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New England Has the Highest Increase in Income Disparity in the Nation

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New England is a generally prosperous region and its residents are doing relatively well economically (see Table 1). Yet, between 1989 and 2004, the region experienced the largest increase in income inequality in the country. Much of this widening gap between rich and poor was driven by growth among the top earners, but the changes are not simply the "rich getting richer." Rather, they reflect the hollowing out of the middle caused by significant changes in the nation's economy. The loss of manufacturing employment for low-skilled workers has been coupled with increased demand, and rewards, for high-skilled and high-tech employment. These shifts were more pronounced in New England because of the region's highly educated population, strong research and development base, and relatively high cost of business operations, which pushes low-skilled jobs elsewhere.

In brief, over the last decade and one half…

- *Income disparity increased in New England more than in any other region in the nation*
- *Household average real income declined for the lowest income families*
- *Mid-range incomes grew less than national counterparts*
- *Income growth was concentrated in the top quintile of households*
- *Three states in the region ranked among the top five nationally in the increase in income disparity*
- *Six of the 20 metropolitan areas with the highest income disparity in the nation are in New England*

Table 1. Three New England states are in the nation's top-10 states with highest household incomes (2004)

	Median Household Income, $	National Rank
Connecticut	60,528	2
Massachusetts	55,580	5
New Hampshire	55,580	6
Rhode Island	48,722	13
Vermont	46,543	18
Maine	42,163	27
U. S.	**44,684**	—

New England states have some of the lowest poverty rates in the nation (2004)

	% Below Poverty Level	National Rank
New Hampshire	8	1
Connecticut	8	2
Vermont	9	7
Maine	9	8
Massachusetts	12	27
Rhode Island	13	30
U. S.	**13**	—

DATA AND DEFINITIONS

The primary data sources are the 1990, 2000, and 2004 U.S. Census.

Household income includes wage and salary income and all other income earned by persons over 15 living in the household. Income is defined broadly to include business profits, interest, dividends, and real estate investment.

Table 2. Income inequality has grown in New England through changes in the high and low income quintiles

1989–2004: Average Household Real Income Changes		
	% Change in New England	Change in the US
Top 5%	27	20
Q5	20	17
Q4	6	7
Q3	2	4
Q2	-2	3
Q1	-5	4

Top Earners Gaining Most Ground

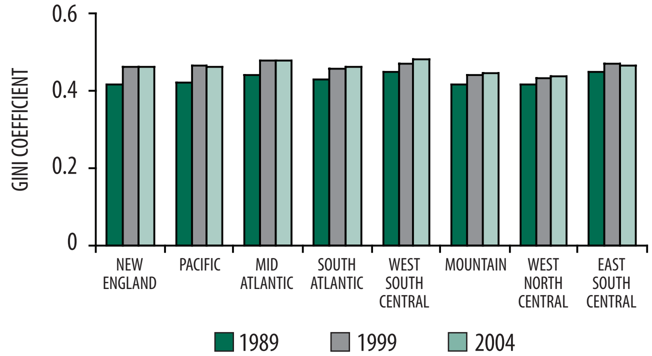
Growth in income in the top income brackets was greater, and the losses in the bottom income brackets larger, than national averages. Average real incomes of the top quintile[1] of households in New England have increased by 20 percent in the past 15 years, and those in the top 5 percent of households increased 27 percent (see Table 2). In contrast, the income increases of the third and fourth quintiles were modest (2 percent and 6 percent, respectively) and incomes for the two lowest quintiles dropped (-2 percent and -5 percent). In contrast, nationally, household incomes have increased for all quintiles.

In 2004, the average household income in the top quintile in New England was nearly $185,000. In the top 5 percent of households, the average income was $337,000. In sharp contrast, the average household income in the lowest quintile in the region was $12,437 and the average household income in the second lowest quintile was $34,291.

The share of total income in the region also concentrated more firmly in the higher income brackets. During the past 15 years, the portion of total income that is concentrated in the highest earning households increased twice as much in New England as in the nation. As of 2004, 47.2 percent of the region's income was earned by the top quintile, up from 44.5 percent in 1989. All other households lost relative share of regional income, ranging from a 0.3 percent decline in the lowest quintile to a 1 percent decline in the fourth quintile. All of the declines were more pronounced than the national average.

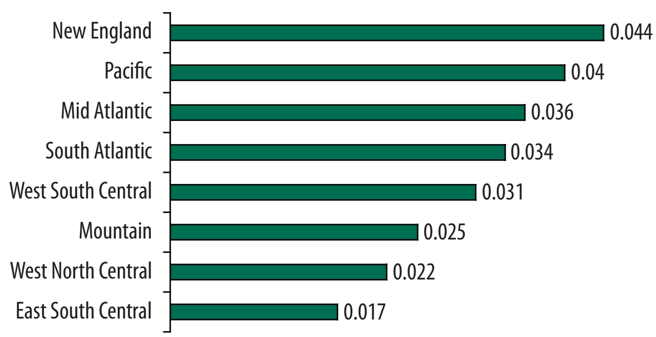
[1] A "quintile" is one of five segments of a distribution that has been divided into fifths. For example, the second-from-the-bottom quintile of an income distribution contains those households whose income exceeds the incomes of 20 percent to 40 percent of all households.

