

In addition, as the divide grows among families at differing income levels, there is less contact and familiarity with the problems faced by families in different economic circumstances. For example, it can be difficult for an upper middle-income family living in a suburban neighborhood to understand the lack of decent housing available to poor families. Similarly, wealthy families with the resources that allow access to 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.

The failure to invest in programs that meet the health and housing needs of families at all income levels, that provide education and training for children, and that provide supports for low-wage workers, can have long-term impacts on the future economic growth of the country.

Government at all levels has an important role to play in pushing back against the growth of income inequality. Improvements to state government policies can affect the trend towards growing income inequality. State and local tax policies also can serve to mitigate the effects of increased inequality. Through policies such as raising the minimum wage, strengthening unemployment insurance, implementing a wide range of supports for low-income working families, and reforming regressive state tax systems, state and federal lawmakers can help moderate the growing income divide.

Trend of Growing Income Inequality is Confirmed by Examining Alternative Data Sources and Methodologies

In any study of income distribution, there are many measurement choices to be made, including how to define income, how to measure inequality, and what unit of analysis to examine (e.g., households, families, or individuals). In a companion piece to our last version of this report—*Any Way You Cut It*—we examined the impact of these choices on the trend in income inequality over the 1980s and 1990s. The main finding from that report was that none of the choices changed the bottom line: income inequality increased over this period, no matter how you measure it.

Our comparative analysis points out that critics of the findings in this report often confuse trends and levels. That is, a common conceptual mistake is to point out that different ways of measuring inequality *at a point in time* yield different results, and think that this observation has any bearing on the trend in inequality over time. For example, if you include the value of the Earned Income Tax Credit, a wage subsidy for low-wage workers in low-income families, the point-in-time gap between the middle and low income families will narrow. But this tells you nothing about whether that gap grew or compressed over time.

This analysis looks at trends using many different definitions of income and shows not only that they all show increased inequality over the post-1979 period, but that many measures—particularly those that included realized capital gains (see the previous box on this point)—showed faster growing inequality than we do using Census money income data (which omit capital gains). This same result holds whether or not we adjust by family size, look at pre-tax or post-tax income, or add in the value of various other income sources, including the cash value of near-cash transfers, such as food stamps or publicly provided health insurance, which accrue exclusively to poor and near-poor families. All of these alternative measures lead to the same conclusion we reach in this study: American income inequality increased over the past two decades.

II. The Long-Term Trend: The Late 1970s to the Late 1990s

Nationwide, income inequality increased during the 1980s and 1990s, a reversal of the trend towards lessening inequality that prevailed between World War II and the 1970s. 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. As a group, low- and middle-income families have seen their incomes rise only modestly. The incomes of the wealthiest families, by contrast, have grown dramatically. These developments occurred in both the 1980s and in the 1990s. This chapter examines this long-term — post 1979 — trend in the growth in income inequality, while the next chapter examines the trends in the 1990s.

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 late 1970s, the late 1980s, and the late 1990s (including 2000). These periods reflect comparable points in the economic cycle. For each time period, all families are ranked by income and divided into five groups (or “quintiles”), each made up of the same number of persons. The average income of families in each quintile is then calculated for each of the three time periods. The change in the income held by each quintile is one way in which researchers commonly illustrate changes in the distribution of income over time by, for instance, showing that income growth was higher among higher income groups.

Income Trends: Differences Between High- and Low-Income Families

In comparing the varying income trends of families at different points in the income distribution, there is a dramatic contrast between how the richest fifth of families and the poorest fifth of families fared over the last two decades. Table 1 shows how families in the

Table 1
Dollar and Percent Change in Average Income of Bottom and Top Fifths
of Families, '78-80 to '98-00 (In 1999 Dollars)

State	Bottom Fifth		Top Fifth	
	Dollar Change	Percent Change	Dollar Change	Percent Change
5 States Where the Bottom Fifth Grew Poorer and the Top Fifth Grew Richer				
Wyoming	-3,662 *	-19.8%	13,096 *	12.6%
Arizona	-982 *	-6.8%	29,470 *	27.9%
Ohio	-831 *	-5.4%	43,024 *	43.1%
California	-812 *	-5.5%	42,001 *	37.4%
New York	-794 *	-5.9%	56,812 *	54.1%
39 States Where the Income of the Top Fifth Grew Faster Than the Income of the Bottom Fifth #				
West Virginia	-473	-4.0%	27,864 *	36.6%
Louisiana	-444	-4.2%	20,969 *	21.8%
Oregon	-434	-3.0%	48,263 *	51.8%
Kansas	-311	-2.0%	38,074 *	41.4%
Idaho	-125	-0.9%	30,077 *	33.9%
Oklahoma	-22	-0.2%	26,938 *	26.8%
New Mexico	41	0.4%	14,363 *	15.4%
Nevada	286	1.8%	39,435 *	37.7%
Massachusetts	296	1.9%	56,899 *	52.3%
Texas	429	3.5%	33,939 *	32.6%
North Dakota	510	4.0%	16,427 *	17.7%
Iowa	548	3.4%	39,765 *	43.3%
Wisconsin	551	3.3%	38,919 *	37.8%
Hawaii	624	3.9%	47,630 *	42.6%
North Carolina	726 *	5.9%	42,396 *	47.5%
Delaware	854	5.6%	34,890 *	34.8%
Kentucky	1,002 *	8.6%	47,957 *	57.9%
Connecticut	1,129	6.2%	70,151 *	63.2%
Michigan	1,207 *	7.7%	51,518 *	49.7%
Vermont	1,412 *	10.1%	41,693 *	46.7%
Pennsylvania	1,493 *	9.9%	49,862 *	51.7%
Illinois	1,525 *	10.5%	41,230 *	37.6%
Missouri	1,725 *	12.6%	38,586 *	40.6%
Georgia	1,746 *	14.6%	28,821 *	29.8%
Nebraska	1,990 *	14.7%	35,715 *	39.9%
New Hampshire	2,084 *	12.1%	61,361 *	63.2%
Alabama	2,333 *	24.7%	35,474 *	41.7%
Rhode Island	2,368 *	16.2%	59,057 *	64.1%
Florida	2,573 *	22.4%	42,141 *	46.6%
Tennessee	2,685 *	25.8%	53,091 *	62.9%
Indiana	2,759 *	18.3%	38,281 *	43.8%
Washington	2,866 *	19.6%	44,850 *	42.8%
Utah	2,898 *	18.3%	37,106 *	39.1%
Maine	2,905 *	22.2%	47,028 *	54.7%
Colorado	2,931 *	17.7%	43,730 *	39.0%
New Jersey	3,072 *	19.3%	71,472 *	64.3%
Maryland	3,622 *	21.0%	60,841 *	50.7%
Minnesota	3,750 *	22.7%	55,067 *	55.1%
Virginia	3,931 *	27.9%	64,062 *	61.5%
1 State Where the Income of the Bottom Fifth Grew Faster Than the Income of the Top Fifth ^				
Alaska	3,461 *	22.5%	12,318 *	8.7%
1 State Where the Incomes of the Bottom Fifth and the Top Fifth Remained About the Same				
Montana	-790	-6.3%	7,926	8.3%
4 States Where the Incomes of the Bottom Fifth and Top Fifth Increased at About the Same Rate				
Mississippi	2,472 *	26.8%	28,440 *	34.6%
Arkansas	3,024 *	32.7%	25,580 *	32.3%
South Carolina	3,932 *	36.1%	33,528 *	38.9%
South Dakota	4,766 *	39.5%	32,869 *	37.4%
District of Columbia	-42	-0.4%	88,854 *	77.7%
Total U.S.	972 *	7.1%	44,625 *	44.0%

* 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., whether income rose or fell) is correct. For example, in Wisconsin, we cannot say with 95 percent certainty that the \$551 increase in average income of the bottom fifth reflects a true income increase, but we can say with 95 percent certainty that the \$38,919 gain in the income of the top fifth reflects a true gain. The test is important since these income data are 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.

top and bottom fifths of the distribution have fared since the late 1970s in each of the 50 states. The table presents both the percentage change in average incomes and the dollar change in average incomes.¹¹ (The directions of most of the changes in average incomes are statistically significant at the 95 percent level of confidence. In Tables 1, 4, 7, and 9 states are only counted as a state where the poor grew poorer or the middle class lost income if the decline in average income is statistically significant. See the footnote to Table 1 for details.)

In five states, the poorest fifth of families grew poorer between the late 1970s and the late 1990s while the richest fifth grew richer. In each of these states — Arizona, California, New York, Ohio and Wyoming — the poorest fifth of families experienced a decline in income of more than five percent. In four of five of these states, all but Wyoming, the income of the richest fifth grew by more than 25 percent. These five states contain about 25 percent of the country's population.

In 39 states, the income of the top fifth of families grew faster than the income of the bottom fifth of families. In 16 of these states, the poorest fifth of families saw no change in their income while the richest fifth of families saw dramatic increases in income. In Massachusetts, for example, the average income of families in the bottom fifth of the distribution increased by only 1.9 percent, or \$300 between the late 1970s and the late 1990s (a change that was not statistically significant). Families in the top fifth of distribution, on the other hand, saw their incomes rise by more than 52 percent, or by \$56,900.

The trend toward widening inequality is even more pronounced when families in the top five percent of the income distribution are compared to the bottom fifth. Table 1A shows this

Table 1A
Dollar and Percent Change in Average Income of Bottom Fifth and Top 5% of Families, '78-80 to '98-00 (In 1999 Dollars)

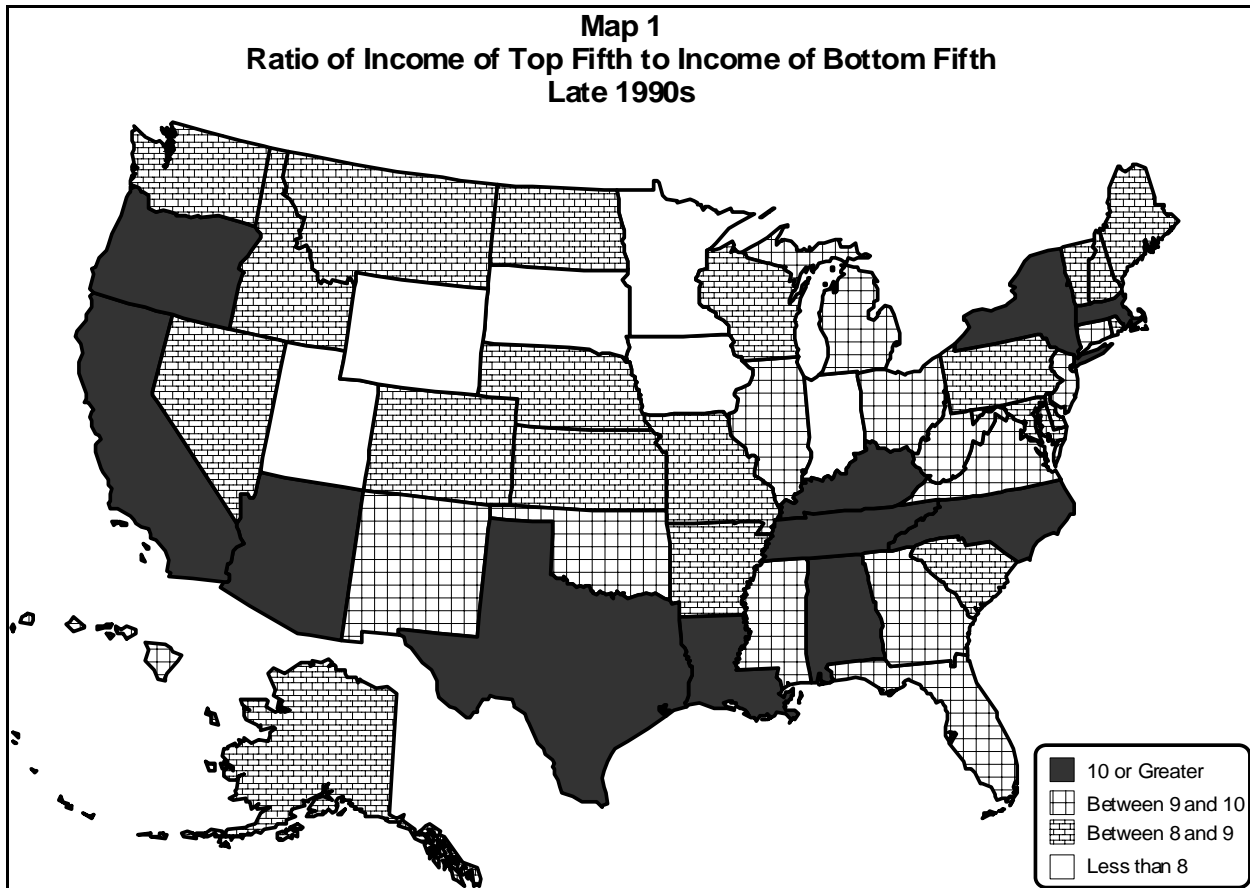
State	Bottom Fifth		Top 5%	
	Dollar Change	Percent Change	Dollar Change	Percent Change
3 Large States Where the Bottom Fifth Grew Poorer and the Top 5% Grew Richer				
California	-812 *	-5.5%	83,494 *	50.4%
New York	-794 *	-5.9%	108,108 *	68.2%
Ohio	-831 *	-5.4%	83,468 *	57.5%
8 Large States Where the Income of the Top 5% Grew Faster Than the Income of the Bottom Fifth				
Florida	2,573 *	22.4%	83,641 *	62.2%
Illinois	1,525 *	10.5%	80,237 *	49.8%
Massachusetts	296	1.9%	101,451 *	64.1%
Michigan	1,207 *	7.7%	109,293 *	74.4%
New Jersey	3,072 *	19.3%	129,287 *	81.0%
North Carolina	726 *	5.9%	72,348 *	52.4%
Pennsylvania	1,493 *	9.9%	101,358 *	73.9%
Texas	429	3.5%	60,981 *	37.2%
Total U.S.	972 *	7.1%	87,779 *	58.4%

* 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.

¹¹ All dollar figures throughout this report are expressed in 1999 dollars.



comparison for the eleven large states where such a calculation can be made.¹² In five of the eleven states, the incomes of the bottom fifth of families either declined or grew very little between the late 70s and late 90s.¹³ In all eleven states, however, the incomes of the top five percent of families increased by 35 percent or more.

Changes in Income Gaps

The gap in income between high- and low-income families at any point in time may be measured by dividing the average income of the top quintile by the average income of the bottom quintile. This calculation provides a "top-to-bottom" income ratio. Table 2 shows the top-to-bottom ratios in all fifty states in the 1990s, and the ranking of each state. New York,

¹² 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.

¹³ These five states include California, New York and Ohio — where the income of the bottom fifth declined — as well as Massachusetts and Texas — where the change in the income of the bottom fifth was not statistically significant.

