

States with the Lowest and Highest Income Inequality

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SURVEY HIGHLIGHTS

- Nationally, high-earners make 2.43 times as much as low-earners
- Income inequality has improved in about two-thirds of the nation in the past few years
- Low-earners are better off in states with the greatest income inequality

Income inequality has become a major populist issue in recent years among those who would ask, "Is it fair that some people make vast amounts more in income than others?"

To get a handle on the degree of income inequality in the United States and to examine where this problem is the most acute, MoneyRates.com analyzed the Bureau of Labor Statistic's recent data release of 2018 wage levels to compare state-by-state differences between high and low wage-earners. Since MoneyRates.com first conducted this study based on 2012 data, comparing the new study with the original one provides insights into how income inequality has changed during the six-year interim between those data sets and what impact it seems to have on overall wage levels.

For anyone that is concerned about economic disparity, it might be encouraging to know that income equality has actually improved in most states over the past few years.

However, there are big differences in income disparity from state to state -- and in several states, the problem continues to get worse.

Methodology: How we measure income inequality

To measure the degree of income inequality, MoneyRates.com looked at the ratio of incomes for relatively high-earners to incomes for relatively low-earners. High-earners were defined as people at the 75th percentile of annual income -- those who make more than 75 percent of workers in the same state. Low-earners were defined as people at the 25th percentile, or those who make more than just 25 percent of workers in the same state.

One way to think about this is to divide workers into the top half of earners and the bottom half, then consider how the middle of the top half compares to the middle of the bottom half.

Income inequality on a national level

Looking at income inequality on a national level using this definition, high-earners make 2.43 times what low-earners make. This means that, for every dollar a worker at the 25th percentile makes, a worker at the 75th percentile makes \$2.43. However, these conditions vary greatly.

South Dakota has the most equal income levels, with workers at the 75th percentile earning less than twice what workers at the 25th percentile make -- 1.96 times as much, to be exact. In contrast, Maryland has the highest level of income inequality, with workers at the 75th percentile earning \$2.69 for every dollar earned by a worker at the 25th percentile.

The good news is that incomes are becoming a little more equitable. MoneyRates first performed this analysis five years ago in 2014, when earners at the 75th percentile nationally made 2.50 times what earners at the 25th percentile made. Now that ratio is down to 2.43 times. This ratio has improved in about two-thirds of the 50 states, though it has gotten worse in 16 states.

What follows are the states where incomes are the most and least equal; then there is an analysis of what impact income inequality seems to have on a state's economy.

10 best states for income equality

Here are the ten states where incomes for high- and low-earners are the most equal on a relative basis. Specifically, these are the states with the lowest ratios of incomes at the 75th percentile to incomes at the 25th percentile:

Best Equality Rank	State	75 th Percentile Income	25 th Percentile Income	Inequality Ratio (75 th /25 th)
1	South Dakota	\$48,550	\$24,790	1.96
2	North Dakota	\$60,040	\$29,440	2.04
3	Vermont	\$59,520	\$29,080	2.05
4	Maine	\$55,640	\$26,350	2.11
5	Nebraska	\$56,420	\$26,100	2.16
6	Iowa	\$55,810	\$25,730	2.17
7	Montana	\$53,250	\$24,460	2.18
8	Wyoming	\$60,770	\$27,710	2.19
9	Arkansas	\$49,140	\$22,360	2.20
10	Hawaii	\$64,050	\$29,030	2.21

10 worst states for income equality

On the other side of the ledger, here are the states where there is the greatest disparity of incomes between high-earners and low-earners. These are the states with the largest ratios between incomes at the 75th percentile and incomes at the 25th percentile:

Worst Equality Rank	State	75 th Percentile Income	25 th Percentile Income	Inequality Ratio (75 th /25 th)
1	Maryland	\$74,300	\$27,630	2.69
2	New Jersey	\$72,700	\$27,140	2.68
3	New York	\$75,610	\$28,300	2.67
4	Virginia	\$68,440	\$25,910	2.64
5	California	\$73,110	\$27,830	2.63
6	Illinois	\$66,670	\$25,690	2.60
7	Massachusetts	\$78,870	\$30,850	2.56
8	Connecticut	\$75,060	\$29,360	2.56
9	Georgia	\$58,950	\$23,340	2.53
10	Delaware	\$65,330	\$25,920	2.52

Note that, while the income inequality ratios for Massachusetts and Connecticut appear to be the same in the chart above, they are actually different by a tiny fraction.

Is income inequality such a bad thing?

The term "income inequality" seems to carry the connotation that something is inherently unfair about one group of people making substantially more money than another group.

However, some differences are inevitable. People have different training levels, different abilities and differing work ethics. Given that, would it really be fair if everyone got paid the same? Would you tip a waiter who gave you great service the same as one who was inefficient and surly?

One criticism of some socialist societies is that, if everyone receives the same pay, the incentive to do better is removed. This does more than just frustrate the ambitions of would-be over-achievers. It could stifle the economy as a whole. The drive to get ahead is a key component of entrepreneurship. Inventing new things and trying new business models can result in the type of innovation that creates jobs and improves the overall standard of living.

Comparing outcomes:

The median income in the ten states with the worst income equality is \$42,793. In contrast, the median income in the states with the ten most equal income levels averages \$37,551. In other words, the typical worker in a state with the worst income equality is better off than a typical worker in a more egalitarian state. Which would you rather have, more economic equality or a higher income?

Even low-earners are better off in the most unequal states. In the ten states with the worst income equality, workers at the 25th percentile make an average of \$27,197. In the ten states with the most equal income levels, workers at the 25th percentile make an average of \$26,505. So, if even low-earners

are better off in states with the greatest income inequality, is that inequality such a bad thing?

Concerns about income inequality

While these income comparisons raise interesting points about whether income inequality is good or bad for workers, there are legitimate concerns about the long-term impact of economic disparity.

As noted above, there are some positive aspects to income inequality if workers at all levels actually earn more in states with greater economic disparity. However, looking at some trends in how incomes are changing raises concerns about where that income inequality may be leading.

First of all, states that already have relatively equal income levels are continuing to close the gap between high- and low-earners faster than states with the greatest income inequality. Comparing 2018 wage levels to the 2012 data used for the original MoneyRates study of this issue shows that, during those six years, inequality ratios narrowed by an average of 0.030 in the most equal states, which is nearly twice the improvement of 0.017 in the states with the greatest income inequality.

Worse, incomes at all levels are growing more slowly in states with the greatest income inequality. During that six-year time span, median incomes grew by 15.30 percent in states with the most equal income levels but only by 10.98 percent in states with the worst income inequality.

This trend carried over for both high-earners and low-earners. During that six-year time span, incomes at the 75th percentile grew by an average 15.65 percent in the most equal states compared to just 11.56 percent in states with the worst inequality. Over the same period, incomes at the 25th percentile grew by an average of 17.29 percent in states with the most equal income levels but by just 12.25 percent in states with the worst income inequality.

It appears that a little income inequality is not necessarily a bad thing -- but if taken too far, it can be bad for high- and low-earners alike.

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