



The State of Working Alabama 2011

Arise Citizens' Policy Project

The State of Working Alabama

2011

Inside . . .

- I** **About this publication:** Look behind the scenes of this report.
- 2** **Overview:** The Great Recession's effects are slow to fade in Alabama.
- 3** **Employment:** Unemployment is down, but younger workers struggle to find work.
- II** **Jobs:** Job losses continue amid manufacturing's ongoing decline in Alabama.
- 13** **Income and wages:** Most Alabamians aren't sharing in recent income growth.
- 19** **Poverty:** Higher poverty brings challenges as the cost of necessities keeps climbing.
- 24** **Health insurance:** More people are uninsured, but coverage expansions are near.
- 26** **Unions:** Alabama's union membership is holding steady despite national declines.
- 28** **Education:** Soaring college costs may put a degree out of reach for many in Alabama.
- 32** **Taxes:** Alabama's upside-down tax system still demands more from those with less.
- 35** **Outlook:** Smart investments now can help future generations get ahead.

The State of Working Alabama

2011

About this publication

The State of Working Alabama 2011 examines the economic condition of Alabama's working families in 2011, along with broader historical trends in employment, income, poverty and other areas. This Arise Citizens' Policy Project (ACPP) report uses the Economic Policy Institute's analysis of the U.S. Census Bureau's 2010 Current Population Survey, as well as other state and national data sources. Unless otherwise noted, this report adjusts all dollar amounts into 2010 dollars to enable comparisons over time.

ACPP policy analyst Chris Sanders wrote this report. ACPP communications director Jim Carnes and ACPP executive director Kimble Forrister edited the report. ACPP thanks Sabel Steel, Inc., for allowing Carnes to take the cover photo at its facility in Montgomery. *The State of Working Alabama 2011* was published in November 2011. This report is a product of ACPP, which is solely responsible for its content.

Arise Citizens' Policy Project

Arise Citizens' Policy Project (ACPP) is a nonprofit statewide coalition comprising 150 congregations and organizations that promote public policies to improve the lives of low-income Alabamians. ACPP analyzes the impacts of current and proposed state policies and educates its members and the public on poverty issues. To contact ACPP, visit arisecitizens.org, call (800) 832-9060, or write to P.O. Box 1188, Montgomery, AL 36101.

Overview

One could be forgiven for browsing through the news and concluding that the last year, for a variety of reasons, has been a tough time to be an Alabamian. Most obvious and awful were the deadly April 2011 tornadoes, a once-in-a-generation outbreak of devastating storms that killed nearly 250 Alabamians, injured hundreds more, and left large swaths of Tuscaloosa, Birmingham, Rainsville and dozens of other places virtually unrecognizable. Later in the year came a steady stream of international criticism of Alabama's harsh new immigration law. Alabamians even struggled to find an escape in the sports world, with the media fascinated by the poisoning of two iconic oak trees near Auburn University — an act, prosecutors allege, that came at the hands of an overzealous Alabama fan angry over an Iron Bowl loss.

But headlines often failed to capture many of the ongoing challenges for working Alabamians. Well after the nation's official recovery from the Great Recession began, Alabama continued to feel the downturn's lingering effects in 2010: lower median household incomes, more poverty and more residents without health insurance. Unemployment has fallen from its 2009 peak, but the state's jobless rate remains above the national average, and nearly a quarter of Alabamians between the ages of 16 and 24 were out of work last year.

Alabama continued to shed jobs in 2010, and the median hourly wages for the ones that remained were no higher than a decade earlier. The income trend was even worse: Alabama's median household income, which was stagnating even before the recession, is now lower than it was in 2000-01, despite steady growth in the state's gross domestic product (GDP). For many Alabamians, job losses have been accompanied by the loss of employer-provided health coverage, contributing to higher rates of uninsured children and adults.

Higher poverty, fueled by lower incomes and stubbornly high unemployment, hit the state's youngest residents especially hard, with one in four Alabama children living below the poverty line in 2009-10. In addition to those financial difficulties are systemic barriers that act as counterweights against many workers' efforts to climb into or simply remain in the middle class in Alabama. College costs continue to soar at both the two-year and four-year levels, and the state's upside-down tax system still requires low- and middle-income people to pay twice the share of their incomes in state and local taxes that the highest earners pay.

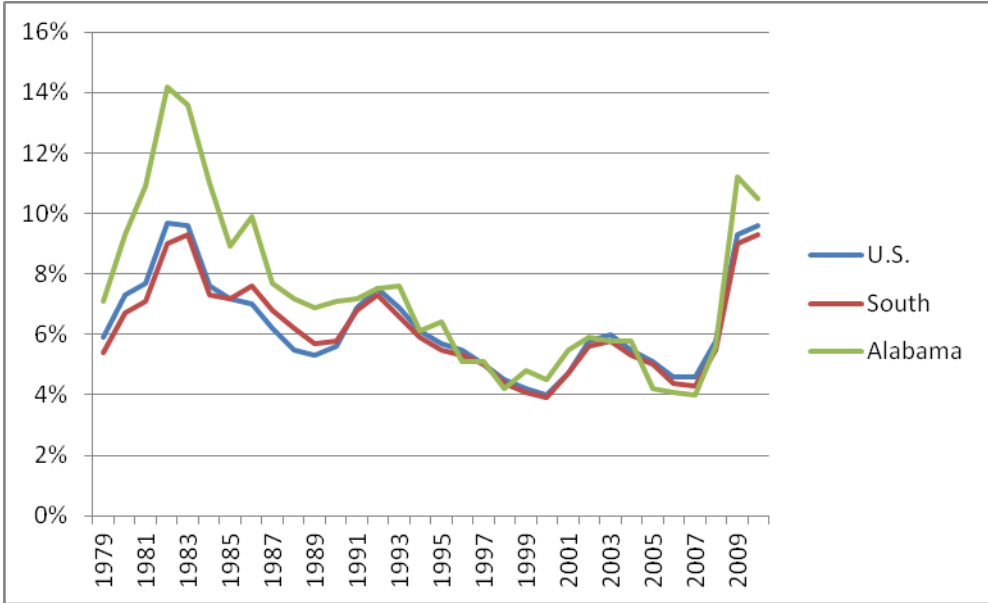
The Great Recession left Alabama, a state that already faced high poverty and great uncertainty, with even higher poverty and even greater uncertainty. But the downturn did not take away our ability — amply on display in the aftermath of the devastation in April 2011 — to work together as a state to help our neighbors and make life better for everyone. Hard times, history has shown, can bring out the best in Alabamians.

Employment

Alabama workers saw unemployment decrease only slightly last year, a byproduct of a national economy with far too few job openings to make much of a dent in joblessness. An unemployment rate that stayed in the double digits for a second straight year wasn't the state's only challenge: Alabama saw no improvement in 2010 in the number of underemployed people — those who are out of work, who work part-time jobs because they can't find full-time ones, or who, discouraged by a fruitless job search or a lack of work supports, have given up entirely on finding work. These ongoing challenges were among the factors cited by state lawmakers who this year enacted an immigration law that has enmeshed Alabama in national controversy.