Table 2
Ratio of Incomes of Top and Bottom Fifths of Families,
'98-'00

State	Rank	Average income of bottom fifth of families	Average income of top fifth of families	Top-to-bottom ratio +
New York	1	12,639	161,858	12.8
Louisiana	2	10,130	117,374	11.6
Texas	3	12,568	138,001	11.0
California	4	14,053	154,304	11.0
Massachusetts	5	15,740	165,729	10.5
Tennessee	6	13,078	137,524	10.5
Kentucky	7	12,602	130,825	10.4
Alabama	8	11,781	120,473	10.2
Arizona	9	13,453	135,114	10.0
North Carolina	10	13,110	131,598	10.0
Oregon	11	14,148	141,428	10.0
Oklahoma	12	12,966	127,353	9.8
New Mexico	13	10,963	107,639	9.8
Ohio	14	14,677	142,809	9.7
New Jersey	15	18,950	182,665	9.6
Hawaii	16	16,539	159,415	9.6
Mississippi	17	11,714	110,609	9.4
Florida	18	14,082	132,532	9.4
Illinois	19	16,085	150,985	9.4
Connecticut	20	19,351	181,194	9.4
Virginia	21	18,021	168,178	9.3
West Virginia	22	11,282	104,004	9.2
Michigan	23	16,854	155,168	9.2
Georgia	24	13,729	125,551	9.1
Rhode Island	25	16,981	151,188	8.9
Montana	26	11,667	103,700	8.9
Pennsylvania	27	16,547	146,317	8.8
Nevada	28	16,441	143,915	8.8
Kansas	29	14,952	130,095	8.7
Missouri	30	15,409	133,672	8.7
Maryland	31	20,909	180,796	8.6
Washington	32	17,455	149,628	8.6
Vermont	33	15,328	131,029	8.5
Arkansas	34	12,271	104,745	8.5
Idaho	35	13,971	118,703	8.5
Delaware	36	16,040	135,276	8.4
Maine	37	15,984	133,049	8.3
North Dakota	38	13,210	109,045	8.3
Alaska	39	18,818	154,653	8.2
New Hampshire	40	19,324	158,499	8.2
Wisconsin	41	17,388	141,858	8.2
South Carolina	42	14,836	119,626	8.1
Nebraska	43	15,570	125,253	8.0
Colorado	44	19,522	155,809	8.0
Iowa	45	16,586	131,668	7.9
Wyoming	46	14,867	116,984	7.9
Minnesota	47	20,245	154,972	7.7
South Dakota	48	16,845	120,705	7.2
Utah	49	18,758	131,951	7.0
Indiana	50	17,868	125,616	7.0
District of Columbia		9,398	203,185	21.6
Total U.S.		14,618	145,985	10.0

+ 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.

ranked first, has a larger income gap between the top fifth of families and the bottom fifth than any other state.

There are eleven states — New York, Louisiana, Texas, California, Massachusetts, Tennessee, Kentucky, Alabama, Arizona, North Carolina and Oregon — where the average income of the richest fifth of families was ten times or more as great as the average income of the bottom fifth of families. In all but one of these states, the average income of the bottom fifth of families was below the national average.

At the other end of the spectrum, there are only six states — Iowa, Wyoming, Minnesota, South Dakota, Utah and Indiana — where the richest fifth of families had less than eight times the average income of the bottom fifth. These are the states where income was distributed least unevenly, although the gap between high-income and poor families was still quite large. In all six of these states, the average income of the bottom fifth of families was above the national average.

Map 1 shows the most unequal and least unequal states as measured by the top-to-bottom ratio in the late 1990s. Inequality is greatest in the Southeastern and the Southwestern states. The Midwest Plains region and northern New England are the least unequal.

Changes in inequality over time can be assessed by comparing the top-to-bottom ratios for each of the 50 states in the late 1970s to the same ratios in the late 1990s. The last column of Table 3 shows the extent to which the top-to-bottom ratios grew over the two-decade period. As shown in Table 3, inequality has grown substantially over the period. In 45 states, the ratio increased by a statistically significant amount.¹⁴ The ratio declined significantly in only one state — Alaska. The rank of each state shows how the growth in inequality in that state compared to the growth in inequality in other states.

In the late 1970s, there was no state where high-income families had average income that was 9.5 times larger than the average incomes of low-income families. By the late 1990s, 16 states had "top-to-bottom" ratios of 9.5 or greater.

The greatest increase in income inequality occurred in New York. In the late 1970s, the richest fifth of families in New York had about eight times the income of the poorest fifth of families. By the late 1990s, the richest fifth of families had almost 13 times the income of families in the bottom fifth of the distribution. The increased inequality resulted in part from a drop in the income of families in the bottom quintile of the distribution from \$13,430 to \$12,640, a decline of \$790. Meanwhile, the average income of families at the top of the distribution in New York increased from \$105,050 to \$161,860, an increase of \$56,810.

¹⁴ In two states, the ratio increased, but not by a statistically significant amount.

Table 3
Change in Ratio of Incomes of Top and Bottom Fifths of Families,
'78-80 to '98-00

State	Rank	Top-to-bottom ratio '78-80	Top-to-bottom ratio '98-00	Change in top-to-bottom ratio +	
New York	1	7.8	12.8	5.0	*
Oregon	2	6.4	10.0	3.6	*
Massachusetts	3	7.0	10.5	3.5	*
California	4	7.6	11.0	3.4	*
Ohio	5	6.4	9.7	3.3	*
Connecticut	6	6.1	9.4	3.3	*
Kentucky	7	7.1	10.4	3.2	*
North Carolina	8	7.2	10.0	2.8	*
West Virginia	9	6.5	9.2	2.7	*
Arizona	10	7.3	10.0	2.7	*
Kansas	11	6.0	8.7	2.7	*
New Jersey	12	7.0	9.6	2.6	*
Hawaii	13	7.0	9.6	2.6	*
Rhode Island	14	6.3	8.9	2.6	*
Michigan	15	6.6	9.2	2.6	*
New Hampshire	16	5.6	8.2	2.6	*
Louisiana	17	9.1	11.6	2.5	*
Pennsylvania	18	6.4	8.8	2.4	*
Texas	19	8.6	11.0	2.4	*
Tennessee	20	8.1	10.5	2.4	*
Nevada	21	6.5	8.8	2.3	*
Wyoming	22	5.6	7.9	2.3	*
Idaho	23	6.3	8.5	2.2	*
Iowa	24	5.7	7.9	2.2	*
Vermont	25	6.4	8.5	2.1	*
Oklahoma	26	7.7	9.8	2.1	*
Wisconsin	27	6.1	8.2	2.0	*
Virginia	28	7.4	9.3	1.9	*
Illinois	29	7.5	9.4	1.8	*
Delaware	30	6.6	8.4	1.8	*
Maine	31	6.6	8.3	1.7	*
Missouri	32	6.9	8.7	1.7	*
Maryland	33	6.9	8.6	1.7	*
Minnesota	34	6.1	7.7	1.6	*
Florida	35	7.9	9.4	1.6	*
Nebraska	36	6.6	8.0	1.5	*
Washington	37	7.2	8.6	1.4	*
New Mexico	38	8.5	9.8	1.3	*
Indiana	39	5.8	7.0	1.3	*
Alabama	40	9.0	10.2	1.2	*
Colorado	41	6.8	8.0	1.2	*
Montana	42	7.7	8.9	1.2	*
Georgia	43	8.1	9.1	1.1	*
Utah	44	6.0	7.0	1.1	*
North Dakota	45	7.3	8.3	1.0	*
Mississippi	46	8.9	9.4	0.6	
South Carolina	47	7.9	8.1	0.2	
Arkansas	48	8.6	8.5	-0.0	
South Dakota	49	7.3	7.2	-0.1	
Alaska	50	9.3	8.2	-1.0	*
District of Columbia		12.1	21.6	9.5	*
Total U.S.		7.4	10.0	2.6	*

* 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.

+ 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.

The dimensions of the increase in inequality become even clearer when the income of the poorest 20 percent of families is compared to the richest five percent of families. Table 3A shows that, among the eleven large states analyzed, the greatest increase in income inequality occurred in New York. In the late 1970s, the richest five percent of families in New York had about 12 times the income of the poorest fifth of families on average. By the late 1990s, the richest five percent of families had 21 times the income of families in the bottom fifth of the distribution — an almost doubling of the income gap.

As indicated above, the increased inequality resulted in part from a drop in the income of families in the bottom quintile of the distribution from \$13,430 to \$12,640 over the two decade period.

Over the same period, the average income of the richest five percent of families in New York increased from \$158,430 to \$266,530, an increase of \$108,110. In the late 1970s none of the eleven states had a top 5% to-bottom ratio higher than 13.5. By the late 1990s all eleven states had a top 5% to-bottom ratio higher than 13.5.

Income Trends: Differences between High- and Middle-Income Families

It was not only the poor as a group that failed to share in the income growth that has occurred since the late 1970s. Families in the middle of the distribution were also left behind compared to families at the top of the income distribution.

In 43 states, the average income of families in the middle of the distribution remained about the same or rose, but did not keep pace with the increases in the average income of families in the top 20 percent of the distribution. (See Table 4.) In eight of these states incomes in the middle fifth grew less than 10 percent while the top fifth grew by more than 20 percent. In West Virginia, for example, the average income of the middle fifth of families increased five percent,

Table 3A
Change in Ratio of Incomes of Top 5% and Bottom Fifth of Families,
'78-80 to '98-00

State	Top 5%-to-bottom ratio '78-80	Top 5%-to-bottom ratio '98-00	Change in top 5%-to-bottom ratio +	
California	11.2	17.7	6.6	*
Florida	11.7	15.5	3.8	*
Illinois	11.1	15.0	3.9	*
Massachusetts	10.2	16.5	6.3	*
Michigan	9.4	15.2	5.8	*
New Jersey	10.0	15.2	5.2	*
New York	11.8	21.1	9.3	*
North Carolina	11.1	16.0	4.9	*
Ohio	9.4	15.6	6.2	*
Pennsylvania	9.1	14.4	5.3	*
Texas	13.5	17.9	4.4	*
Total U.S.	11.0	16.3	5.3	*

* 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 or decreases shown in the table are true increases or decreases 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.

Table 4
Dollar and Percent Change in Average Income of Middle and Top Fifths
of Families, 78-80 to 98-00 (In 1999 Dollars)

State	Middle Fifth		Top Fifth	
	Dollar Change	Percent Change	Dollar Change	Percent Change
1 States Where the Middle Fifth Grew Poorer and the Top Fifth Grew Richer				
Wyoming	-3,234 *	-6.7%	13,096 *	12.6%
43 States Where the Income of the Top Fifth Grew Faster Than the Income of the Middle Fifth #				
Louisiana	477	1.2%	20,969 *	21.8%
West Virginia	1,637 *	4.6%	27,864 *	36.6%
Arizona	2,800 *	6.6%	29,470 *	27.9%
Texas	3,304 *	7.9%	33,939 *	32.6%
North Dakota	3,430 *	8.6%	16,427 *	17.7%
Oklahoma	3,548 *	9.1%	26,938 *	26.8%
Nevada	3,553 *	7.7%	39,435 *	37.7%
California	3,634 *	7.8%	42,001 *	37.4%
Oregon	4,374 *	9.9%	48,263 *	51.8%
Idaho	4,684 *	11.7%	30,077 *	33.9%
Iowa	5,061 *	11.3%	39,765 *	43.3%
Arkansas	5,904 *	18.6%	25,580 *	32.3%
Kansas	6,524 *	15.1%	38,074 *	41.4%
Mississippi	6,752 *	20.5%	28,440 *	34.6%
Ohio	6,902 *	15.1%	43,024 *	43.1%
Hawaii	6,966 *	13.6%	47,630 *	42.6%
Georgia	7,064 *	17.5%	28,821 *	29.8%
New York	7,449 *	16.8%	56,812 *	54.1%
Nebraska	7,523 *	17.7%	35,715 *	39.9%
Kentucky	7,639 *	19.8%	47,957 *	57.9%
Tennessee	8,042 *	22.7%	53,091 *	62.9%
Indiana	8,616 *	20.2%	38,281 *	43.8%
North Carolina	8,711 *	22.7%	42,396 *	47.5%
Delaware	8,746 *	19.2%	34,890 *	34.8%
Illinois	8,960 *	18.6%	41,230 *	37.6%
Michigan	9,000 *	18.5%	51,518 *	49.7%
Vermont	9,153 *	23.1%	41,693 *	46.7%
Pennsylvania	9,350 *	21.1%	49,862 *	51.7%
Wisconsin	9,406 *	19.9%	38,919 *	37.8%
Washington	9,785 *	21.4%	44,850 *	42.8%
Florida	10,119 *	28.1%	42,141 *	46.6%
Colorado	10,125 *	20.7%	43,730 *	39.0%
Utah	10,783 *	25.1%	37,106 *	39.1%
Maine	10,942 *	29.8%	47,028 *	54.7%
Missouri	11,261 *	27.1%	38,586 *	40.6%
Massachusetts	12,514 *	26.0%	56,899 *	52.3%
Maryland	12,683 *	23.9%	60,841 *	50.7%
Virginia	13,634 *	30.3%	64,062 *	61.5%
Rhode Island	13,988 *	31.9%	59,057 *	64.1%
New Hampshire	14,316 *	31.7%	61,361 *	63.2%
New Jersey	14,999 *	30.2%	71,472 *	64.3%
Minnesota	15,646 *	34.0%	55,067 *	55.1%
Connecticut	16,156 *	32.3%	70,151 *	63.2%
1 State Where the Incomes of the Middle Fifth and the Top Fifth Remained About the Same				
Montana	96	0.2%	7,926	8.3%
5 States Where the Incomes of the Middle Fifth and Top Fifth Changed at About the Same Rate				
Alaska	1,855 *	3.3%	12,318 *	8.7%
New Mexico	2,850 *	7.8%	14,363 *	15.4%
South Carolina	10,889 *	30.2%	33,528 *	38.9%
Alabama	11,279 *	32.9%	35,474 *	41.7%
South Dakota	11,606 *	31.8%	32,869 *	37.4%
District of Columbia	9,182 *	24.4%	88,854 *	77.7%
Total U.S.	7,635 *	17.5%	44,625 *	44.0%

* 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.

or by \$1,640. The richest fifth of families in West Virginia, however, saw their incomes increase by \$27,860 on average, an increase of 37 percent.¹⁵

Changes in Income Gaps

The ratio of the average income of the top fifth of families to the average income of the middle fifth of families is shown in Table 5 for all fifty states. In the late 1990s, the gap between high-income and middle-income families was the widest in seven states — Tennessee, New York, California, Texas, Louisiana, Arizona and Oklahoma — where the average income of the richest fifth of families was at least three times as large as the average income of the middle fifth of families. In California, for example, the middle fifth of families had average income of \$50,440 while the richest fifth of families had average income of \$154,300.