Figure 1. Growth in Income Inequality between 1989 and 2004.



Source: Public Use Micro Data Files 1990 Census, 2000 Census, 2005 American Community Survey.

Figure 2. Gini Coefficient Change 1989–2004



Putting a Number on Inequality

One commonly used benchmark to gauge inequality is the Gini coefficient. This measure assesses in summary form the distribution of total income in an area and attaches a figure between 0 and 1 to income distribution. Perfect income equality equals 0, and perfect inequality equals 1. Therefore, a higher Gini coefficient indicates higher income inequality. Figure 1 shows the growth in income inequality in the nation between 1989 and 2004. Figure 2 shows the percentage change. Clearly, income inequality has been growing across the country, and regionally as well. New England has seen the largest increase.

Three states in the region—Connecticut, Vermont and Massachusetts—ranked among the top five in income disparity increases. Over the last 15 years, Connecticut and Massachusetts went from being median income disparity states to ranking among the top 10 in household income disparity. Vermont went from being a low income disparity state to a median disparity state. Rhode Island went from less than the median to higher than the median in income disparity. Three states moved ahead of Maine in income disparity and New Hampshire went from having the lowest income inequality to the third lowest.

Metro Areas Hardest Hit

Across the nation, metropolitan areas tend to have higher income disparity than non-metropolitan areas, and the situation has become more pronounced over the last 15 years. New England accounted for six of the top 20 metro areas with growing income disparity: one in New Hampshire (Nashua), one in Massachusetts (New Bedford), and four in Connecticut (Stamford-Norwalk, Bridgeport, Waterbury, and Danbury). The four areas in Connecticut rank in the top 10.

What Happened?

The change in household income distribution in New England and the nation goes beyond simply the "rich getting richer." It reflects a fundamental shift in the national economy and differences in its regional implications. The shift from "traditional" commodity-based manufacturing to technology and knowledge-based businesses has created a new economic structure and context for the New England states.

Increased concentration of employment and earnings in higher value-added manufacturing and services, including technology and science-based research and development, has contributed significantly to the changes. Productivity improvements have also contributed. In addition, the globalization of the economy with increased off-shoring of both low-skilled, commodity-like production and repetitive service industry is shifting jobs away from high-cost areas like New England.

The changes outlined above were more pronounced in New England than the nation as a whole, in part owing to the region's highly educated population and strong research and development base. States with the highest levels of employment in the high-tech sector (for example, Massachusetts, New Hampshire, California, and New Jersey) had the greatest increase in income inequality. States with the lowest percentage of high-tech employment (for example, Mississippi, Louisiana, Arkansas[2]) experienced the smallest change in income inequality. Furthermore, the New England region led the nation in the late 1990s and early 2000s in the loss of manufacturing employment. Many of these jobs paid relatively well and provided a strong income base for middle-income households.

What Next?

New England has changed from a relatively egalitarian region income-wise to a more economically divided one. Its middle-income sector is losing ground and disappearing. Diverging household incomes can fray the social fabric as social connections and the opportunities for families to mix with members of different classes diminish, and the opportunities for lower- and middle-income individuals to move up in social status may decrease.

However, because the region is relatively prosperous and does not suffer from wide-ranging poverty and poor educational achievement as do some other regions, it is in a stronger position to combat the trend.

Looking forward, the experience since 1990 suggests that that the jobs that replace traditional manufacturing and higher-paying service industry jobs—those jobs that traditionally provided decent earnings for lower- and middle-income families—will pay less, just as the demand for the highest-skilled and highest-income workers increases.

A potential path to stem rising inequality is to upgrade the education and technological skills and economic opportunities of all individuals in the region. Workforce "re-preparation" programs to help those displaced from manufacturing jobs by off-shoring can help. More aggressive efforts to improve quality and access and to lower the cost of education are needed. For example, the Boston Workforce Development Coalition's Career Ladders program is designed to meet entry-level, incumbent worker's needs for opportunities to advance toward positions with more responsibility, skill, and compensation, and employers' needs to recruit and retain a skilled, highly trained workforce. Expansion of this type of program across the region might help assist more workers create successful career strategies to deal with the new economic situation. Available child care, affordable housing, and transportation assistance are also needed to help low and middle income families and workers. With a concerted effort by policymakers and residents, New England could return to its traditional position of providing good economic opportunities for all of its citizens.

[2] These are states with relatively high poverty rates.

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