Unemployment in Alabama averaged 10.5 percent last year, down from a peak of 11.2 percent in 2009 but still well above both the regional and national levels. The state's unemployment rate, which had been higher than those of all four of its neighbors in 2009, fell below the rates for three of the four last year. (Tennessee was the exception.) Alabama's unemployment rate in 2010 was almost double the 5.5 percent yearly average during the last recession in 2001. The state's seasonally adjusted monthly unemployment rate declined to 9.3 percent by October 2011, but that mark was still higher than all other yearly averages since 1986. Three years of economic woes left Alabama with the nation's 11th highest jobless rate in 2010 after almost a decade of boasting one of the country's lowest rates.

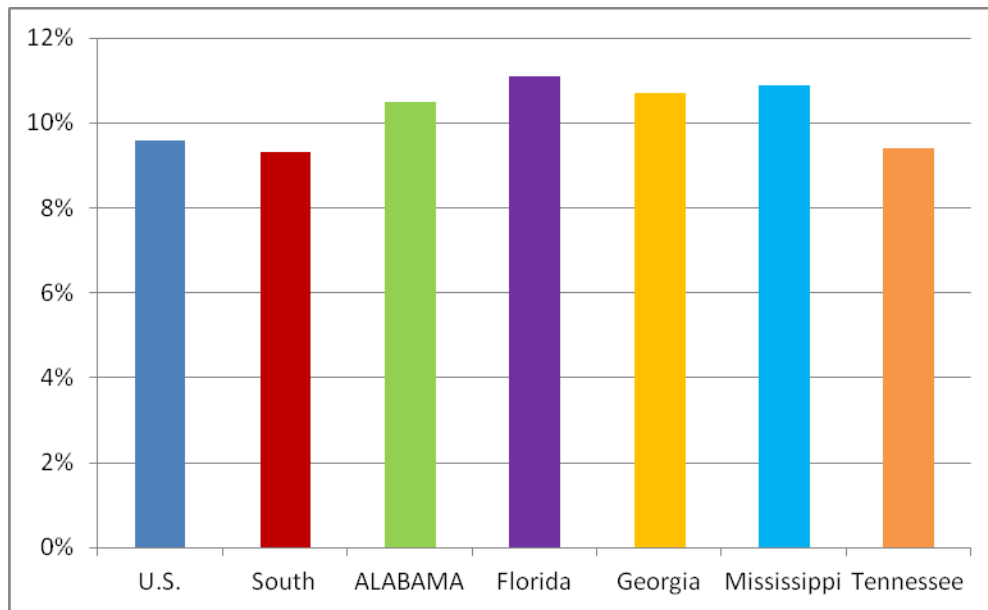
Unemployment is at its highest level in almost three decades



Source: Economic Policy Institute analysis of Current Population Survey data

Alabama’s 2010 unemployment rate was higher than the national rate (9.6 percent) and tied with North Carolina for the fifth highest in the South. (Florida, Georgia, Mississippi and South Carolina all had higher rates.) Tennessee (at 9.4 percent) was the only one of Alabama’s neighbors with lower unemployment. By comparison, joblessness stood at 11.1 percent in Florida, 10.9 percent in Mississippi and 10.7 percent in Georgia. The overall unemployment rate for the South was 9.3 percent.

Alabama unemployment in 2010: Higher than national and regional averages, but lower than for most neighbors



Source: Economic Policy Institute analysis of Current Population Survey data

Compounding the economic pain, nearly half – 46.2 percent – of all unemployed Alabamians last year were considered long-term unemployed, meaning they had been without a job for more than 26 weeks. That share stood at 32.6 percent in 2009, meaning it soared more than 40 percent in a single year. A total of 17.3 percent of the state’s workers were classified as underemployed, meaning they were jobless workers, involuntary part-time workers, or people who stopped looking for work because of discouragement or a lack of child care or other support services.

Unemployment increased all across Alabama during the Great Recession, but the effects were especially pronounced in the Black Belt and other rural counties far from urban and suburban areas where jobs tend to be more readily available. Wilcox County was the hardest hit, with an unemployment rate more than double the state average in October 2011, but other

localities were not far behind. In all, 30 of the state's 67 counties saw jobless rates of at least 10 percent in October 2011.

Unemployment rates differ greatly across Alabama's counties			
Statewide rate (not seasonally adjusted): 8.7%			
<i>Ten highest:</i>		<i>Ten lowest:</i>	
Wilcox	19.0%	Shelby	6.1%
Bullock	16.6%	Coffee	6.8%
Dallas	16.6%	Lee	7.1%
Perry	16.5%	Pike	7.2%
Lowndes	15.7%	Limestone	7.4%
Monroe	14.7%	Madison	7.4%
Clarke	14.6%	Cullman	7.6%
Conecuh	14.5%	Tuscaloosa	7.7%
Greene	13.9%	Autauga	7.8%
Sumter	13.5%	Cleburne	7.8%
Washington	13.0%	Two others	7.8%

Source: Alabama Department of Industrial Relations
(Preliminary October 2011 figures; seasonally adjusted statewide rate was 9.3%)

The American Recovery and Reinvestment Act (ARRA) helped to stem the tide of job losses in Alabama and other states in the last few years. ARRA aid to state budgets averted hundreds of thousands of layoffs of teachers and other public employees nationwide. Public infrastructure spending and targeted tax cuts under the Recovery Act fueled tens of thousands of private-sector jobs as well. But with ARRA money almost entirely gone, the private sector is now left to pick up most of the slack in the slumping national job market.

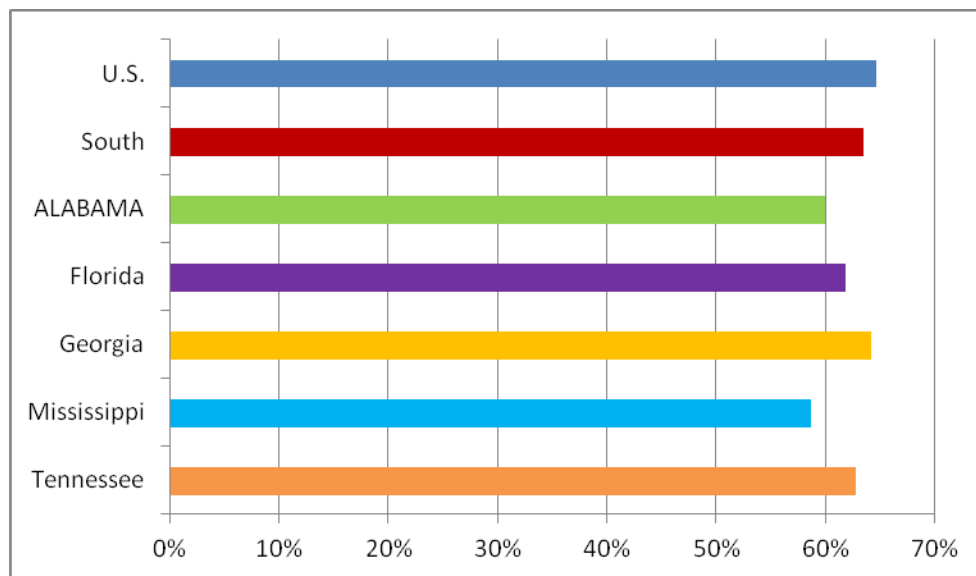
Much of that slack still remains. Job growth has been tepid for much of the last two years of recovery from the Great Recession, and that means millions of unemployed Americans have seen little improvement in their prospects of finding a job. The U.S. ratio of jobless workers to job openings was 4.2-to-1 in September 2011, according to Economic Policy Institute (EPI) calculations based on data from the Bureau of Labor Statistics. About 14 million Americans were out of work that month, but only 3.4 million job openings existed for them. That means there are simply no jobs for more than three out of every four unemployed workers. That ratio, though still high, was actually a slight improvement over the previous month's mark of 4.5-to-1.