At the other end of the spectrum, seven of the ten states with the smallest top-to-middle ratios in the late 1990s were in the Midwest. The states with the smallest top-to-middle ratios were — South Carolina, Missouri, North Dakota, Minnesota, South Dakota, Wisconsin, Nebraska, Delaware, Utah and Indiana.

The income gaps shown in Table 5 were not always so great. Between the late 1970s and the late 1990s, the gap between the average income of middle-income families and the average income of high-income families grew significantly in 44 states. As shown in Table 6, which ranks states by the degree to which its gap increased over the period, the greatest increase in inequality between middle class and high-income families was in Oregon, followed by Tennessee and New York.

In the late 1970s, there was not a single state where the average income of families in the top quintile of the distribution was as much as 2.7 times as great as the average income of families in the middle quintile. By the late 1990s, there were 30 states where the gap was this wide.

Table 6A compares the top-to-middle ratio using the top five percent and middle fifth of the income distribution. Over the two-decade period this table shows an increase in inequality nationally of 1.2 points. New York had the largest increase from 3.6 to 5.2 points, followed by California, Michigan and Pennsylvania.

¹⁵ In one state — Wyoming — the average income of the bottom fifth of families declined by seven percent, or \$3,230. The richest fifth of families in Wyoming, however, saw their incomes increase by \$13,100 on average, an increase of 13 percent.

Table 5
Ratio of Incomes of Top and Middle Fifths of Families, '98-00

State	Rank	Average income of middle fifth of families	Average income of top fifth of families	Top-to-middle ratio +
Tennessee	1	43,536	137,524	3.2
New York	2	51,709	161,858	3.1
California	3	50,435	154,304	3.1
Texas	4	45,285	138,001	3.0
Louisiana	5	39,111	117,374	3.0
Arizona	6	45,205	135,114	3.0
Oklahoma	7	42,726	127,353	3.0
Oregon	8	48,399	141,428	2.9
Nevada	9	49,789	143,915	2.9
Florida	10	46,093	132,532	2.9
Virginia	11	58,668	168,178	2.9
Kentucky	12	46,181	130,825	2.8
New Jersey	13	64,604	182,665	2.8
West Virginia	14	36,893	104,004	2.8
Maine	15	47,614	133,049	2.8
North Carolina	16	47,110	131,598	2.8
Mississippi	17	39,637	110,609	2.8
Arkansas	18	37,690	104,745	2.8
Hawaii	19	58,025	159,415	2.7
Maryland	20	65,842	180,796	2.7
Connecticut	21	66,146	181,194	2.7
Massachusetts	22	60,579	165,729	2.7
Pennsylvania	23	53,588	146,317	2.7
New Mexico	24	39,559	107,639	2.7
Ohio	25	52,735	142,809	2.7
Michigan	26	57,529	155,168	2.7
Washington	27	55,603	149,628	2.7
Vermont	28	48,759	131,029	2.7
New Hampshire	29	59,517	158,499	2.7
Idaho	30	44,707	118,703	2.7
Georgia	31	47,421	125,551	2.6
Colorado	32	58,933	155,809	2.6
Alabama	33	45,571	120,473	2.6
Alaska	34	58,525	154,653	2.6
Illinois	35	57,201	150,985	2.6
Iowa	36	49,940	131,668	2.6
Kansas	37	49,600	130,095	2.6
Rhode Island	38	57,851	151,188	2.6
Wyoming	39	45,320	116,984	2.6
Montana	40	40,645	103,700	2.6
South Carolina	41	46,961	119,626	2.5
Missouri	42	52,815	133,672	2.5
North Dakota	43	43,396	109,045	2.5
Minnesota	44	61,690	154,972	2.5
South Dakota	45	48,091	120,705	2.5
Wisconsin	46	56,553	141,858	2.5
Nebraska	47	50,036	125,253	2.5
Delaware	48	54,386	135,276	2.5
Utah	49	53,754	131,951	2.5
Indiana	50	51,267	125,616	2.5
District of Columbia		46,857	203,185	4.3
Total U.S.		51,164	145,985	2.9

+ 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 6
Change in Ratio of Incomes of Top and Middle Fifths of Families,
'78-80 to '98-00

State	Rank	Top-to-middle ratio '78-80	Top-to-middle ratio '98-00	Change in top-to-middle ratio +	
Oregon	1	2.1	2.9	0.8	*
Tennessee	2	2.4	3.2	0.8	*
New York	3	2.4	3.1	0.8	*
Kentucky	4	2.2	2.8	0.7	*
California	5	2.4	3.1	0.7	*
West Virginia	6	2.2	2.8	0.7	*
Nevada	7	2.3	2.9	0.6	*
Iowa	8	2.0	2.6	0.6	*
New Jersey	9	2.2	2.8	0.6	*
Texas	10	2.5	3.0	0.6	*
Michigan	11	2.1	2.7	0.6	*
Hawaii	12	2.2	2.7	0.6	*
Virginia	13	2.3	2.9	0.6	*
Pennsylvania	14	2.2	2.7	0.6	*
Ohio	15	2.2	2.7	0.5	*
Connecticut	16	2.2	2.7	0.5	*
New Hampshire	17	2.1	2.7	0.5	*
Rhode Island	18	2.1	2.6	0.5	*
Louisiana	19	2.5	3.0	0.5	*
Arizona	20	2.5	3.0	0.5	*
Maryland	21	2.3	2.7	0.5	*
Kansas	22	2.1	2.6	0.5	*
Massachusetts	23	2.3	2.7	0.5	*
North Carolina	24	2.3	2.8	0.5	*
Maine	25	2.3	2.8	0.4	*
Wyoming	26	2.1	2.6	0.4	*
Idaho	27	2.2	2.7	0.4	*
Vermont	28	2.3	2.7	0.4	*
Oklahoma	29	2.6	3.0	0.4	*
Washington	30	2.3	2.7	0.4	*
Indiana	31	2.0	2.5	0.4	*
Nebraska	32	2.1	2.5	0.4	*
Illinois	33	2.3	2.6	0.4	*
Florida	34	2.5	2.9	0.4	*
Colorado	35	2.3	2.6	0.3	*
Minnesota	36	2.2	2.5	0.3	*
Wisconsin	37	2.2	2.5	0.3	*
Mississippi	38	2.5	2.8	0.3	*
Arkansas	39	2.5	2.8	0.3	*
Delaware	40	2.2	2.5	0.3	*
Georgia	41	2.4	2.6	0.3	*
Utah	42	2.2	2.5	0.2	*
Missouri	43	2.3	2.5	0.2	*
North Dakota	44	2.3	2.5	0.2	*
Montana	45	2.4	2.6	0.2	
New Mexico	46	2.5	2.7	0.2	
Alabama	47	2.5	2.6	0.2	
South Carolina	48	2.4	2.5	0.2	
Alaska	49	2.5	2.6	0.1	
South Dakota	50	2.4	2.5	0.1	
District of Columbia		3.0	4.3	1.3	*
Total U.S.		2.3	2.9	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 or decreases shown in the table are true increases or decreases in income inequality.

+ 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,
'78-80 to '98-00

State	Top 5%-to-middle ratio '78-80	Top 5%-to-middle ratio '98-00	Change in top 5%-to- middle ratio +	
California	3.5	4.9	1.4	*
Florida	3.7	4.7	1.0	*
Illinois	3.3	4.2	0.9	*
Massachusetts	3.3	4.3	1.0	*
Michigan	3.0	4.5	1.4	*
New Jersey	3.2	4.5	1.3	*
New York	3.6	5.2	1.6	*
North Carolina	3.6	4.5	0.9	*
Ohio	3.2	4.3	1.2	*
Pennsylvania	3.1	4.5	1.4	*
Texas	3.9	5.0	1.1	*
Total U.S.	3.5	4.7	1.2	*

* 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 or decreases shown in the table are true increases or decreases 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.

III. The Recent Trend: The Late 1980s to the Late 1990s

The economic expansion of the 1990s has been referred to as one of the most robust periods of economic growth in the postwar period in the United States. A close look at income growth over the past decade, however, reveals a sobering trend; the benefits of the strong economy of the last decade were not sufficient to turn around the longer-term trend toward increasing income inequality. In fact, income inequality grew in just over half the states during the 1990s and declined in only six states. (These findings result despite the fact that the Census data used in this report underestimate growth in income inequality as described in the box on page 3-4.)

It is only in the last few years that real wages have grown significantly for workers at all levels which has slowed the growth of wage inequality. However, the real wage growth has not been sufficient to counteract the two-decade long patterns of increasing income inequality. In addition, the incomes of the wealthiest families who rely less on wages as an income source continued to grow dramatically in the 1990s.

Income Trends: Differences Between High- and Low-Income Families

Table 7 shows how the average incomes of the top and bottom fifths of families changed between the late 1980s and the late 1990s in every state. In 23 states, the income of the top fifth of families grew faster than the income of the bottom fifth of families. In 17 of these states, the poorest fifth of families saw no change in their income while the richest fifth of families saw large increases in income. In New York, for example, the average income of families in the bottom fifth of the distribution decreased by 1.8 percent, or \$230 between the late 1980s and the

Table 7
Dollar and Percent Change in Average Income of Bottom and Top Fifths
of Families, '88-90 to '98-00 (In 1999 Dollars)

State	Bottom Fifth		Top Fifth	
	Dollar Change	Percent Change	Dollar Change	Percent Change
2 States Where the Bottom Fifth Grew Poorer and the Top Fifth Grew Richer				
Connecticut	-4,672 *	-19.4%	31,635 *	21.2%
Massachusetts	-1,190 *	-7.0%	19,713 *	13.5%
23 States Where the Income of the Top Fifth Grew Faster Than the Income of the Bottom Fifth #				
Oregon	-978	-6.5%	35,833 *	33.9%
Kansas	-824	-5.2%	19,902 *	18.1%
North Dakota	-802	-5.7%	13,083 *	13.6%
Delaware	-533	-3.2%	23,616 *	21.2%
Rhode Island	-507	-2.9%	24,850 *	19.7%
Montana	-486	-4.0%	15,966 *	18.2%
New Hampshire	-480	-2.4%	21,262 *	15.5%
Wyoming	-291	-1.9%	12,451 *	11.9%
New York	-233	-1.8%	27,797 *	20.7%
New Jersey	-32	-0.2%	28,753 *	18.7%
California	264	1.9%	18,853 *	13.9%
North Carolina	303	2.4%	24,448 *	22.8%
Wisconsin	351	2.1%	32,585 *	29.8%
Nevada	384	2.4%	32,447 *	29.1%
Idaho	654	4.9%	23,558 *	24.8%
Washington	673	4.0%	32,271 *	27.5%
Ohio	910 *	6.6%	28,446 *	24.9%
Nebraska	948	6.5%	22,455 *	21.8%
Texas	1,593 *	14.5%	25,077 *	22.2%
Pennsylvania	1,752 *	11.8%	29,647 *	25.4%
Utah	1,763 *	10.4%	29,839 *	29.2%
Iowa	1,850 *	12.6%	35,418 *	36.8%
Kentucky	2,343 *	22.8%	37,779 *	40.6%
6 States Where the Income of the Bottom Fifth Grew Faster Than the Income of the Top Fifth ^				
Georgia	2,241 *	19.5%	7,357	6.2%
Louisiana	2,693 *	36.2%	1,262	1.1%
South Carolina	3,152 *	27.0%	10,441 *	9.6%
Mississippi	3,466 *	42.0%	20,325 *	22.5%
Alaska	4,406 *	30.6%	15,987 *	11.5%
Indiana	5,105 *	40.0%	25,318 *	25.2%
2 States Where the Incomes of the Bottom Fifth and the Top Fifth Remained About the Same				
Vermont	-1,099	-6.7%	9,793	8.1%
Hawaii	470	2.9%	12,418	8.4%
17 States Where the Incomes of the Bottom Fifth and Top Fifth Changed at About the Same Rate				
Arizona	605	4.7%	17,215 *	14.6%
New Mexico	1,006 *	10.1%	2,705	2.6%
Oklahoma	1,511 *	13.2%	19,400 *	18.0%
West Virginia	1,526 *	15.6%	17,739 *	20.6%
Florida	1,758 *	14.3%	20,443 *	18.2%
Maine	2,034 *	14.6%	27,439 *	26.0%
Alabama	2,201 *	23.0%	26,644 *	28.4%
Missouri	2,513 *	19.5%	19,425 *	17.0%
Illinois	2,727 *	20.4%	22,758 *	17.7%
Arkansas	3,110 *	33.9%	19,527 *	22.9%
Virginia	3,304 *	22.5%	33,616 *	25.0%
Tennessee	3,454 *	35.9%	38,067 *	38.3%
Maryland	3,541 *	20.4%	45,510 *	33.6%
Michigan	3,588 *	27.0%	37,342 *	31.7%
South Dakota	3,925 *	30.4%	26,428 *	28.0%
Minnesota	5,170 *	34.3%	38,531 *	33.1%
Colorado	6,598 *	51.1%	45,582 *	41.4%
District of Columbia	297	3.3%	53,494 *	35.7%
Total U.S.	1,601 *	12.3%	25,116 *	20.8%

* 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 states 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.

late 1990s (a change that was not statistically significant). Families in the top fifth of the distribution, on the other hand, saw their incomes rise by more than 20 percent, or by \$27,800.

In two additional states, the poorest fifth of families grew poorer between the late 1980s and the late 1990s while the richest fifth grew richer. In both of these states — Connecticut and Massachusetts — the poorest fifth of families experienced a decline in income of more than five percent and the top fifth saw an increase of more than 10 percent.