The national ratio of job seekers to jobs has been above 4-to-1 for two years and nine months, and above 3-to-1 for more than three years, according to EPI. The ratio persistently has remained well above its highest mark during the early 2000s recession, which was 2.8-to-1.

A program enacted as part of ARRA and extended last year has helped millions of unemployed workers stay afloat as they search for new jobs in an economy that is still short of them. The Recovery Act provided up to 73 weeks of additional unemployment benefits, many fully funded by the federal government, for workers who have exhausted their 26 weeks of regular state-funded benefits. This emergency program is set to expire Dec. 31, 2011, and as this report went to press, Congress had yet to vote whether to extend it or for how long. Federal lawmakers never have allowed emergency benefits to expire while the national unemployment rate is above 7.2 percent, according to the National Employment Law Project (NELP). In October 2011, that rate was 9 percent. An extension would prevent benefit cutoffs in January 2012 for 24,700 Alabama workers and almost 1.8 million nationwide, NELP estimates.

In addition to all of its unemployment woes, Alabama continues to trail most other states in the share of working-age people who are employed or looking for work. The state's labor force participation rate languished in 2010 at 59.8 percent, the third lowest in the United States. The national rate in 2010, by contrast, stood at 64.7 percent. Only Mississippi and West Virginia had lower labor force participation rates than Alabama last year.

Alabama's labor force participation lags behind U.S., South



Source: Economic Policy Institute analysis of Current Population Survey data

Whites and African Americans both have felt the heavy hammer of unemployment during the Great Recession, but long-standing racial disparities persist in Alabama's employment statistics. White unemployment in Alabama held roughly steady at 8.4 percent in 2010, one year after a 113 percent single-year jump during the heart of the recession. Unemployment decreased among the state's African Americans last year, falling to 16.8 percent

from the previous year’s mark of 19.4 percent. That share remained well above its 2008 level of 10 percent, however. Of Alabama’s white part-time workers, 21 percent worked part-time for economic reasons last year, compared to 30.9 percent of African American workers.

The percentage of underemployed workers — those workers who are unemployed, have stopped looking for work because of discouragement, are involuntarily part-time or face other logistical barriers to their entry into the workforce — was almost twice as high among African Americans as among whites in 2010. One gap that has narrowed in recent years, though, is the state’s racial disparity in labor force participation. Whites had a 59.3 percent rate in 2010, compared to 58.7 percent for African Americans.

Unemployment and underemployment differed strongly by race in Alabama in 2010				
	White	African American	Hispanic	Asian/Pacific Islander
Labor force participation rate	59.3%	58.7%	76.3%	64.9%
Unemployment rate	8.4%	16.8%	(x)	(x)
Long-term unemployment share	39.6%	56.0%	(x)	(x)
Underemployment rate	14.2%	26.0%	17.6%	(x)
Part-time workers share	23.7%	24.8%	26.6%	(x)
Part-time for economic reasons share	21.0%	30.9%	(x)	(x)
Source: Economic Policy Institute analysis of Current Population Survey data (x) Insufficient sample size				

Unemployment has been higher among women than men in Alabama for much of the last three decades, but the disparity actually has reversed course during the Great Recession. Amid thousands of job losses in traditionally male-dominated industries like construction and manufacturing, 11.3 percent of the state’s men were unemployed in 2010, compared to 9.5 percent of women. Joblessness in Alabama has been lower among women than men for three of the last four years, reversing a consistent 30-year trend. The only other year since 1979 in which that was the case was 1995.

Still, women take part in Alabama’s workforce at a significantly lower rate than men, and they are far less likely to be working full-time. The state’s labor force participation rate for men last year was 65.8 percent, compared to a rate of 54.3 percent for women. That gap has been shrinking steadily for the last three decades and was 3.4 percentage points smaller last year than it was in 2001. More than 30 percent of the women in the state’s labor force worked part-time in 2010, compared to less than a fifth of men.

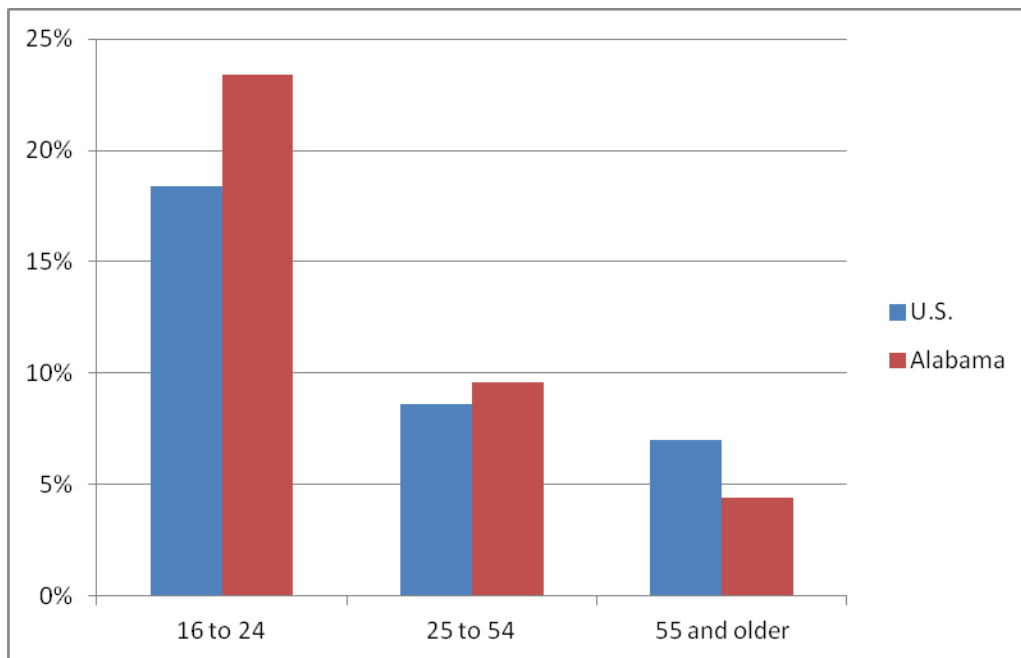
Both labor force participation and unemployment were lower for Alabama women in 2010

	Male	Female
Labor force participation rate	65.8%	54.3%
Unemployment rate	11.3%	9.5%
Long-term unemployment share	44.2%	48.9%
Underemployment rate	18.3%	16.3%
Part-time workers share	18.1%	30.2%
Part-time for economic reasons share	30.4%	20.2%

Source: Economic Policy Institute analysis of Current Population Survey data

Alabama’s biggest unemployment differential in 2010 was based not on race or gender but on age. Unemployment was staggeringly high last year among the state’s youngest workers, ages 16 to 24, with almost a quarter of them — 23.4 percent — out of work. The share of unemployed workers was dramatically lower for Alabamians between the ages of 25 and 54 (9.6 percent), and lower still for workers 55 and older (4.4 percent). Unemployment is higher for younger workers, who usually have less experience than their older colleagues, even during boom times, but the age-based disparity has grown in recent years. In total, well more than a third — 36.4 percent — of Alabama’s youngest workers were underemployed last year, compared to 16 percent of those ages 25 to 54 and 8.3 percent of those 55 and older.

Unemployment hit young workers the hardest in 2010



Source: Economic Policy Institute analysis of Current Population Survey data

Joblessness has been higher for young Alabamians for decades, but it has increased among that cohort for four straight years and skyrocketed during the Great Recession. In 2006, the unemployment rate for the state’s youngest workers was 9.3 percent, compared to 3.5 percent for workers between the ages of 25 and 54. (Data for workers 55 and older were unavailable that year because of insufficient sample size.)

The same general pattern has held across the United States in recent years, though the disparities have been less stark. Nationally, 18.4 percent of the nation’s youngest workers were unemployed in 2010, compared to 8.6 percent of those between the ages of 25 and 54 and 7 percent of those 55 and older. Underemployment for the nation’s youngest workers climbed to 30.4 percent in 2010, more than twice the rates for workers ages 25 to 54 (15 percent) and those 55 and older (12.9 percent).

The share of women in Alabama’s labor force has changed little in the last decade. Men represented 52.2 percent of Alabama’s labor force in 2010, with women making up 47.8 percent. That reflects an increase of less than 1 percent in the share of women in the state’s workforce since 2001. Nonetheless, Alabama had a larger share of female workers last year than the South (46.8 percent) and nation (46.7 percent).

As in the rest of the country, the youngest portion of the Alabama workforce — those aged 16 to 24 — has shrunk for the last three decades, falling steadily from 23.3 percent in 1979 to 16.3 percent in 2001 and 13.3 percent in 2010. Meanwhile, as the nation’s baby boomers approach retirement age, the number of workers over age 55 in Alabama has soared, jumping from 13.6 percent of the state’s workforce in 2001 to 19.1 percent in 2010.

Alabama’s labor force has gotten older, more diverse						
	1979	1989	1995	2001	2009	2010
Gender						
Male	59.7%	55.5%	53.5%	52.5%	52.9%	52.2%
Female	40.3%	44.5%	46.5%	47.5%	47.1%	47.8%
Age						
16-24 years	23.3%	17.4%	19.3%	16.3%	15.9%	13.3%
25-54 years	62.3%	70.1%	69.5%	70.1%	65.1%	67.6%
55 years and older	14.4%	12.5%	11.3%	13.6%	18.9%	19.1%
Race / ethnicity						
White	76.8%	78.6%	74.1%	74.1%	69.6%	69.8%
African American	22.4%	20.5%	24.5%	23.4%	24.1%	24.2%
Hispanic	(x)	0.6%	0.7%	1.7%	3.7%	3.9%
Asian/Pacific Islander	(x)	(x)	(x)	0.6%	1.3%	1.0%
Source: Economic Policy Institute analysis of Current Population Survey data						
(x) Insufficient sample size						

Whites make up more than two-thirds of Alabama's labor force, but the share of African Americans has increased by almost a full percentage point since 2001. The reported share of Hispanic workers last year was 3.9 percent, a slight one-year increase but more than double what it was a decade ago. Still, Hispanic workers constitute a far smaller portion of Alabama's labor force than that of the South (15.2 percent) or nation (14.8 percent).

Asians and Pacific Islanders made up 1 percent of Alabama's labor force last year, compared to 0.6 percent in 2001. As with Hispanics, Alabama's share of Asians and Pacific Islanders in the labor force also was smaller than the regional (3.1 percent) or national (4.9 percent) levels in 2010.

State lawmakers in 2011 passed a harsh new immigration law, commonly known as HB 56, that may reduce the state's share of Hispanic workers in coming years. The measure's supporters said it would open up jobs for Alabamians by forcing thousands of undocumented immigrants, many of whom are Hispanics, to leave Alabama or be deported. A federal court has temporarily enjoined many provisions of HB 56 until it can rule on legal challenges by the U.S. government, civil rights groups and others who sued the state over the law.

Regardless of the court's decision, other considerations suggest the law may not remain in its current form. Alabama's immigration statute is broader than recent ones in Arizona and Georgia. HB 56 requires schools to check new students' immigration status and orders "officers of the court" to report undocumented immigrants, which potentially could require lawyers to breach attorney-client privilege. The law also requires proof of citizenship or legal residence for any interaction with state or local governments, including car tag and driver's license renewals.

Legislators provided no detailed cost estimates for HB 56 before its passage, but the law will carve at least \$40 million out of the state's economy, according to an independent estimate by University of Alabama economist Samuel Addy in October 2011. U.S. citizens will fill only a small number of the jobs that undocumented immigrants vacate, Addy predicted. (Stan Diel, "UA economist says immigration law 'costly,'" *Birmingham News*, Oct. 18, 2011.) Many state farmers complained of crops rotting in the fields this fall after too few people replaced the many undocumented workers who left. (Challen Stephens, "Alabama farmers losing immigrant labor, see produce rotting in the fields," *Huntsville Times*, Sept. 26, 2011.)

Sen. Gerald Dial, R-Lineville, said he doubts HB 56 would have passed this year "if senators had more time to fully understand its ramifications," *The Birmingham News* reported in November 2011. The Alabama Legislature will keep HB 56 in place but will consider changes to address some of its "unintended consequences" during the 2012 legislative session, Sen. Jabo Waggoner, R-Vestavia Hills, told the newspaper. (Thomas Spencer, "Alabama immigration law changes in the works," *Birmingham News*, Nov. 16, 2011.)

Jobs

Alabama's jobs picture remained bleak last year. The Great Recession continued to hammer the state in 2010, erasing 17,500 jobs to bring the state to a net loss of 39,700 jobs since 2001. Almost every industry in the state lost jobs, with government, education and health workers among the rare exceptions. But with temporary federal aid gone and state budget cuts on the way, those categories likely will join the layoff parade in coming months.

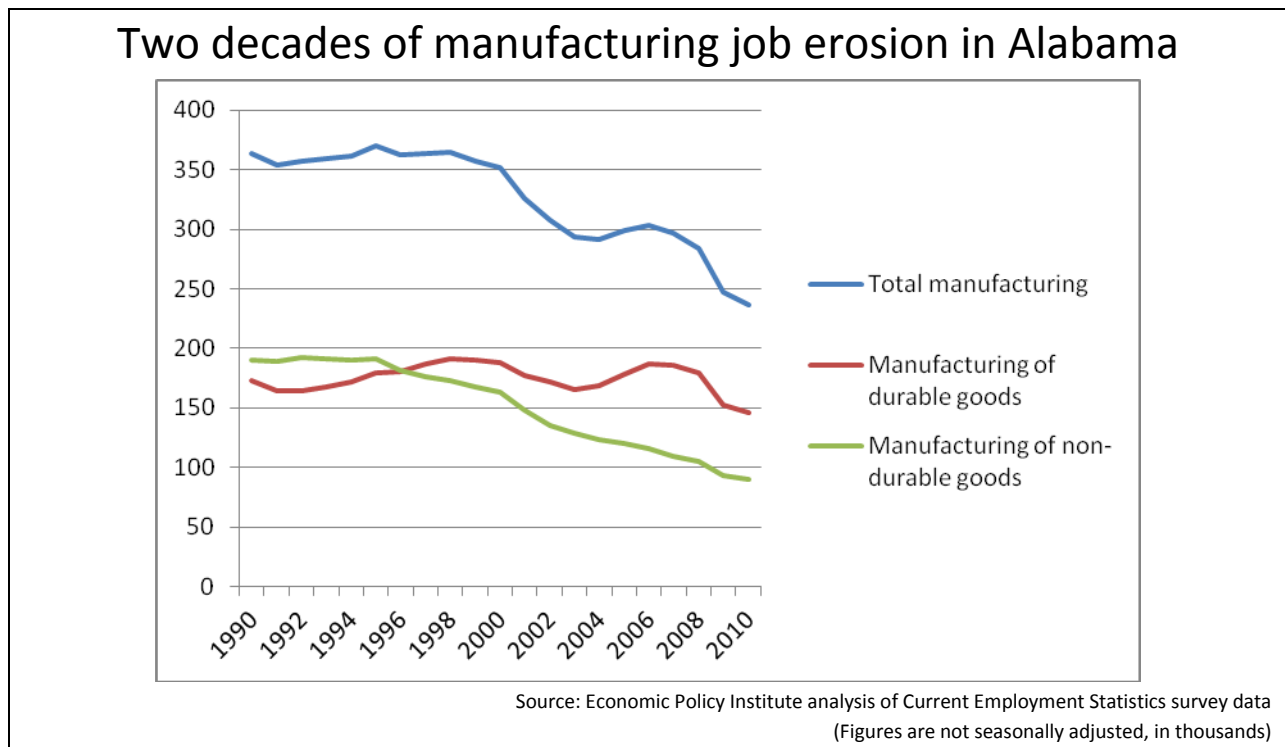
Amid massive private-sector job losses, government was Alabama's largest employer last year, followed by trade transportation and utilities. Manufacturing was No. 3, with by education and health services at No. 4 and professional and business services at No. 5.