Table 7A
Dollar and Percent Change in Average Income of Bottom Fifth and Top 5% of Families, '88-90 to '98-00 (In 1999 Dollars)

State	Bottom Fifth		Top 5%	
	Dollar Change	Percent Change	Dollar Change	Percent Change
1 Large State Where the Bottom Fifth Grew Poorer and the Top 5% Grew Richer				
Massachusetts	-1,190 *	-7.0%	38,762 *	17.5%
8 Large States Where the Income of the Top 5% Grew Faster Than the Income of the Bottom Fifth #				
California	264	1.9%	34,874 *	16.3%
Michigan	3,588 *	27.0%	84,059 *	48.8%
New Jersey	-32	-0.2%	53,157 *	22.6%
New York	-233	-1.8%	58,918 *	28.4%
North Carolina	303	2.4%	37,563 *	21.7%
Ohio	910 *	6.6%	52,074 *	29.5%
Pennsylvania	1,752 *	11.8%	60,362 *	33.9%
Texas	1,593 *	14.5%	53,868 *	31.5%
2 Large States Where the Incomes of the Bottom Fifth and Top 5% Increased at About the Same Rate				
Florida	1,758 *	14.3%	38,536 *	21.5%
Illinois	2,727 *	20.4%	38,851 *	19.2%
Total U.S.	1,601 *	12.3%	49,216 *	26.1%

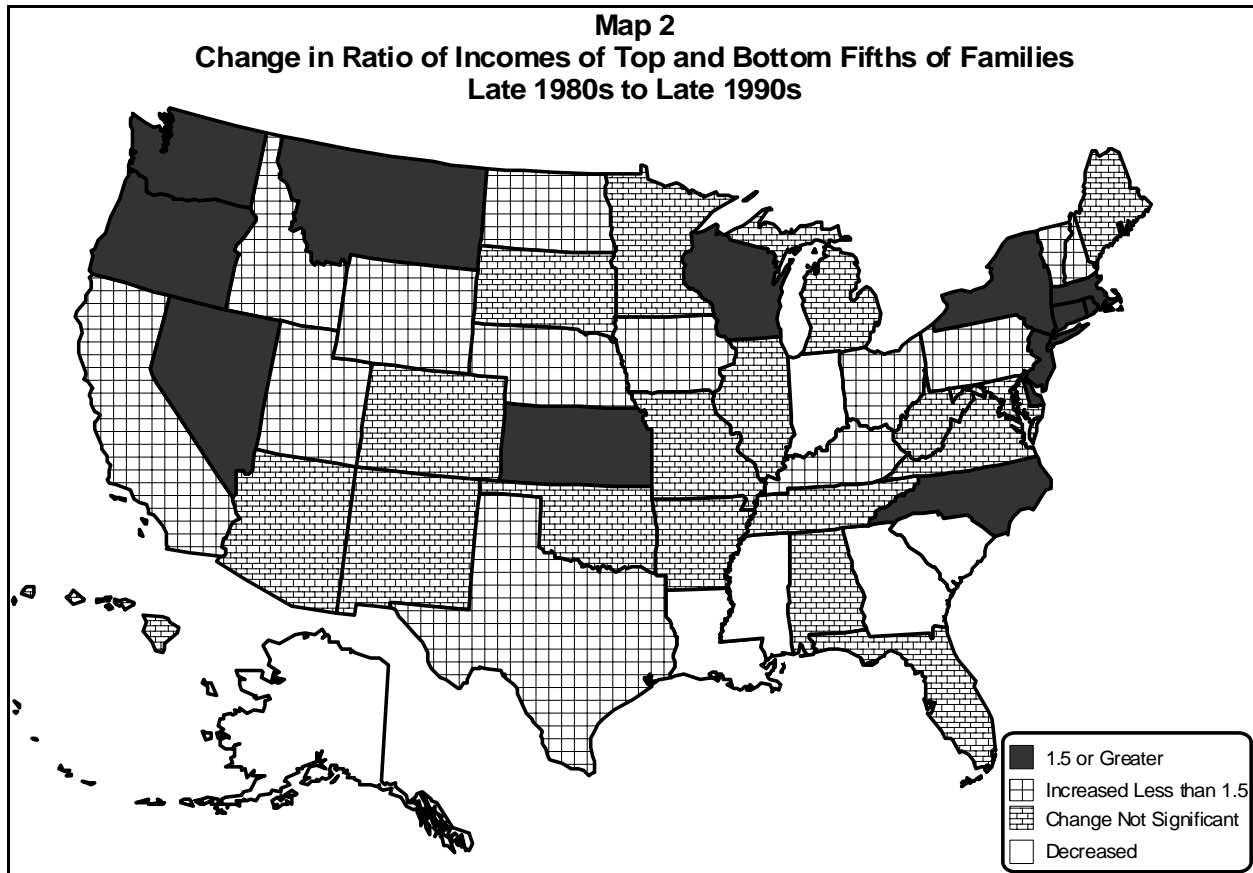
* Dollar changes marked with an asterisk are "statistically significant." The direction of the change is known with 95 percent certainty. See the footnote in Table 1 for details.

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.

While income inequality continued to grow in the 1990s, the growth in real wages and low unemployment did yield some significant income gains for the bottom fifth of families. Specifically, in 16 states the income of the bottom fifth of families grew by more than 20 percent between the late 1980s and the 1990s. However, in only five of these states was the growth in the bottom fifth sufficient to reverse the trend of growing income inequality.

The average income of the richest five percent of families grew dramatically from the late 1980s to the late 1990s. These changes are shown in Table 7A for eleven large states. In eight of these eleven large states, income inequality widened as the incomes of the richest five percent of families grew substantially faster than the incomes of the poorest fifth. In a ninth state, Massachusetts, inequality grew as the incomes of the richest five percent grew while the incomes of the poorest fifth declined. In all eleven states, the income of the top five percent of families grew by more than 15 percent. The increases in the average income of the top five percent of families ranged from \$34,870, or 16.3 percent, in California to \$84,060, or 48.8 percent, in Michigan. For the bottom fifth of families, only five of the eleven states saw an increase of ten percent or more.



Map 2 shows how the gap between the average incomes of the top and bottom fifths of families changed between the late 1980s and the late 1990s in every state. Inequality increased rapidly in many states in the West and the Northeast. Growth in inequality was slowest in the Plains states and the Southeastern states.

Changes in Income Gaps

As discussed above, one way to assess income gaps is to compare the average income of the top fifth of families to the average income of the bottom fifth of families. Table 8 presents the top-to-bottom ratio for each state in the late 1980s compared to the ratio in the late 1990s and shows that the gap in income between the poorest fifth of families and the richest fifth of families increased by a statistically significant amount in 26 states. In many states, the increase in inequality was substantial.

The table ranks the states by size of change in the income gap over the past decade. As shown, the gap between the richest 20 percent of families and the poorest 20 percent grew most in Connecticut, followed by Oregon and New York. In Connecticut, the top fifth of families in the late 1980s had incomes six times as large as the bottom fifth. By the late 1990s, the richest

Table 8
Change in Ratio of Incomes of Top and Bottom Fifths of Families,
'88-90 to '98-00

State	Rank	Top-to-bottom ratio '88-90	Top-to-bottom ratio '98-00	Change in top-to-bottom ratio +	
Connecticut	1	6.2	9.4	3.1	*
Oregon	2	7.0	10.0	3.0	*
New York	3	10.4	12.8	2.4	*
Massachusetts	4	8.6	10.5	1.9	*
Nevada	5	6.9	8.8	1.8	*
Wisconsin	6	6.4	8.2	1.7	*
Kansas	7	7.0	8.7	1.7	*
Delaware	8	6.7	8.4	1.7	*
Rhode Island	9	7.2	8.9	1.7	*
North Carolina	10	8.4	10.0	1.7	*
Montana	11	7.2	8.9	1.7	*
Washington	12	7.0	8.6	1.6	*
New Jersey	13	8.1	9.6	1.5	*
Ohio	14	8.3	9.7	1.4	*
Iowa	15	6.5	7.9	1.4	*
North Dakota	16	6.8	8.3	1.4	*
Idaho	17	7.1	8.5	1.4	*
Kentucky	18	9.1	10.4	1.3	*
New Hampshire	19	6.9	8.2	1.3	*
Vermont	20	7.4	8.5	1.2	*
California	21	9.8	11.0	1.2	*
Utah	22	6.0	7.0	1.0	*
Nebraska	23	7.0	8.0	1.0	*
Wyoming	24	6.9	7.9	1.0	*
Pennsylvania	25	7.9	8.8	1.0	*
Arizona	26	9.2	10.0	0.9	
Maryland	27	7.8	8.6	0.9	
Maine	28	7.6	8.3	0.8	
Texas	29	10.3	11.0	0.7	*
Hawaii	30	9.1	9.6	0.5	
Alabama	31	9.8	10.2	0.4	
Oklahoma	32	9.4	9.8	0.4	
West Virginia	33	8.8	9.2	0.4	
Michigan	34	8.9	9.2	0.3	
Florida	35	9.1	9.4	0.3	
Virginia	36	9.1	9.3	0.2	
Tennessee	37	10.3	10.5	0.2	
Minnesota	38	7.7	7.7	-0.1	
South Dakota	39	7.3	7.2	-0.1	
Missouri	40	8.9	8.7	-0.2	
Illinois	41	9.6	9.4	-0.2	
Colorado	42	8.5	8.0	-0.5	
New Mexico	43	10.5	9.8	-0.7	
Arkansas	44	9.3	8.5	-0.8	
Indiana	45	7.9	7.0	-0.8	*
Georgia	46	10.3	9.1	-1.1	*
South Carolina	47	9.3	8.1	-1.3	*
Alaska	48	9.6	8.2	-1.4	*
Mississippi	49	10.9	9.4	-1.5	*
Louisiana	50	15.6	11.6	-4.0	*
District of Columbia		16.4	21.6	5.2	*
Total U.S.		9.3	10.0	0.7	*

* 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.

+ 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.

fifth of Connecticut families had incomes more than 9 times as large as the poorest fifth of families.

The growth in the gap between the families at the very top of the income scale and the bottom fifth was even more dramatic. Table 8A shows the change in the ratio of the average income of the top five percent of families to the bottom 20 percent for eleven large states. The increase was most dramatic in New York where the ratio of the average income of the top five percent of families to the bottom fifth of families increased from

16.1 in the late 1980s to 21.1 in the 1990s. In the late 1980s, New York was the only state among these eleven states in which the ratio of the average income of the top five percent of families to the bottom fifth of families was 16 or higher. By the late 1990s, the average income of the richest five percent of families was more than 16 times the average income of the poorest 20 percent in five of these eleven states.

Table 8A
Change in Ratio of Incomes of Top 5% and Bottom Fifth of Families, '88-90 to '98-00

State	Top 5%-to-bottom ratio '88-90	Top 5%-to-bottom ratio '98-00	Change in top 5%-to-bottom ratio +	
California	15.5	17.7	2.2	*
Florida	14.6	15.5	0.9	
Illinois	15.2	15.0	-0.2	
Massachusetts	13.0	16.5	3.4	*
Michigan	13.0	15.2	2.2	*
New Jersey	12.4	15.2	2.8	*
New York	16.1	21.1	5.0	*
North Carolina	13.5	16.0	2.6	*
Ohio	12.8	15.6	2.8	*
Pennsylvania	12.0	14.4	2.4	*
Texas	15.6	17.9	2.3	*
Total U.S.	14.5	16.3	1.8	*

* 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 or decreases shown in the table are true increases or decreases 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.

Income Trends: Differences Between High- and Middle-Income Families

The recent trend toward increasing income inequality, like the longer-term trend, is not limited to the increasing gap between low- and high-income families. Income disparities between middle class and high-income families also have been on the rise over the past decade.

Table 9 shows the amount by which the incomes of families in the middle and top fifths of the income distribution rose or fell over the past decade in each state. In 29 states, the income of the top fifth of families grew faster than the income of the middle fifth of families. In Oregon, for example, the average income of families in the middle fifth of the distribution increased by \$3,220, or 7.1 percent, between the late 1980s and the late 1990s. Families in the top fifth of distribution, on the other hand, saw their incomes rise by more than 30 percent, or by \$35,830.

In one state, Wyoming, the middle fifth of families grew poorer between the late 1980s and the late 1990s while the richest fifth grew richer.

Table 9
Dollar and Percent Change in Average Income of Middle and Top Fifths
of Families, '88-90 to '98-00 (in 1999 Dollars)

State	Middle Fifth		Top Fifth	
	Dollar Change	Percent Change	Dollar Change	Percent Change
1 States Where the Middle Fifth Grew Poorer and the Top Fifth Grew Richer				
Wyoming	-1,600 *	-3.4%	12,451 *	11.9%
29 States Where the Income of the Top Fifth Grew Faster Than the Income of the Middle Fifth #				
Massachusetts	-15	-0.0%	19,713 *	13.5%
New Hampshire	795	1.4%	21,262 *	15.5%
New York	956 *	1.9%	27,797 *	20.7%
Connecticut	1,019	1.6%	31,635 *	21.2%
New Jersey	1,315 *	2.1%	28,753 *	18.7%
California	1,602 *	3.3%	18,853 *	13.9%
North Dakota	1,760 *	4.2%	13,083 *	13.6%
West Virginia	2,296 *	6.6%	17,739 *	20.6%
Montana	2,421 *	6.3%	15,966 *	18.2%
Maine	2,709 *	6.0%	27,439 *	26.0%
Kansas	2,928 *	6.3%	19,902 *	18.1%
Oregon	3,224 *	7.1%	35,833 *	33.9%
Nevada	3,632 *	7.9%	32,447 *	29.1%
Delaware	4,168 *	8.3%	23,616 *	21.2%
North Carolina	4,637 *	10.9%	24,448 *	22.8%
Texas	4,715 *	11.6%	25,077 *	22.2%
Idaho	4,763 *	11.9%	23,558 *	24.8%
Ohio	4,888 *	10.2%	28,446 *	24.9%
Washington	5,520 *	11.0%	32,271 *	27.5%
Virginia	5,902 *	11.2%	33,616 *	25.0%
Iowa	6,306 *	14.5%	35,418 *	36.8%
Wisconsin	6,588 *	13.2%	32,585 *	29.8%
Maryland	6,895 *	11.7%	45,510 *	33.6%
Tennessee	7,081 *	19.4%	38,067 *	38.3%
Pennsylvania	7,147 *	15.4%	29,647 *	25.4%
Kentucky	8,331 *	22.0%	37,779 *	40.6%
Utah	8,550 *	18.9%	29,839 *	29.2%
Michigan	8,714 *	17.9%	37,342 *	31.7%
Colorado	13,271 *	29.1%	45,582 *	41.4%
1 State Where the Income of the Middle Fifth Grew Faster Than the Income of the Top Fifth ^				
New Mexico	4,941 *	14.3%	2,705	2.6%
19 States Where the Incomes of the Middle Fifth and Top Fifth Changed at About the Same Rate				
Vermont	-1,006 *	-2.0%	9,793	8.1%
Hawaii	387	0.7%	12,418	8.4%
Louisiana	1,950 *	5.2%	1,262	1.1%
Arizona	2,431 *	5.7%	17,215 *	14.6%
Alaska	2,856 *	5.1%	15,987 *	11.5%
Georgia	3,494 *	8.0%	7,357	6.2%
Oklahoma	4,251 *	11.0%	19,400 *	18.0%
Arkansas	4,693 *	14.2%	19,527 *	22.9%
Florida	5,392 *	13.2%	20,443 *	18.2%
Rhode Island	5,486 *	10.5%	24,850 *	19.7%
South Carolina	6,002 *	14.7%	10,441 *	9.6%
Nebraska	6,089 *	13.9%	22,455 *	21.8%
Illinois	7,132 *	14.2%	22,758 *	17.7%
Indiana	7,731 *	17.8%	25,318 *	25.2%
Mississippi	7,809 *	24.5%	20,325 *	22.5%
South Dakota	8,558 *	21.6%	26,428 *	28.0%
Missouri	9,493 *	21.9%	19,425 *	17.0%
Alabama	10,479 *	29.9%	26,644 *	28.4%
Minnesota	12,823 *	26.2%	38,531 *	33.1%
District of Columbia	3,538 *	8.2%	53,494 *	35.7%
Total U.S.	4,935 *	10.7%	25,116 *	20.8%

* 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.