The changing face of jobs in Alabama					
	1990	1995	2001	2009	2010
Total non-farm	1635.8	1803.7	1908.7	1886.5	1869
Total private	1309.1	1460.5	1556.8	1502.5	1482.3
Natural resources and mining	18.9	18	13.5	11.8	12
Construction and mining	104.3	107.5	118.6	103.5	99.5
Construction	85.4	89.5	105.1	91.7	87.5
Manufacturing	363.8	370.3	325.5	246.8	236.1
Manufacturing of durable goods	173.4	179.5	177	153	146
Manufacturing of non-durable goods	190.3	190.8	148.4	93.7	90.1
Trade transportation and utilities	317.7	360	380.5	365.8	360.1
Wholesale trade	68	77.4	83.3	74.4	71.5
Retail trade	191.6	218.5	229.3	225	223
Transportation and utilities	58.2	64.2	67.9	66.4	65.6
Information	30	29.4	34.1	25.1	24
Financial activities	80.2	83.6	98	95.8	91.9
Professional and business services	117.2	149.7	186.9	204.3	208.3
Education and health services	128.5	159.2	177.3	211	214.4
Leisure and hospitality	106.4	131	151	170.1	167.9
Other services	61.1	69.8	85.1	80.1	79.9
Government	326.7	343.2	352	384	386.8
Source: Economic Policy Institute analysis of Current Employment Statistics survey data (Figures are not seasonally adjusted, in thousands)					

One of the few industries to gain jobs in Alabama since 2001 is education and health services. More than 37,000 of those jobs were added in the last decade, an increase of 20.9 percent. The decade's only other growth areas were professional and business services (up 11.4 percent), leisure and hospitality (up 11.2 percent), and government (up 9.9 percent).

The decade has been tough for most parts of Alabama’s economy, however. The number of Alabamians working in the construction and mining sector has fallen 16.1 percent since 2001, mirroring the decline nationally. The state also has lost nearly 30 percent of the jobs it had in the high-paying information industry in the last decade. Overall, Alabama’s rate of net job losses since 2001 has exceeded the national level.

Manufacturing’s decline has accounted for a bigger portion of Alabama’s recent job losses than anything else. The state has hemorrhaged manufacturing jobs in the last decade, shedding nearly 90,000 net positions since 2001 for a decline of 27.5 percent. Twenty years ago, manufacturing was far and away Alabama’s largest industry; today, it is the third largest and falling. Even though several major automakers have located or expanded in the state in the last decade, manufacturing of durable goods has fallen by 17.5 percent since 2001.

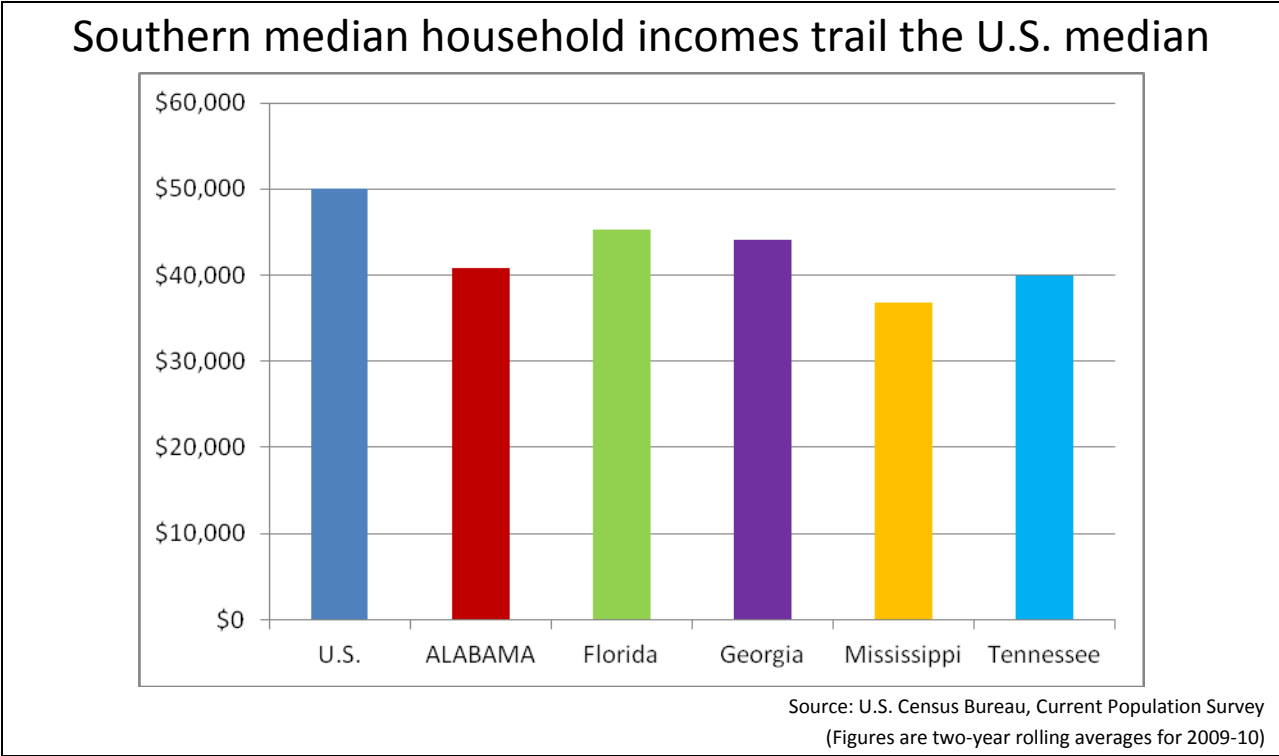


About two-thirds of Alabama’s drop in manufacturing jobs in the last decade has resulted from a precipitous decline in jobs in the manufacturing of non-durable goods like clothing and textiles. New jobs in the manufacturing of durable goods have mitigated the state’s overall manufacturing losses somewhat, but the net number of those jobs also has been falling since 2006. That downturn has caused Alabama’s manufacturing industry to shrink further. With manufacturing jobs in steady decline nationwide, that pattern appears unlikely to reverse itself anytime soon.