^ For this state, the income of the middle 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.

While income inequality continued to grow in the 1990s, the growth in real wages and low unemployment did yield some modest income gains for the middle fifth of families. Specifically, in 12 states the income of the middle fifth of families grew by more than 15 percent between the late 1980s and the 1990s.

Changes in Income Gaps

The increase in the income gaps between middle class and high-income families in the majority of states can be seen in Table 10, which shows how the ratio of the average income of the top fifth of families to the average income of the middle fifth of families has changed over the past decade. As shown, the gap in income between middle class and high-income families increased by a statistically significant amount in 33 states. In 16 additional states, the ratio did not change by a statistically significant amount. The gap between the middle fifth and top fifth declined in only one state — New Mexico.

Table 10
Change in Ratio of Incomes of Top and Middle Fifths of Families,
'88-90 to '98-00

State	Rank	Top-to-middle ratio '88-90	Top-to-middle ratio '98-00	Change in top-to-middle ratio +	
Oregon	1	2.3	2.9	0.6	*
New York	2	2.6	3.1	0.5	*
Nevada	3	2.4	2.9	0.5	*
Maryland	4	2.3	2.7	0.5	*
Connecticut	5	2.3	2.7	0.4	*
Maine	6	2.4	2.8	0.4	*
Iowa	7	2.2	2.6	0.4	*
Tennessee	8	2.7	3.2	0.4	*
New Jersey	9	2.4	2.8	0.4	*
Kentucky	10	2.5	2.8	0.4	*
Wyoming	11	2.2	2.6	0.4	*
Washington	12	2.3	2.7	0.3	*
New Hampshire	13	2.3	2.7	0.3	*
Massachusetts	14	2.4	2.7	0.3	*
West Virginia	15	2.5	2.8	0.3	*
Wisconsin	16	2.2	2.5	0.3	*
Ohio	17	2.4	2.7	0.3	*
Virginia	18	2.6	2.9	0.3	*
California	19	2.8	3.1	0.3	*
Michigan	20	2.4	2.7	0.3	*
Idaho	21	2.4	2.7	0.3	*
North Carolina	22	2.5	2.8	0.3	*
Texas	23	2.8	3.0	0.3	*
Delaware	24	2.2	2.5	0.3	*
Kansas	25	2.4	2.6	0.3	*
Montana	26	2.3	2.6	0.3	*
Vermont	27	2.4	2.7	0.3	
Arizona	28	2.8	3.0	0.2	*
Colorado	29	2.4	2.6	0.2	*
Pennsylvania	30	2.5	2.7	0.2	*
North Dakota	31	2.3	2.5	0.2	*
Rhode Island	32	2.4	2.6	0.2	*
Hawaii	33	2.6	2.7	0.2	
Arkansas	34	2.6	2.8	0.2	*
Utah	35	2.3	2.5	0.2	*
Oklahoma	36	2.8	3.0	0.2	
Nebraska	37	2.3	2.5	0.2	
Alaska	38	2.5	2.6	0.2	
Indiana	39	2.3	2.5	0.1	
Minnesota	40	2.4	2.5	0.1	
South Dakota	41	2.4	2.5	0.1	
Florida	42	2.8	2.9	0.1	
Illinois	43	2.6	2.6	0.1	
Alabama	44	2.7	2.6	-0.0	
Georgia	45	2.7	2.6	-0.0	
Mississippi	46	2.8	2.8	-0.0	
Missouri	47	2.6	2.5	-0.1	
South Carolina	48	2.7	2.5	-0.1	
Louisiana	49	3.1	3.0	-0.1	
New Mexico	50	3.0	2.7	-0.3	*
District of Columbia		3.5	4.3	0.9	*
Total U.S.		2.6	2.9	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.

+ 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.

IV. Causes and Cures: State Policy Options

Income inequality has grown over the last 20 years and over the past decade 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 globalization, the shrinkage of manufacturing jobs and the expansion of low wage service jobs, immigration, and the weakening of labor market institutions — including 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 — approximately the lowest-earning 75 percent of the workforce. Only in the last few years has there been a modest improvement in this picture. Persistent low unemployment, an increase in the minimum wage and rapid productivity growth have fueled recent real wage gains at the bottom. The gap between middle- and high-wage workers continued to grow in recent years. Moreover, even the recent wage growth for low-wage workers has not been sufficient to counteract the two-decade long pattern of growing inequality; inequality is greater today between low- and high-income families and between middle- and high-income families than it was 20 years ago or ten years ago.¹⁶

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 the social safety net, the failure to have effective labor laws regulating the right to collective bargaining, and a minimum wage that has declined in real terms 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 rather than moderated the trend toward growing inequality emerging from the labor market.

¹⁶ It should be noted that the data in this report reflect pre-tax income.

Recent state policy decisions have played a role in widening the already growing gaps in the distribution of income. If they so choose, however, states can chart a different course. States can enact policies such as raising their minimum wage and reforming their unemployment insurance system that improve the distribution of income. 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 have been identified by researchers as underlying the growing income disparities and 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 directly by redistributing income through the tax system and through benefit programs such as welfare. Federal and state government policies also affect the distribution of income less directly 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 declined over much of the last two decades. The wages of the very highest paid employees, however, have grown significantly. It is only in the last five years that real wages have grown 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 the increasing disparities in the wages paid to low- and middle-income workers relative to highly-skilled, highly-paid workers. The expansion of service sector jobs 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 2000, employment in manufacturing fell 12 percent, while employment in services rose 136 percent and employment in retail trade rose 56 percent. The increase in the number of jobs in the services and retail trade industries accounted for 76 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 2000, average hourly pay in the retail trade industry was just 66 percent of that of the manufacturing industry.

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 based on threats of moving production facilities to other countries.¹⁷ Research on the influence of trade on wage inequality 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 10 percent to 15 percent of rising wage inequality.¹⁸

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 31 percent after accounting for inflation between 1979 and 1989. Despite the legislated increases in the minimum wage in 1990 and 1991, and again in 1996 and 1997, the value of the minimum wage in 1999 was still 21 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.¹⁹

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. In 1979, some 24 percent of the labor force was unionized. By 2001, the percentage of workers belonging to unions had dropped to 13.5 percent. Economic analysis confirms that the decrease in the unionization rate contributed to the 1980s increase in U.S. earnings inequality.²⁰

It is also contended that increasing technology has fed the growth of wage inequality. Manufacturing has become more automated than in the past, so demand for high-skilled jobs has increased while the demand for low-skilled manufacturing jobs has declined. New technology, such as personal computers and improved communications, have increased the demand for skilled workers in all industries. In theory, these changes lead to wage inequality by placing a premium on highly skilled, high wage workers over unskilled workers. However, there is little direct evidence of the impact of technological change on wage inequality — in part due to the

¹⁷ Lawrence Mishel, Jared Bernstein and John Schmitt, *The State of Working America 2000-2001*. Cornell University Press.

¹⁸ J. David Richardson, "Income Inequality and Trade: How to Think, What to Conclude," *Journal of Economic Perspectives*, Vol. 9, No. 3 (Summer 1995), 33-55.

¹⁹ Mishel, Bernstein and Schmitt, *The State of Working America*, 2000-2001.

²⁰ 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.

Income Mobility

Do Low-Income Families Move Quickly Up the Economic Ladder

As shown in this analysis, income inequality has increased substantially in the vast 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 late 1970s.

Some families, however, have low incomes for only a few years, quickly moving 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.

While some families do see their incomes increase over time, studies of income mobility have shown that the majority of low-income families have low incomes for many years. Recent studies of earnings mobility show that in the short term workers in the bottom fifth of the income distribution experienced very little income mobility. In the early 1990s, 75 percent of individuals who started in the lowest fifth of family income ended up in the lowest fifth one year later.^a Income mobility improves when a longer period of time is analyzed. During the 1970s and the 1980s, three out of five individuals who started in the lowest fifth remained there after ten years. Even after more than 25 years, however, more than two out of five of the poorest workers remain at the bottom of the income distribution. Between 1969 and 1994, 41 percent of those in the lowest fifth were still there 25 years later and another 25 percent had only moved to the second fifth of the income distribution.^b

Another question is whether income mobility has increased over time, because increases in income mobility can offset increased income inequality. If income mobility has increased substantially, then increases in income inequality might reflect changes in lifecycle patterns and not be particularly important. On the other hand, if income mobility has remained about the same or declined since the 1970s, then the increases seen in income inequality over that time reflect true growth in inequality and not merely a reshuffling of the income distribution. In fact, research has shown that income mobility actually declined between the late 1960s and the early 1990s. In 1968-69 the percent of people remaining in the same quintile for two years was 62.7 percent. In 1990-91 the percentage increased to 65.9 percent. Thus, the probability of staying in the same fifth of the income distribution has increased, a circumstance that exacerbates rather than ameliorates the growth in income inequality.^c

^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 Unpublished tabulations of PSID data by Peter Gottschalk in the State of Working America; 2000-2001.

^c Gottschalk, op. cit.

difficulty in measuring changes in technology.²¹ Moreover, technological change that has favored the use of “skilled” over “unskilled” labor has been ongoing for many decades. Meanwhile, there has been a continuous growth in the education and skill levels of the workforce. The issue then is whether the pace of technological change has accelerated in recent decades so that the “demand for skill” outpaced the supply. 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, suggesting that the role of technological change in increasing wage inequality has been small.²²

Finally, immigration has been identified as a potential cause of rising wage inequality. Immigration plays a role in increasing wage inequality if the growing number of immigrants increases the supply of workers — particularly low-wage workers — thus lowering wages.

The role of immigration in the wage inequality story is a source of much research and debate. The general findings are that there is “a weak negative correlation between the presence of immigrants in a local labor market and the earnings of the natives in the labor market.”²³ That is, there is some evidence of a slight reduction in wages among the native-born population due to immigrants moving into an area. A recent study of state wage inequality found that immigration had only a small impact on increasing wage inequality.²⁴ However, the impact of immigration will 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.²⁵ Any impact that the immigration of lower-skilled workers has on rising income inequality underscores the importance of training and educational programs that build the skills of all low-wage workers.

Besides wages, the other major source of income is investment income such as dividends, rent, interest and capital gains. Since investment income primarily accrues to those at the top of the income structure, any expansions of investment income — as has occurred recently — will

²¹ 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.

²² Mishel, Bernstein and Schmitt, *The State of Working America*, 1999.

²³ George J. Borjas, “The Economics of Immigration,” *Journal of Economic Literature*, Vol. XXXII (December 1994), 1667-1717.

²⁴ Andrew B. Bernard and S. Bradford Jensen, *Understanding Increasing and Decreasing Wage Inequality*, April, 1998.

²⁵ Deborah Reed, *California’s Rising Income Inequality: Causes and Concerns*. San Francisco, CA: Public Policy Institute of California, 1999.

lead to greater income inequality. This was particularly true in the period of recession of the early 1990s. This report captures only some of the effects of these investment income trends because the income measure used in this report includes only a portion of investment earnings. It does not include income from capital gains — the income that people make when they sell assets, such as stock, that has appreciated in value.

In aggregate 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 16 percent to 20 percent. Over the same period, total labor income — wages, salaries and fringe benefits — fell from 74 percent to 71 percent.²⁶ Higher income families benefitted disproportionately from this increase in the importance of investment income as this type of income makes up a larger share of their total income. Some 75 percent of all capital gains income is realized by families in the top five percent of the income distribution.²⁷ The growth of the stock market and other returns to capital benefit families at the upper end of the income scale most.²⁸

Another possible explanation for the growing income gap is that changes in the demographic composition of the population have led to increased income inequality. The past two decades have been marked by significant 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. Despite these significant changes, a number of analysts have found that these factors 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 served to reduce the rise in inequality rather than increase it.²⁹ In addition, she finds that the

²⁶ These figures are based on an Economic Policy Institute analysis of National Income and Product Accounts (NIPA) and Internal Revenue Service (IRS) data.

²⁷ Congressional Budget Office, *Perspectives on the Ownership of Capital Assets and the Realization of Capital Gains*, May 1997.

²⁸ In 1995, the wealthiest 10 percent of the U.S. population held 88 percent to 92 percent of stocks and mutual funds, financial securities, trusts and business equity, while the remaining 90 percent of the population held less than 12 percent. Edward Wolff, *Recent Trends in Wealth Ownership*, April 20, 1999.

²⁹ 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 movements among age or education groups was a reduction in inequality. That is, if the age or education composition of the population had been held constant at the 1975 level, inequality would have been higher in 1993 than the level actually observed.

growing share of the population consisting of minorities has had only a small effect on the rise of family income inequality.³⁰

One demographic trend has had some impact on the rise in family income inequality.³¹ Over the last two decades, the percentage of households composed of single individuals increased from 22 percent to 26 percent. At the same time, the percentage of families headed by a woman increased from 14 percent to 18 percent. These trends have served to reduce incomes at the low end of the income scale because both single individual families and female-headed households are generally lower income households. This report analyzes the income of families — two or more related individuals. As a result, the changes in inequality reflected here are not the result of the increase in families composed of single individuals, but do to some degree reflect the increase in families headed by a single woman.

Another significant trend, the increase in husband-wife families with a working wife, has served to lessen family income inequality. During the 1970s and 1980s, families often made up for the decline in the wages of the husband by increasing the number of hours family members were employed. Increasing numbers of women entered the workforce, helping to 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 limit to how long increased work effort can serve to offset declining wages. There is some evidence that the United States is approaching that limit. In the 1990s, wives' hours of work grew much more slowly than in the 1980s.³²

Future Trends in Wage Growth

The factors that affected the increase in inequality through the peak of the economic expansion of the 1990s are discussed above. While income inequality grew significantly between the late 1970s and the late 1990s, the tight labor market did lead to gains during the latter half of the 1990s for low- and middle-income workers. These gains were the result of broad-based wage growth. While it is not the focus of this report, it is relevant to examine the likely path of wage growth during and after the current recession.

While no one can predict with certainty where future wage growth is heading, there are good reasons to be concerned that the recent period of more even growth in wages is ending.

³⁰ 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*.

³¹ Ibid.

³² Mishel, Bernstein and Schmitt, *The State of Working America, 2000-2001*.