Income and wages

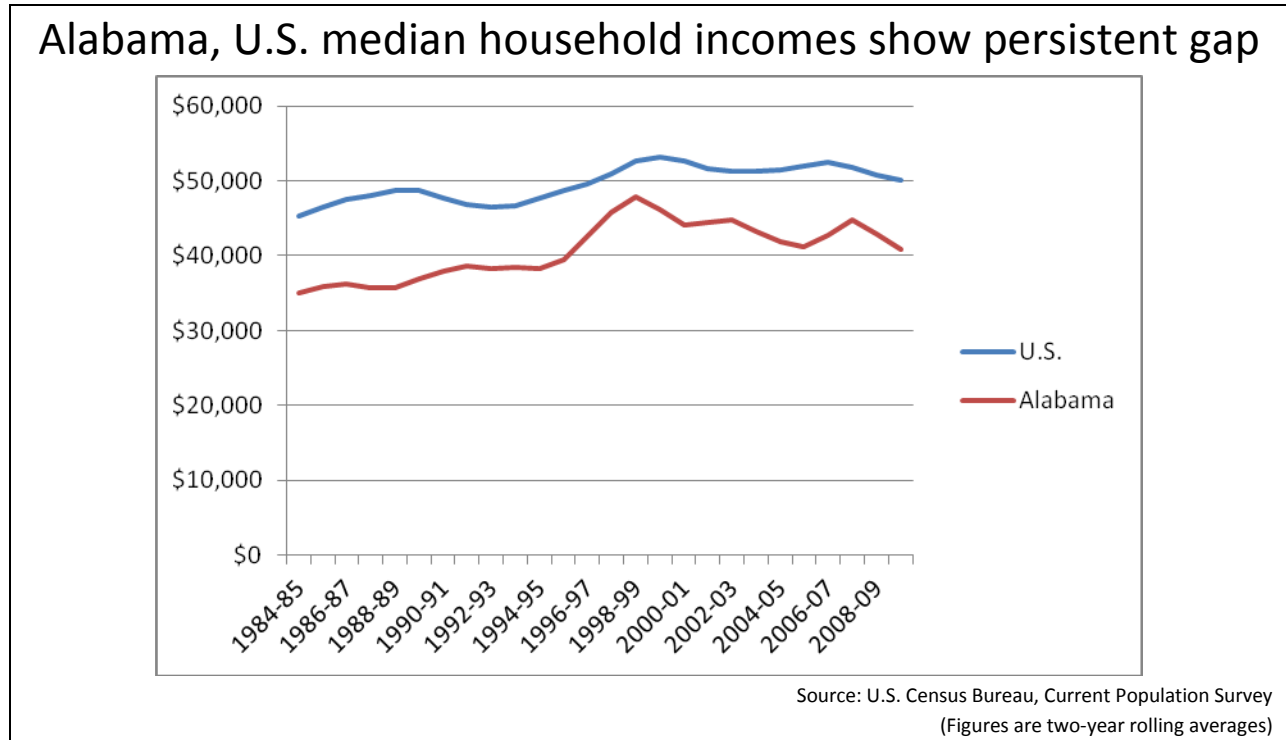
Most Alabama workers have not shared in the fruits of the state economy’s productivity gains in the last decade. Despite significant growth in the state’s gross domestic product (GDP), Alabama’s median household income, adjusted for inflation, is the lowest it has been in a decade and a half. Median hourly wages also have shown no increase since 2000-01.

Alabama’s median household income in 2009-10 was \$40,808, lower than in all but three other states (Arkansas, Mississippi and Tennessee). That was an 8.7 percent decrease from the pre-recession mark in 2007-08 and brought Alabama’s median household income to its lowest level since 1995-96. The state’s income measure was almost a fifth lower in 2009-10 than the national median of \$50,022.



Median household income in Alabama has decreased 7.4 percent, in constant dollars, from the 2000-01 mark of \$44,076. Nationally, the decline in median household income was less extreme in the last decade, with the figure falling 4.9 percent, from \$52,585 in 2000-01 to \$50,022 in 2009-10. (Alabama’s per capita income has risen in recent years, but that measure is

an average that can be distorted by increases at the top end of the scale. Median household income gives a more accurate overall picture of everyday workers' well-being.)



For the bottom fifth of Alabama earners, average income has fallen 17.4 percent since the late 1990s, compared to a national decline of 2.5 percent, according to *Pulling Apart*, a 2008 report by the Center on Budget and Policy Priorities and the Economic Policy Institute. Meanwhile, the top fifth of income earners nationally have seen their average income increase 9.1 percent since the late 1990s, the report found. Though the figures for Alabama's top fifth could not be stated to a statistical certainty, the apparent increase reflected the national trend. The increase in the income gap between Alabama's top fifth and bottom fifth since the late 1990s has been the nation's second largest, behind only New York, the report found.

Alabama's growing income disparity has been a microcosm of a decades-long national trend toward greater wealth concentration near the top of the income scale. Between 1979 and 2007, the top 1 percent of U.S. income earners saw their average after-tax household incomes increase by 275 percent, according to an October 2011 study by the Congressional Budget Office (CBO). After-tax income growth was much smaller for the other 99 percent of the population, the CBO found. The middle three-fifths of earners — those in the 21st through 80th percentiles — saw income growth of about 40 percent in those three decades, according to the CBO. For the bottom fifth of earners, after-tax incomes grew just 18 percent since 1979.

Federal taxes and transfer payments through programs like Medicare, Medicaid and Social Security traditionally have mitigated the growth in income disparities. But those factors did less to reduce income inequality in 2007 than they did in 1979, the CBO found. As the average overall federal tax rate fell over the last three decades, federal revenue collections became less progressive, shifting away from income taxes and more toward payroll taxes. Further, a much smaller share of federal transfers went to the bottom 20 percent of income earners in 2007 (35 percent) than in 1979 (more than 50 percent), according to the CBO.

Most of the nation’s overall income gains in the last three decades have gone to the top of the income scale. The share of all post-tax U.S. household income that belongs to the top 1 percent of earners more than doubled between 1979 and 2007, the CBO found, increasing from 8 percent to 17 percent. That jump accounted for almost all of the growth in the income share of the top fifth of earners, which rose from 43 percent to 53 percent. The other 80 percent of U.S. income earners all saw their shares of overall post-tax household income decrease from 1979 to 2007, according to the CBO.

Gross domestic product has grown significantly in the last decade...									
	2001	2003	2005	2006	2007	2008	2009	2010	Since 2001
U.S.	\$11,364.2	\$11,807.8	\$12,554.5	\$12,895.9	\$13,162.8	\$13,181.9	\$12,773.9	\$13,099.7	+15.3%
Alabama	\$133.8	\$140.0	\$151.1	\$153.9	\$156.1	\$157.5	\$151.0	\$154.1	+15.2%

Source: Bureau of Economic Analysis, U.S. Department of Commerce
(Figures are in chained 2005 dollars, in billions)

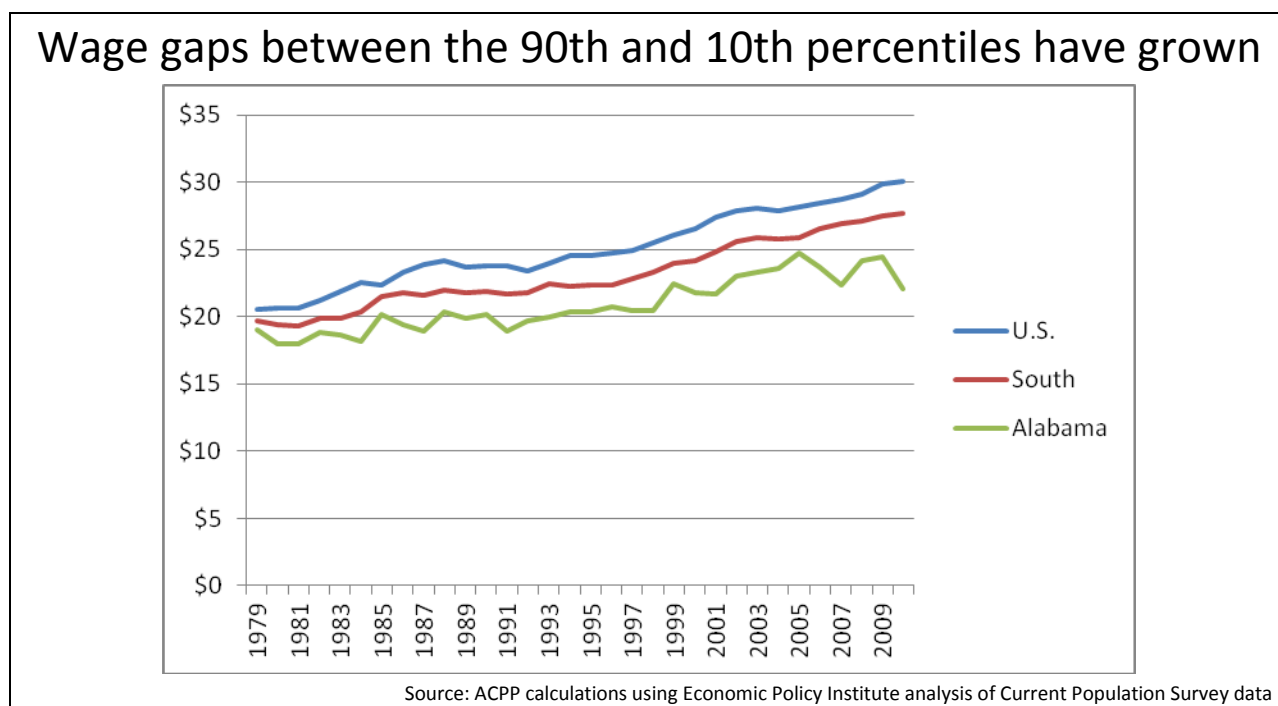
... but median hourly wages simply haven’t kept pace									
	2001	2003	2005	2006	2007	2008	2009	2010	Since 2001
U.S.	\$15.82	\$16.15	\$15.95	\$16.02	\$15.88	\$15.94	\$16.21	\$16.00	+1.1%
South	\$14.84	\$15.06	\$14.84	\$15.11	\$15.12	\$15.12	\$15.32	\$15.10	+1.8%
Alabama	\$14.46	\$15.22	\$15.19	\$14.54	\$14.00	\$14.43	\$15.30	\$14.42	-0.3%

Source: Economic Policy Institute analysis of Current Population Survey data

Alabama’s productivity is up, but as the CBO and *Pulling Apart* studies suggest, workers’ pay does not reflect or reward it. The state’s GDP has increased by 15.2 percent since 2001, mirroring the national productivity growth. But amid this overall upward trend, Alabama’s median household income, far from increasing alongside GDP, actually has fallen 7.4 percent in the last decade. Median hourly wages for the state’s workers also have failed to keep pace with GDP growth. A one-year decrease of 5.8 percent in 2010 wiped out Alabama’s entire wage gain from 2009 and left the state’s median wages effectively flat since 2001.

Last year's decrease dropped Alabama's median wages further below both the national average and its fellow Southern states. Among Alabama's immediate neighbors, median wages were up in Florida and Mississippi but down in Georgia and Tennessee. In 2010, Alabama's median wages were almost 10 percent below those for U.S. workers overall and ranked as the eighth lowest among the 50 states and the District of Columbia.

Alabama's median wages are comparatively low, but the state also has less disparity between its highest and lowest wage percentiles than the entire region and nation do. The hourly wage gap between workers in the state's 90th percentile and its 10th percentile last year was \$22.10. For the South, the corresponding gap was \$27.73. For the nation, it was \$30.10.

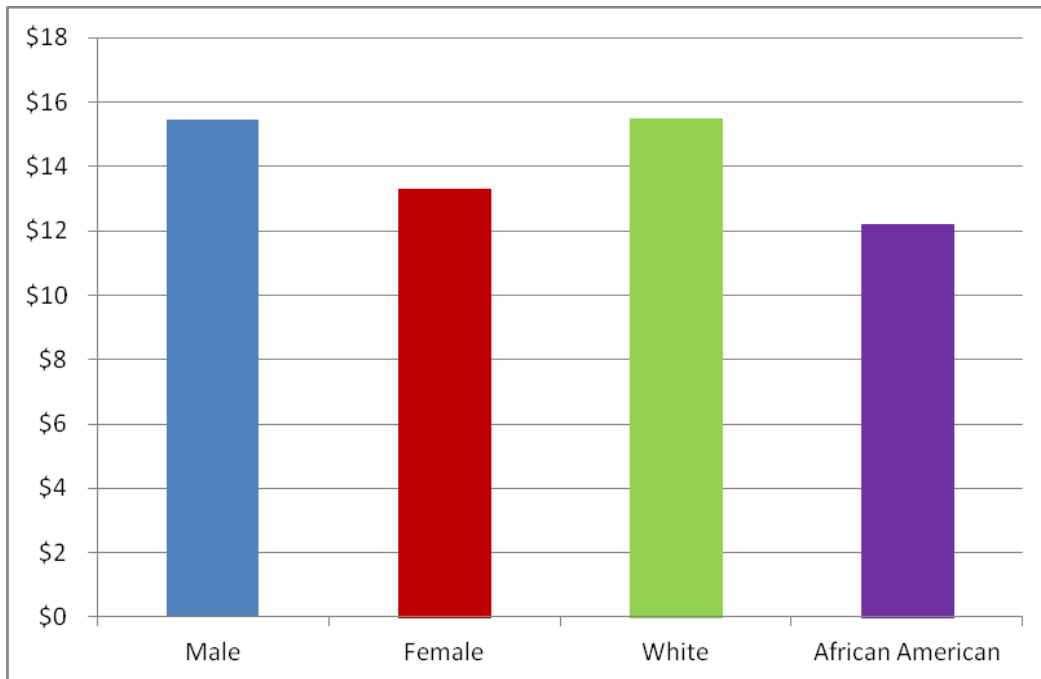


The wage disparity between the 90th percentile and the 10th percentile has grown substantially in Alabama since 1979, though much more slowly than in the region and nation as a whole. Alabama's gap has increased 16.4 percent since 1979, compared to 40.9 percent growth for the South and a jump of 46.7 percent for the United States. The difference in the disparity's growth rates was especially pronounced in the last decade. Since 2001, the 90-10 gap has increased by just 1.9 percent in Alabama, compared to 11.8 percent in the South and 9.9 percent in the United States.