With the onset of recession in 2001, the full-employment labor market of the late 1990s disappeared, and, by the end of 2001, wages were already beginning to grow in a more unequal pattern than they had over the 1995-2000 period.³³

In our discussion of the causes of increasing inequality, we stressed the roles of the shift out of manufacturing to lower paying service jobs, the decline in the real value of the minimum wage, trade, and immigration all of which lowered the bargaining power of low-wage workers. Two important and related phenomenon occurred in the latter half of the 1990s which helped to partially counteract these effects. First, economic growth sped up, and, second, 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 move towards full employment in 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. But with the onset of recession, we have left full employment behind.

Recessions have typically led to unequal growth in incomes, as low-income families tend to be those most buffeted by market forces. Similarly, we expect recoveries to lift the economic prospects of the least advantaged and regain some of the ground lost in the downturn. However, over the 1980s recovery growth was relatively slow and unemployment high on average resulting in uneven wage growth that served to accelerate growth in inequality. In the post-95 period, however, the recovery finally caught hold, and low income families began to see some real gains (though not as large as the gains among families with the highest incomes.). Thus, over the last 20-plus years, low-income families have only enjoyed one relatively short five-year period when the labor market tightened up enough to give them a real boost.

Unfortunately, the current recession is likely to end this short-lived period of full employment. Unless we return fairly quickly to the tight labor markets of the late 1990s, wage inequality could easily begin 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 the economic forces described above that are largely outside the control of state policymakers. However, state government policies can serve to mitigate the effects of increasing inequality and push back against rather than worsen the trend towards 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

³³ See QWES (2001) <http://www.epinet.org/qwes/qwes.html>.

the lowest rung of the wage ladder, recently arrived immigrants and workers who face temporary unemployment. In addition, state tax structures can be modified to reduce their tendency to accelerate rather than moderate the growth in the income gap between rich families and poor and middle-income families.

Minimum Wage

One way that policymakers could help reverse or moderate the decline in wages for workers at the bottom of the pay scale would be to enact a higher minimum wage. The federal minimum wage is now \$5.15 an hour. At this level, the value of the minimum wage is still lower than it was any year between 1961 and 1984, after adjusting for inflation. The purchasing power of the minimum wage is about 21 percent below its average value during the late 1970s. In the last few years Congress has considered several bills that would have phased in an increase in the minimum wage but ultimately did not enact an increase.

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 1, 2002 eleven states and the District of Columbia had minimum wages that were higher than the federal level.³⁴

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.³⁵ Contrary to the popular stereotype, the majority of minimum wage workers are not teenagers, but rather are adults. Minimum wage earners contribute an average of 54 percent of their families' weekly earnings.³⁶

One of the principal arguments against raising the minimum wage is that it would price many workers out of the job market. At the state level, some argue that an increase in the state

³⁴ The eleven states are Alaska at \$5.65, California at \$6.75, Connecticut at \$6.70, Delaware at \$6.15, Hawaii at \$5.75, Maine at \$5.75, Massachusetts at \$6.75, Oregon at \$6.50, Rhode Island at \$6.15, Vermont at \$6.25, and Washington at \$6.90. The minimum wage in the District of Columbia is \$6.15. In some of these states, further increases are scheduled to take place. For example as of January 1, 2003 Hawaii increases to \$6.25, Maine increases to \$6.25, and Washington's minimum wage increases each year based changes in the consumer price index.

³⁵ 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.

³⁶ 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 John Schmitt, *The State of Working America*, 1999.

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 on minimum wage increases. Several recent analyses of increases in state minimum wages have come to the similar conclusion that the increases did not have a negative impact on employment, even relative to neighboring states with lower minimum wages.³⁷

A related recent policy development designed to assist low wage workers is the enactment of living wage ordinances. These laws typically require private contractors performing services for a city or other local government to pay their workers a minimum hourly wage higher than the minimum wage. These ordinances affect fewer workers than a state minimum wage.

Unemployment Insurance

The incomes of many workers over the course of a year are often reduced because they experience a spell of unemployment. Intermittent unemployment is also likely to be a significant cause of workers falling into poverty in states that have a high level of seasonal unemployment, such as in agriculture or tourism.

The unemployment insurance system, administered jointly by the federal and state governments, is an important part of the safety net designed to prevent such poverty and reduction in income. Unemployment insurance helps workers who lose their jobs by replacing a portion of their former earnings while they are looking for new jobs or waiting to be called back to their old jobs, frequently preventing the unemployed from falling into poverty or from needing to rely on welfare. The current recession demonstrates the critical importance of the unemployment insurance system as a part of the national safety net for low-wage workers.

Beginning in the early 1980s as a result of changes in federal policy (taxation of unemployment insurance benefits and availability of loans to states), state-level administrative policy, and migration from the rustbelt to the sunbelt — unemployed workers are much less likely to receive unemployment insurance benefits. At the end of the recession in 1975, three quarters of the unemployed workers were receiving unemployment insurance benefits.³⁸ By 2001

³⁷ 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.

³⁸ 1975 *Green Book*, Background material and data on programs within the jurisdiction of the Committee on Ways and Means.

that number had declined by 32 percentage points, to only 43 percent.³⁹ This occurred despite the fact that unemployment insurance coverage increased from 1975 to 2001. Since unemployment insurance benefits go disproportionately to lower income workers, these changes in policy and migration likely had a substantial impact on income inequality. Further, since 1990, the percentage of lost income replaced by unemployment insurance benefits across the 50 states has fallen five percentage points so that in 1999, unemployment insurance benefits replaced only 33 percent of an average worker's lost earnings.

The decline in unemployment insurance receipt reflects both economic trends, such as the increase in low-paid, intermittent jobs, primarily in the growing service sector, and changes in federal and state policies.⁴⁰ The federal government and a number of state governments have enacted changes that have made the unemployment insurance program more difficult to access. When benefit 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.

Efforts to strengthen the unemployment insurance system both at the national level and in many states are warranted in order to broaden the receipt of unemployment insurance among unemployed workers. There are a number of options for modifying state rules that govern unemployment insurance that would expand coverage among low-wage workers.

- **“Alternate Base Period” for Eligibility:** Unemployment insurance benefits are determined in part by a person's earning history. Under current rules in most states the most recent earnings used in benefit determination 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. Twelve states currently have such provisions.⁴¹
- **Good Cause for Voluntarily Leaving Work:** Workers who leave a job voluntarily generally are not eligible for unemployment benefits. Nevertheless, all states have rules that allow some workers who leave a job voluntarily with “good

³⁹ Economic Policy Institute calculation.

⁴⁰ 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.

⁴¹ These are Massachusetts, Maine, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Rhode Island, Vermont, Washington and Wisconsin.

cause” to be eligible for benefits.⁴² As welfare reform efforts lead to an increase in the number of working single 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.

- **Workers Available Only for Part-Time Work:** One fundamental requirement for eligibility for unemployment compensation is that a person be available for work. In recognition of the 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.⁴³
- **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, it may qualify 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 under which the federal government pays 50 percent of benefit costs. Adopting this alternate trigger would allow many more states to qualify for extended benefits during an economic downturn than under the standard trigger.⁴⁴

- **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.⁴⁵ These states could join the majority of states and eliminate these exclusions.

⁴² 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.

⁴³ For more information, see National Employment Law Project, *Part-time Workers and Unemployment Insurance: Expanding UI for Low-wage and Part-Time Workers*, March 2001, available at <http://www.nelp.org>.

⁴⁴ For more information, see Center on Budget and Policy Priorities, *Unemployment Insurance Protection in 1994*, May 1995.

⁴⁵ These states are Arkansas, Colorado, Delaware, Indiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, North Carolina, Ohio, Pennsylvania, South Dakota, West Virginia, and Wisconsin.

- **Dependent Allowances:** Some 12 states and the District of Columbia have acknowledged the special needs of working parents by providing additional unemployment insurance payments to workers with children. These payments are called dependent or dependency allowances. States that offer these allowances are Alaska, Connecticut, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, New Jersey, Ohio, Pennsylvania, and Rhode Island.

Income Support Programs

Changes in programs that provide assistance to low-income families also have contributed to the increase in income inequality and will likely continue to exacerbate the trend toward increasing inequality in the coming years.

Among these changes are those in the cash assistance programs serving needy families with children. Over the period between the late 1970s and the mid-1990s, cash assistance benefits fell in the majority of states. In the typical state, benefits for a family of three with no other income fell 30 percent between 1980 and 2000, after adjusting for inflation.

The Personal Responsibility and Work Opportunities Act of 1996, better known as the welfare reform law, has had a significant effect on the incomes of low-income single parent families with children. The law allows states to eliminate benefits to families that do not conform to strict training and work requirements and sets a time limit on benefits.

During the economic expansion of the 1990s reliance on cash assistance declined dramatically. Nationally, the number of welfare cases had dropped by more than 57 percent from their peak level of 5 million at the height of the recession in the early 1990s. This decline in the rolls has begun to reverse or slow in most states as a result of the recession. Nevertheless, many former welfare recipients remain off the rolls. Studies indicate that between one-quarter and one-half of former welfare recipients are not employed after they leave the rolls.

However, for many former recipients who have found jobs, the move from reliance on public assistance to reliance on a paycheck has not meant an escape from poverty. A recent report by the U.S. Department of Health and Human Services (HHS) 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 estimated poverty line for a family of three in 2000 was \$13,737; for a family of four, it was \$17,601.⁴⁶

⁴⁶ 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>).

Now that the economy has gone into recession, the consequences for these families could be dire. Families that have relied on public assistance are often headed by adults with few job skills who are likely to be among the first to lose their jobs if there is a recession.

The welfare reform bill also replaced the eligibility criteria for the Supplemental Security Income program, the program that provides cash assistance to elderly and disabled poor, with stricter disability standards for children. These new standards have resulted in thousands of low-income disabled children being disqualified from the program. This is further reducing the incomes of low-income families with children.

Some states operate a general assistance program for individuals and families that do not qualify for federal assistance under SSI or TANF. However, in the early 1990s, many states either eliminated or substantially cut funding from general assistance programs. This also contributed to the income inequality in those states. (As noted, this report looks only at families of two or more people so the effect of general assistance cuts on families is reflected but the effect on individuals is not.)

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.⁴⁷ 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.) Worker stipends — 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 can enhance the well-being of working poor families.

States can also assist low-wage workers by providing key work supports. States can help low-income families get to their jobs by providing income-based transportation subsidies, establishing subsidy programs for low-income families to assist in purchasing a car, or developing coordinated networks of local transportation services for individuals with special needs. States can help to create an improved child care system by providing child care subsidies with affordable co-payments, improving resource and referral services and providing enhanced reimbursement rates to centers that provide care during non-standard hours.

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 assist low income families in accessing existing work supports such as food stamps, medical coverage, and child care by explaining what they are eligible for and helping them to apply. In addition, they

⁴⁷ For additional information on the policy options summarized below, see *Windows of Opportunity: Strategies to Support Families Receiving Welfare and Other Low-Income Families in the Next Stage of Welfare Reform*, Center on Budget and Policy Priorities, January 2000.

can help to ensure that families already receiving Medicaid and food stamps do not inappropriately lose these benefits when they start to work.

States can also expand the availability of health insurance for low-wage workers. The federal welfare law enacted in August of 1996 gives states a little-recognized opportunity to use Medicaid to provide health care coverage to low-income working parents. Taking advantage of this opportunity allows states to use federal matching funds to expand health insurance for low-income working parents.

State Tax Policies

Virtually all state tax systems collect a larger share of the incomes of poor families than of high-income families. State taxes also generally absorb a larger share of the incomes of middle-class families than of high-income families. This serves to widen the after-tax income gap, exacerbating the trends in pre-tax income detailed in this report. Further, many states have been making their tax systems less progressive throughout the 1990s. When states raised taxes over the past decade to meet recession-induced shortfalls, 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.⁴⁸

State Tax Reform

States are currently facing the toughest fiscal conditions they have encountered in almost ten years. As of March 2002, according to the National Conference of State Legislatures, revenues in 45 states were below estimates for the current fiscal year and 36 states have already planned or implemented cuts in public services. The National Governor's Association estimates that total state budget deficits nationwide for the current fiscal year will exceed \$40 billion. With no immediate prospects for fiscal recovery states are exploring many options to address this fiscal crisis, including revenue raising as well as spending cuts.

The specific taxes that states choose to raise and the form of those increases will determine whether tax changes increase or decrease after-tax income inequality in the states. To the extent that states choose to raise taxes, they can fashion tax increases that are progressive in nature and improve the after-tax distribution of income.

⁴⁸ 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.

There are many ways to accomplish this. 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. If a state increases its reliance on income taxes relative to sales taxes, the relative burden generally is lessened for lower-income families. Thus, if a state raises income tax rates rather than sales tax rates, after-tax income disparities generally would be reduced.

States can also act to prevent a reduction in revenue from the estate tax — one of the most progressive elements of their tax systems — by not conforming to the new federal estate tax law enacted last year. The federal tax cut package of 2001 made a number of changes to the federal estate tax. The estate tax will be gradually eliminated over ten years, with full repeal in 2010. As a part of these changes, the credit for state estate and inheritance tax payments will be phased out more quickly, by 2005. Most state estate taxes — known as "pickup taxes" — are based on the amount of this credit and thus will be reduced or eliminated as it is phased out. Prior to the federal tax cuts of June 2001, states would have received approximately \$6.5 billion in 2003 as a result of the federal credit. States can avoid the loss of much of this revenue 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 states.

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 raise regressive taxes such as the sales tax or excise taxes to address their fiscal problems, they can offset some of the impact on low-income families by making their income taxes more progressive through enacting tax credits targeted to low-income taxpayers or by raising personal exemptions or standard deductions.

Establishing a State Earned Income Tax Credit

One direct way that states can use tax policies to boost income from work for their poorest 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.

There is an important role for state EITCs. 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 regressive sales and excise taxes. Partly as a result of these factors, fifteen states plus the District of Columbia have established their own EITCs — Colorado, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Oregon, Rhode Island, Vermont,

and Wisconsin. 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.

Better Information on the Impact of State Tax Changes

In most states, tax reductions or increases are considered without much information or debate over the extent to which various income groups would benefit or be harmed by the proposed tax changes. Only a few states have the capacity in either their executive budget offices or legislative fiscal offices to analyze routinely and disseminate in a timely way during the legislative process information on the distribution of the benefits that would result from a tax proposal. Even states that have such a capacity do not necessarily produce and disseminate analyses throughout the session, when negotiations become intense, compromises are hammered out, and legislation can undergo substantial change. Nor is it common for states to prepare analyses of the distribution of tax changes that have been enacted over a period of years. 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 which reduce after-tax inequality, they must have access to consistent, timely information about the distributional impact of their taxes. Minnesota has routinely produced such information. Texas is moving in the direction of providing comprehensive information on the impact of its tax system and proposed tax changes. The availability of this type of information can help the public participate in debates over the type of tax changes that are desirable for the state and can help policymakers make informed decisions.⁴⁹

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.

V. Conclusion

Over the course of the two decades since the late 1970s, 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 robust growth of the early to mid-1990s has not reversed this long-term trend. In 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 those 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 60,000 households are asked questions about their prior year's incomes from a wide variety of sources (the income data in the 2001 March CPS refers to 2000).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.

The March CPS provides data that are generally suitable for measuring family income, however there are a few known drawbacks to using this data for analysis of income distribution. First, the data on family income ignores an important factor contributing to a family's disposable income — the effect of federal and state tax systems. The data presented in this analysis are for pre-tax, rather than post-tax income. Income taxes paid and earned income tax credits received are therefore not taken into consideration in the analysis.

Second, the income of families at the very top and the very bottom of the income distribution are understated. At the top of the income distribution, income is understated because the definition of family income does not include income from capital gains and because the highest income values are top-coded 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. Non-cash government benefits such as food stamps, school lunches, and housing subsidies are not included as income in this analysis.

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

While the analysis is able to address the issue of top-coding as described below, the analysis cannot correct for the omission of capital gains. Capital gains are the profits made from the sale of stocks, real estate, and other assets. Congressional Budget Office calculations based on data from the Internal Revenue Service show that the top five percent of families received 75 percent of all capital gains in 1997. Since capital gains are heavily concentrated among high-income families, the effect of excluding these gains from family income is to understate income much more for high-income families than for the middle class or the poor.

Further, in recent years, as the value of stocks has surged, capital gains have increased, especially for the highest-income investors. The omission of capital gains not only biases March CPS estimates of income for high-income families downwards, but this bias has increased over the past three decades. Thus, the Congressional Budget Office shows not only that income for the top 5% of families is substantially larger than in the March CPS estimates, but it is also growing faster (Table A1). The omission of capital gains thus lowers our estimates of income inequality over time.⁵¹

Finally, some of the families report having negative incomes during a given year. Most of these families own small businesses and their business losses during a year exceeded their incomes. Following the methodology used by the Congressional Budget Office in its income distribution analyses, negative incomes are not included in the calculations of average incomes of families in the bottom fifth of the income distribution. The exclusion of families with negative incomes increases our estimates of incomes for families at the low end.

As Table A1 shows, our estimates of average income for low-income families are higher than those of the Congressional Budget Office. The difference is greatest in the late 1990s because our estimates which are based on March Census data are from 1999 while the Congressional Budget Office data are from 1997. Real wages for low wage workers grew during that period. Thus, our lower estimates for families at the top end combine with our higher estimates for low-income families to produce lower estimates overall for inequality in each time period relative to the Congressional Budget Office data.

Sample

In order to have enough cases to make statistically reliable estimates of the state-level incomes by quintile, we "pool" three years of data for each time period of interest. Thus, the first time period, centered on 1979, includes the income data for 1978 to 1980. The second period, centered on 1989, includes the income data for 1988 to 1990. The most recent period includes the

⁵¹ CBO uses households, not families and ranks households on the basis of income that has been adjusted for differences in family size. Both of these are likely to lower quintile cut-offs and averages across the distribution. Further, CBO includes non-cash benefits, including the value of health insurance premiums paid by employers, in their income tabulations.

income data for 1998 to 2000. For each time period, all families are ranked by income and divided into five groups (or "quintiles"), each made up of the same number of persons, following the approach of the Congressional Budget Office. The average income of families in each quintile is then calculated for each of the three time periods.

Appendix Table A1
Average Incomes by Income Fifth, CBO and EPI/CBPP

	All Quintiles	Lowest	Second	Middle	Fourth	Highest	Top 10 Percent	Top 5 Percent	Percent change: Top 5%
CBO 1999 \$									
1979	50,207	12,215	28,054	42,857	58,799	113,354	149,586	202,589	
1989	57,350	12,112	28,261	44,203	64,079	142,858	197,102	276,502	36%
1997	64,596	11,801	29,607	46,687	67,909	173,396	249,172	368,324	33%
EPI/CBPP 1999\$									
1979	47,416	13,646	29,339	43,529	59,593	101,361	85,894	150,704	
1989	53,190	13,018	30,023	46,229	66,909	120,869	98,080	188,397	25%
1999	61,429	14,618	32,721	51,164	74,573	145,985	115,183	237,979	26%
Difference									
1979	-5.6%	11.7%	4.6%	1.6%	1.4%	-10.6%	-42.6%	-25.6%	
1989	-7.3%	7.5%	6.2%	4.6%	2.9%	-15.4%	-50.2%	-31.9%	
1997/99	-4.9%	23.9%	10.5%	9.6%	9.8%	-15.8%	-53.8%	-35.4%	
Ratio of Top Fifth to Bottom Fifth									
		CBO	CPS						
1979		9.28	7.43						
1989		11.79	9.28						
1997/99		14.69	9.99						

Sources: Congressional Budget Office, Historical Effective Tax Rates, 1979-1997, October 2001; Authors' analysis of March Current Population Survey.
Deflator: CPI-RS

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.

The income data presented in this report are adjusted for inflation to reflect 1999 dollars. The adjustment was made using the Consumer Price Index Research Series (CPI-RS). This series adjusts the historical CPI-U from 1978 to 1998 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 time period from 1978 to 2000, 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.

Treatment of Top-Coded Variables

In order to preserve the confidentiality of respondents, the income variables of the Current Population Survey data are top-coded so that values above a certain level are suppressed and not included in the public use file. Since income inequality measures are very sensitive to changes in the upper reaches of the income scale, this suppression poses a challenge to analysts interested in both the extent of inequality in a given time period and the change in inequality over time.

In order to take into account this top-coding and still be able to make accurate comparisons over time, we use an imputation technique, described below, that is commonly used in such cases to estimate the value of top-coded cases. Census top-coding procedures underwent a significant change in 1998, which also must be dealt with to preserve consistency. Thus, our analysis encompasses two separate methods for adjusting for top-codes, one for 1978-80 and 1988-90, and one for the last period, 1998-00. These methods are discussed below.

Fortunately, for most of the years of data in our study, a relatively small share of the distribution of any one variable is top-coded. For example, in our middle time period, centered on 1989, 0.67 percent (i.e., two-thirds of the top one percent) of weighted cases are top-coded on the variable earnings from longest job, meaning actual reported values are given for over 99 percent of the those with positive earnings. Nevertheless, the high incomes of the small group of top-coded cases means their earnings levels cannot be ignored.

Top-code adjustments for 1978-80 and 1988-90

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 1978, the top-code for earnings from primary job was \$50,000 (in 1978 dollars.) An individual with a salary of \$90,000 was therefore coded as having earnings of \$50,000 — \$40,000 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 1989.⁵²

For data from the late 1970s and late 1980s, we impute the average value above the top-code for the key components of income using the assumption that the tails of these distributions

⁵² 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.

follow a Pareto distribution.⁵³ 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 years 1996-97 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. For example, in period three (centered on 1999), the four Pareto means for annual earnings from longest job were: \$227,671; \$221,414; \$216,559; \$206,230.

⁵³ 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).

Top-code adjustments for 1998-2000

In 1998, Census both adjusted the top-codes (some were raised, some were lowered),⁵⁴ and began using "plug-in" averages above the top-codes for certain variables. These are group-specific average values taken above the top-code, with the groups defined on the basis of gender, race, and worker status. Whereas as in previous years, individuals received the income value of the top-code, now they receive the value of the plug-in instead. This is similar to the value that we estimate with the Pareto method described above. However, since Census still has an internal top-code, they are not exactly the same so we continue to perform the Pareto imputation for earned income from longest job.

For the three unearned income variables, interest income, income from dividends, and rental income, our analysis uses the plug-in values because it is not possible to estimate consistent Pareto means. These three top-codes were lowered significantly in 1998 relative to previous years. While these were all top-coded at \$99,999 in the late 1980s, in 1998-2000, the top-codes were \$35,000, \$15,000, and \$25,000. Calculating Pareto means above these values would create a significant inconsistency, since a much larger share of cases would have been assigned this mean value (e.g., in 1996-97, 0.2 percent of weighted cases were top-coded on interest income, while in 1998, 3.8 percent of cases were top-coded on this variable). Further, in many cases, estimates could not be generated because the top-code was too low relative to the distribution to generate reliable Pareto means.

To calculate total family income for analysis, we subtract the initial values for earnings, dividends, interest, and rent that will be adjusted using Pareto imputations from total personal income and then add the adjusted values for these variables. We sum total personal income for all family members, including individuals in related subfamilies.

Reliability

In order to test the reliability of these estimates, we compared the national averages for the top quintile and top five percent to published Census data (these published data derive from Census internal files which are not subject to the top-codes that are on the public use files).⁵⁵ In order to ensure comparability, we average the Census data over the

⁵⁴ The new top-codes were determined by using whichever value is higher: the top three percent of all reported amounts for the variable, or the top 0.5 percent of all persons.

⁵⁵ These files do, however, have internal top-codes that are generally well above the public use cutoffs.

three-year period used in our study. These values, shown below, verify that our imputations do a good job of replicating the values generated by Census' internal files.⁵⁶

The third panel of Appendix Table A2 is the percent difference in our numbers relative to Census. The higher levels in the bottom fifth are likely driven by our exclusion of negative incomes. Most other differences are trivial, with the exception of our estimate being 1.5 percent higher in the top fifth in 1979 (driven mostly by the top five percent), suggesting our top-code imputations generate higher incomes than in the Census data for that year.

Note, however, that this difference means that our estimates of the growth in inequality will be lower than those made with Census data because we are starting from a higher base. This is confirmed in Appendix Table A3, which features the same type of ratio comparisons made in the report. The bottom panel shows the difference in the growth rates of these ratios between our analysis and Census. In each time period, inequality grows slightly faster in the Census data. Thus, we conclude that our top-code adjustments do a good job of replicating Census internal data. To the extent that we differ from their estimates, we underestimate the growth of inequality.

⁵⁶ Note that these values differ from those in the report because, in order to be comparable with Census published data, they include 20 percent of families in each quintile instead of 20 percent of persons.

Appendix Table A2
Average Incomes by Income Fifth, Census and EPI/CBPP

EPI/CBPP National avgs in 1999 RS dollars

(Excludes negative income, includes pareto adjustments, 20% of families per quintile.)

	1st 20%	2nd 20%	3rd 20%	4th 20%	Top 20%	Top 80-95%	Top 5%
1979	12,844	27,622	41,594	57,609	98,894	83,094	146,295
1989	12,425	28,594	44,396	63,886	118,371	96,047	185,340
1999	13,785	30,862	48,695	71,825	141,977	111,766	232,608

Census:

(Includes negative income, no pareto adjustments, and 20% of families in each quintile.)

1979	12,710	27,568	41,539	57,347	97,417	82,604	141,853
1989	12,307	28,665	44,430	63,876	118,734	95,853	187,376
1999	13,291	30,771	48,614	71,499	147,349	110,908	256,672

Percent Difference EPI/CBPP versus Census

1979	1.1%	0.2%	0.1%	0.5%	1.5%	0.6%	3.1%
1989	1.0%	-0.2%	-0.1%	0.0%	-0.3%	0.2%	-1.1%
1999	3.7%	0.3%	0.2%	0.5%	-3.6%	0.8%	-9.4%

Sources: Census; Authors' analysis of March Current Population Survey.

Deflator: CPI-RS

Appendix Table A3
Changes in Inequality Ratios Census and EPI/CBPP

US Inequality Measures

EPI/CBPP

	q5/q1	q5/q3	q3/q1	Top 5/q1
1979	7.43	2.33	3.19	11.04
1989	9.28	2.61	3.55	14.47
1999	9.99	2.85	3.50	16.28

Change in Ratio:

1979-89	1.86	0.29	0.36	3.43
1989-99	0.70	0.24	(0.05)	1.81
1979-99	2.56	0.52	0.31	5.24

Census:

	q5/q1	q5/q3	q3/q1	Top 5/q1
1979	7.66	2.35	3.27	11.16
1989	9.65	2.67	3.61	15.23
1999	11.09	3.03	3.66	19.31

Change in Ratio:

1979-89	1.98	0.33	0.34	4.06
1989-99	1.44	0.36	0.05	4.09
1979-99	3.42	0.69	0.39	8.15

Sources: Census; Authors' analysis of March Current Population Survey.

Appendix Bibliography

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Appendix Table 1: Income Ranges for Each Fifth of Families, by State, '78-'80 (In 1999 Dollars)

State	Bottom fifth begins at:	Next-to-bottom fifth begins at:	Middle fifth begins at:	Next-to-top fifth begins at:	Top fifth begins at:
Alabama	0	16,077	27,719	41,288	58,066
Alaska	0	25,586	44,166	69,207	100,345
Arizona	0	22,565	36,030	50,258	71,603
Arkansas	0	15,348	26,373	37,665	53,537
California	0	23,454	39,104	54,955	76,695
Colorado	0	26,307	41,706	57,484	79,309
Connecticut	0	29,062	43,510	56,503	76,601
Delaware	0	25,350	39,147	52,443	72,881
Florida	0	18,443	29,853	43,058	61,599
Georgia	0	19,872	33,192	47,996	67,804
Hawaii	0	25,335	43,493	60,141	82,307
Idaho	0	21,872	34,382	45,563	60,316
Illinois	0	24,520	40,727	55,885	76,906
Indiana	0	23,706	36,420	49,041	64,740
Iowa	0	25,482	38,806	51,599	68,695
Kansas	0	23,772	37,207	49,588	66,418
Kentucky	0	18,755	31,972	45,320	61,620
Louisiana	0	17,655	30,881	45,883	65,938
Maine	0	20,171	31,326	42,286	59,808
Maryland	0	29,712	44,883	62,047	88,326
Massachusetts	0	25,586	41,337	55,597	76,557
Michigan	0	25,817	41,499	55,586	75,940
Minnesota	0	25,838	39,697	53,305	71,232
Mississippi	0	14,537	26,887	38,670	55,727
Missouri	0	21,503	35,571	47,974	66,753
Montana	0	20,149	33,972	47,394	64,307
Nebraska	0	21,855	36,469	48,680	67,213
Nevada	0	24,906	38,998	53,981	72,537
New Hampshire	0	26,652	39,399	51,301	66,915
New Jersey	0	25,337	42,149	57,574	79,318
New Mexico	0	18,090	29,962	44,132	66,456
New York	0	21,535	36,908	51,663	72,000
North Carolina	0	19,940	32,083	45,000	61,834
North Dakota	0	21,322	34,115	46,482	64,051
Ohio	0	25,160	39,456	52,478	71,147
Oklahoma	0	20,652	32,431	45,814	64,392
Oregon	0	24,360	37,849	50,959	68,486
Pennsylvania	0	24,151	38,124	50,640	69,640
Rhode Island	0	24,806	37,802	51,045	68,542
South Carolina	0	17,697	29,757	42,465	59,277
South Dakota	0	18,497	30,171	43,028	59,488
Tennessee	0	17,684	29,296	42,166	58,205
Texas	0	20,313	34,616	49,467	68,742
Utah	0	25,149	37,527	49,435	68,230
Vermont	0	21,578	33,475	45,949	65,657
Virginia	0	23,113	38,392	52,452	74,055
Washington	0	23,697	39,446	53,013	72,591
West Virginia	0	18,844	29,904	40,537	55,757
Wisconsin	0	27,062	40,776	53,889	73,043
Wyoming	0	29,232	42,644	54,119	71,175
District of Columbia	0	17,058	29,043	46,908	69,055
Total U.S.	0	22,175	36,520	50,900	70,448

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 2: Income Ranges for Each Fifth of Families, by State, '88-'90 (In 1999 Dollars)

State	Bottom fifth begins at:	Next-to-bottom fifth begins at:	Middle fifth begins at:	Next-to-top fifth begins at:	Top fifth begins at:
Alabama	0	16,618	28,758	42,353	61,634
Alaska	0	24,669	45,048	67,642	96,643
Arizona	0	21,033	34,928	51,617	73,205
Arkansas	0	15,689	27,190	39,267	58,693
California	0	22,514	39,881	57,997	86,928
Colorado	0	21,830	37,961	53,725	76,928
Connecticut	0	36,863	55,556	76,421	102,809
Delaware	0	26,315	42,563	58,954	81,438
Florida	0	19,999	33,220	48,925	71,634
Georgia	0	19,749	35,948	53,007	79,004
Hawaii	0	28,175	46,970	67,450	95,261
Idaho	0	20,608	33,723	46,034	64,665
Illinois	0	24,167	42,010	58,824	82,480
Indiana	0	20,812	36,601	51,252	72,614
Iowa	0	23,536	38,014	49,804	68,235
Kansas	0	25,528	39,370	54,771	75,712
Kentucky	0	17,647	30,179	46,063	65,880
Louisiana	0	13,459	29,124	44,614	66,667
Maine	0	23,501	37,464	52,481	75,426
Maryland	0	29,149	49,542	69,393	94,959
Massachusetts	0	29,396	51,069	70,850	99,221
Michigan	0	23,399	40,591	57,723	81,409
Minnesota	0	25,197	41,463	56,340	77,843
Mississippi	0	13,805	25,098	39,231	57,184
Missouri	0	21,043	34,573	51,616	72,407
Montana	0	19,454	31,974	44,314	60,827
Nebraska	0	23,642	37,569	50,980	69,412
Nevada	0	24,902	39,216	54,565	77,932
New Hampshire	0	33,203	50,980	66,275	88,157
New Jersey	0	32,829	53,022	74,444	103,365
New Mexico	0	16,732	27,843	41,792	64,269
New York	0	23,007	41,353	60,567	87,583
North Carolina	0	20,910	35,111	50,630	70,392
North Dakota	0	22,821	35,163	47,320	64,671
Ohio	0	23,184	40,131	56,047	77,216
Oklahoma	0	18,706	31,458	47,059	70,196
Oregon	0	24,884	39,085	51,242	72,863
Pennsylvania	0	24,052	39,216	54,018	78,039
Rhode Island	0	28,391	43,715	62,523	87,532
South Carolina	0	19,791	33,987	48,443	68,595
South Dakota	0	20,915	33,608	45,673	63,336
Tennessee	0	16,173	29,412	44,107	65,303
Texas	0	18,693	32,807	49,216	74,144
Utah	0	25,979	38,793	51,542	72,157
Vermont	0	26,557	42,672	57,684	78,876
Virginia	0	25,503	44,180	62,804	91,765
Washington	0	26,980	43,137	57,925	79,608
West Virginia	0	17,610	28,369	41,727	60,997
Wisconsin	0	27,110	43,288	56,685	75,974
Wyoming	0	24,444	39,248	54,524	72,475
District of Columbia	0	16,993	34,379	52,575	84,158
Total U.S.	0	22,026	38,068	54,922	79,216

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 3: Income Ranges for Each Fifth of Families, by State, '98-'00 (in 1999 Dollars)

State	Bottom fifth begins at:	Next-to-bottom fifth begins at:	Middle fifth begins at:	Next-to-top fifth begins at:	Top fifth begins at:
Alabama	0	19,718	37,365	54,029	79,654
Alaska	0	31,150	48,472	69,441	100,773
Arizona	0	21,500	36,753	55,341	82,150
Arkansas	0	20,077	31,320	45,076	67,725
California	0	22,971	40,086	62,000	96,381
Colorado	0	31,347	49,232	68,939	98,510
Connecticut	0	32,000	54,228	80,200	111,825
Delaware	0	27,565	44,844	64,011	92,025
Florida	0	22,461	37,732	55,640	82,002
Georgia	0	23,000	38,354	57,000	81,824
Hawaii	0	28,311	46,000	71,625	106,340
Idaho	0	21,600	36,960	52,944	75,102
Illinois	0	27,225	47,162	67,822	96,284
Indiana	0	28,827	43,920	59,500	82,650
Iowa	0	25,770	42,433	58,200	83,127
Kansas	0	24,671	41,606	57,375	85,404
Kentucky	0	21,189	37,600	56,712	87,246
Louisiana	0	17,866	31,444	48,322	77,568
Maine	0	25,783	39,938	57,273	82,338
Maryland	0	34,375	57,083	77,468	109,545
Massachusetts	0	26,248	49,800	72,218	106,925
Michigan	0	28,243	47,411	68,387	98,498
Minnesota	0	32,699	52,584	71,464	100,550
Mississippi	0	18,762	31,648	48,786	73,097
Missouri	0	26,775	44,920	61,306	86,649
Montana	0	19,184	33,282	48,259	70,001
Nebraska	0	25,366	41,846	59,000	82,422
Nevada	0	25,155	40,836	60,000	86,262
New Hampshire	0	30,978	48,575	69,312	101,462
New Jersey	0	31,448	53,162	77,000	113,321
New Mexico	0	18,084	30,960	48,665	71,759
New York	0	22,433	41,443	63,070	96,000
North Carolina	0	21,461	36,213	56,325	85,662
North Dakota	0	20,832	35,798	52,608	70,907
Ohio	0	25,538	43,555	62,000	90,026
Oklahoma	0	21,588	35,000	51,328	77,597
Oregon	0	23,789	40,500	56,834	87,268
Pennsylvania	0	26,863	44,431	63,508	92,903
Rhode Island	0	27,670	48,472	67,993	99,000
South Carolina	0	22,716	37,895	56,000	81,101
South Dakota	0	26,018	40,674	56,027	79,080
Tennessee	0	21,309	35,698	51,464	78,367
Texas	0	21,000	36,344	55,087	84,484
Utah	0	29,724	46,345	62,872	86,781
Vermont	0	25,507	41,338	57,298	81,755
Virginia	0	48,375	67,375	71,242	104,300
Washington	0	29,025	46,874	65,322	95,716
West Virginia	0	18,584	30,349	44,953	67,949
Wisconsin	0	28,279	48,305	65,524	92,106
Wyoming	0	24,187	37,860	53,262	74,118
District of Columbia	0	18,149	34,480	61,666	109,788
Total U.S.	0	24,328	41,602	61,309	91,163

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 4: Income Cutoff for Top 5% (In 1999 Dollars)

State	Top 5% Begins at:		
	'78-'80	'88-'90	98-'00
California	119,567	146,144	177,080
Florida	100,640	116,793	142,021
Illinois	120,482	137,017	165,320
Massachusetts	113,220	157,018	188,048
Michigan	116,288	129,088	180,530
New Jersey	123,915	172,122	229,254
New York	116,205	146,012	184,507
North Carolina	96,375	112,556	140,467
Ohio	109,829	124,260	154,791
Pennsylvania	105,443	126,165	165,603
Texas	110,874	121,987	150,688
Total U.S.	110,237	131,242	161,608

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 5: Average Incomes of Fifths of Families in 78-80 through 98-00, by State (In 1999 Dollars)

State	Bottom fifth		Next-to-bottom fifth		Middle fifth		Next-to-top fifth		Top fifth	
	78-80	88-90	78-80	88-90	78-80	88-90	78-80	88-90	78-80	88-90
Alabama	9,447	9,580	21,735	22,495	34,293	35,692	48,932	50,854	84,999	93,829
Alaska	15,357	14,412	34,577	38,760	56,670	55,068	82,983	81,148	142,335	120,473
Arizona	14,434	12,847	29,109	28,197	42,406	42,774	59,422	61,777	105,644	135,114
Arkansas	9,248	9,161	20,972	20,625	31,786	32,997	44,792	48,150	79,165	85,218
California	14,865	13,789	31,166	31,233	46,802	48,633	64,754	70,939	112,303	104,745
Colorado	16,591	12,923	34,296	29,706	48,808	45,661	67,062	67,997	112,079	135,450
Connecticut	18,223	24,024	36,234	43,266	49,989	65,127	65,577	87,391	111,042	149,568
Delaware	15,186	16,573	32,503	34,354	45,640	50,218	61,756	68,848	100,386	135,272
Florida	11,509	12,324	23,908	26,615	36,974	40,701	51,673	58,908	90,392	112,069
Georgia	11,983	11,488	26,331	28,151	40,357	43,927	57,060	64,457	96,729	118,194
Hawaii	15,915	16,070	34,822	37,319	51,059	57,637	70,263	80,171	111,765	146,987
Idaho	14,096	13,317	28,386	27,498	40,022	39,944	52,140	54,821	88,626	95,146
Illinois	14,560	13,368	32,716	33,399	48,241	50,070	65,459	69,407	109,755	128,227
Indiana	15,110	12,764	30,488	28,621	42,651	43,536	56,232	60,959	87,334	100,297
Iowa	16,037	14,736	32,338	30,715	44,878	43,633	59,018	58,199	91,903	96,250
Kansas	15,262	15,775	30,852	32,288	43,076	46,872	57,291	64,716	103,650	117,827
Kentucky	11,600	10,259	25,472	23,666	38,542	37,850	53,168	54,674	82,868	93,046
Louisiana	10,574	10,130	23,971	20,489	36,634	37,161	54,759	54,520	82,170	90,264
Maine	13,079	13,950	25,520	30,212	36,672	44,905	50,029	62,363	96,405	116,112
Maryland	17,286	17,368	37,673	40,058	53,158	58,947	73,477	81,180	119,955	135,286
Massachusetts	15,444	16,930	33,623	40,184	48,065	60,594	65,087	84,115	108,829	146,016
Michigan	15,647	13,266	33,900	32,156	48,529	48,815	64,763	68,367	103,650	117,827
Minnesota	16,495	15,075	32,601	33,619	46,044	48,866	61,244	68,905	99,905	116,441
Mississippi	9,242	8,248	20,884	19,248	32,885	31,827	46,827	47,743	82,170	90,264
Missouri	13,684	12,896	28,696	27,605	41,554	42,815	56,200	61,567	95,086	114,248
Montana	12,458	12,153	26,896	25,316	40,549	38,223	55,460	52,290	87,734	103,700
Nebraska	13,560	14,622	29,713	30,709	42,513	43,947	57,252	60,961	89,536	102,798
Nevada	16,155	16,057	31,973	32,094	46,236	46,157	62,412	64,888	104,481	111,469
New Hampshire	17,240	19,804	33,109	42,184	45,201	58,722	59,517	75,950	97,138	137,238
New Jersey	15,878	18,983	33,686	43,123	49,605	63,269	67,194	87,303	111,193	153,912
New Mexico	10,922	9,957	23,724	22,223	36,709	34,753	54,505	51,002	93,277	104,934
New York	13,433	12,671	28,990	32,189	44,260	50,753	60,536	72,553	105,046	134,061
North Carolina	12,364	12,807	26,286	27,918	38,399	42,472	52,606	59,843	89,202	107,149
North Dakota	12,700	14,013	27,046	29,176	39,966	41,636	54,426	55,752	92,619	95,962
Ohio	15,508	13,767	32,327	31,941	45,834	47,847	60,946	66,014	99,785	114,362
Oklahoma	12,988	11,455	26,609	25,368	39,178	38,475	54,277	58,066	100,416	107,954
Oregon	14,582	15,126	31,165	31,828	44,026	45,175	58,205	60,045	93,165	105,595
Pennsylvania	15,054	14,796	31,262	31,390	44,238	46,441	59,149	64,632	96,455	116,670
Rhode Island	14,613	17,488	31,362	35,908	43,862	52,365	59,179	72,871	92,131	126,338
South Carolina	10,904	11,684	23,903	26,592	36,072	40,958	50,077	57,820	86,097	109,165
South Dakota	12,079	12,920	24,200	27,282	36,485	39,533	50,485	53,323	87,836	94,277
Tennessee	10,394	9,624	23,837	22,345	36,495	36,455	49,738	53,848	84,432	99,457
Texas	12,139	10,975	27,345	25,621	41,981	40,569	58,375	60,580	104,062	112,924
Utah	15,889	16,395	31,544	32,055	42,971	45,204	57,824	60,207	94,845	102,111
Vermont	13,915	16,427	27,148	34,782	39,606	48,759	54,871	67,120	89,336	121,235
Virginia	14,090	14,717	30,592	34,286	45,034	52,765	62,227	75,494	104,116	134,551
Washington	14,569	16,781	31,655	34,330	45,819	50,083	61,099	69,421	104,778	117,357
West Virginia	17,455	17,455	34,330	37,697	45,034	50,083	61,099	69,421	104,778	117,357
Wisconsin	16,837	17,382	33,827	35,295	47,148	49,965	62,688	65,131	76,140	86,265
Wyoming	18,529	15,158	36,132	31,993	48,555	46,921	62,130	62,379	102,939	109,274
District of Columbia	9,441	9,101	22,592	25,341	37,675	43,319	56,070	67,360	114,331	149,691
Total U.S.	13,646	13,018	29,339	30,023	43,529	46,229	59,593	65,909	101,361	120,869

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 6: Average Incomes of the Top 5% of Families
(In 1999 Dollars)**

State	'78-'80	'88-'90	98-'00
California	165,741	214,361	249,234
Florida	134,413	179,519	218,055
Illinois	161,093	202,479	241,330
Massachusetts	158,217	220,905	259,668
Michigan	146,957	172,191	256,250
New Jersey	159,543	235,673	288,830
New York	158,426	207,616	266,534
North Carolina	138,070	172,856	210,418
Ohio	145,132	176,526	228,600
Pennsylvania	137,181	178,177	238,539
Texas	164,131	171,244	225,112
Total U.S.	150,200	188,763	237,979

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