Women in Alabama make less per hour than men do on average, but their wage gap here was smaller than the regional and national averages last year. That distinction was largely

a function of the fact that median wages statewide have fallen much more sharply for men than women since 2009. Median wages for Alabama’s female workers last year were 14.1 percent lower than the corresponding figures for males. The disparity has closed considerably since 1979, when it stood at 41.9 percent, and since 2001, when it was 22.7 percent. Alabama’s gender wage disparity in 2010 was smaller than both the national gap of 16.7 percent and the Southern gap of 16.3 percent.

Median wages lower for women, African Americans in Alabama

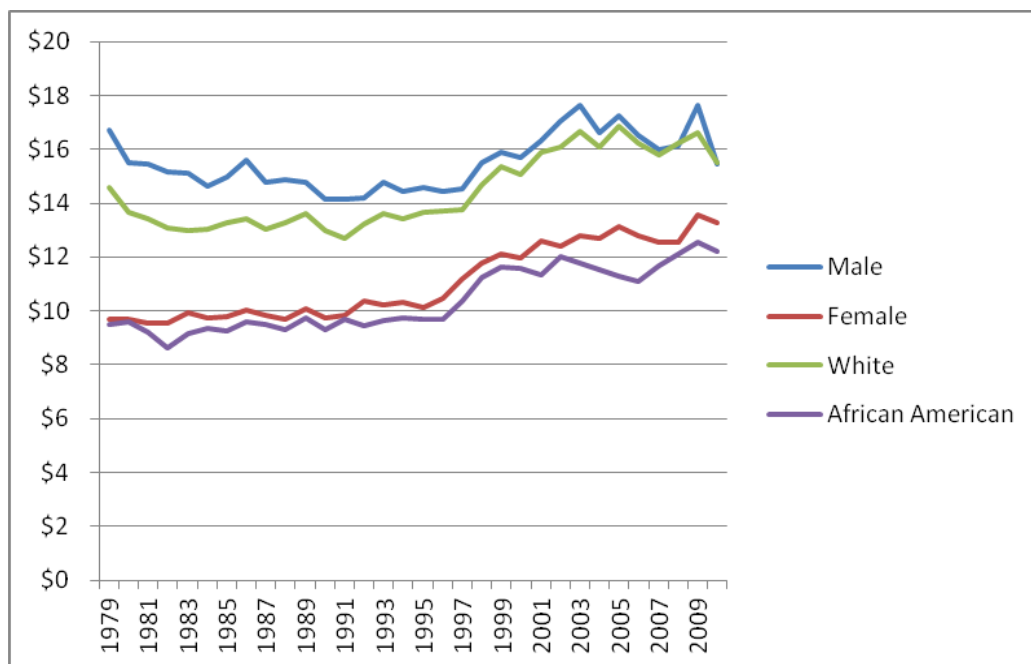


Source: Economic Policy Institute analysis of Current Population Survey data (2010 figures; median wages for Hispanic workers were unavailable because of insufficient sample size)

Alabama’s median wage gap between white and African American workers has been far more consistent than the gender wage gap, though it continued to narrow in 2010. White workers’ median wages in Alabama were 21.3 percent higher than those of African Americans last year. That gap was lower than both the 28.4 percent difference in 2001 and the 35 percent disparity in 1979.

Whites saw a much greater decrease in median wages than African Americans last year, a factor that largely explains their shrinking wage gap. Those disparate declines dropped Alabama’s racial wage disparity in 2010 below both the regional (22.9 percent) and national (22.4 percent) averages.

Alabama's wage gaps are narrowing but remain significant



Source: Economic Policy Institute analysis of Current Population Survey data
(Median wages for Hispanic workers were unavailable because of insufficient sample size)

Median wages for Hispanic workers were unavailable for Alabama because of insufficient sample size. In the South and the United States, however, Hispanics' median wages remain below those of African Americans. Median wages for Hispanic workers have been roughly flat since 2001, increasing by 3.5 percent regionally and just 0.3 percent nationally.

Some of the pay disparities between men and women and between minorities and non-minorities cannot be explained away by differences in education, experience or workplace responsibilities. Alabama legislators in 2009 approved a resolution to create an Equal Pay Commission to study those disparities, but the panel never reached full membership and never met. Similar legislation failed to receive House or Senate votes in 2010 and 2011.

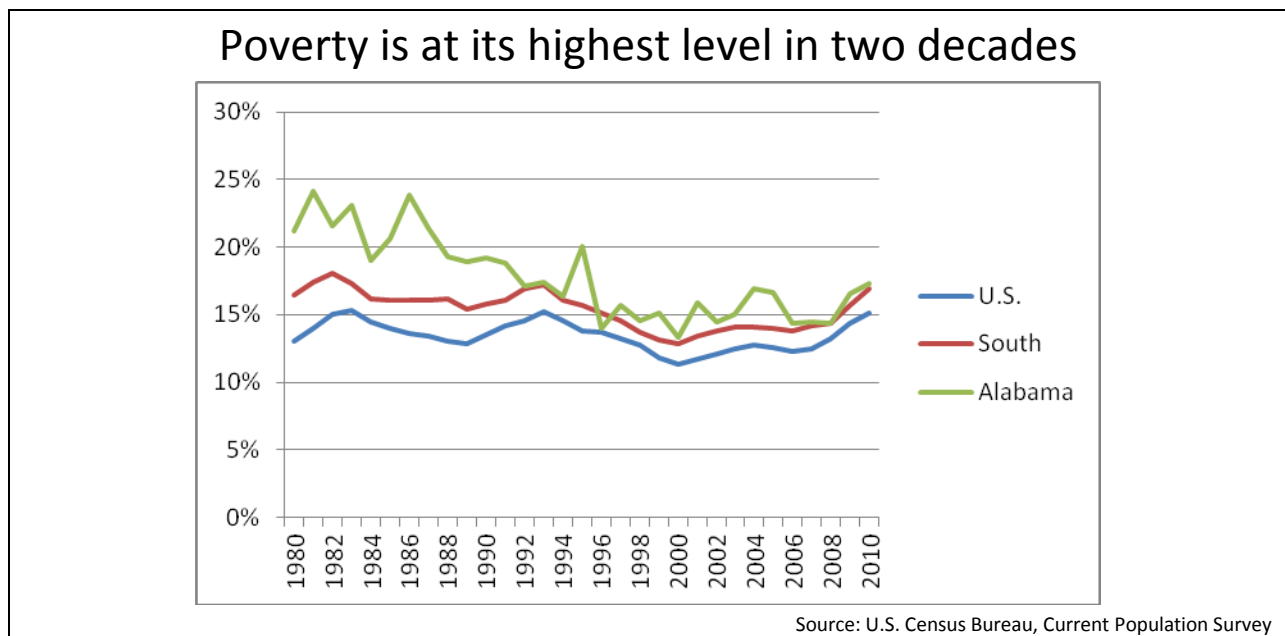
The Alabama Legislature likely will have another opportunity in 2012 to consider a bill that would establish a state Equal Pay Commission. Previous versions of the measure have called for the panel to include representatives from business, labor, higher education and other interested stakeholders. The commission, if established, could examine the extent, causes and consequences of wage gaps in both the public and private sectors in the state. The panel also could offer a list of policy recommendations for ways Alabama could narrow and eventually eliminate the pay disparities.

Poverty

Poverty is rising steeply in Alabama, with incomes and wages stagnant and many breadwinners forced from their jobs during the Great Recession finding either lower-paying work or none at all. The increase has hit especially hard among Alabama’s children, about one in four of whom live in poverty.

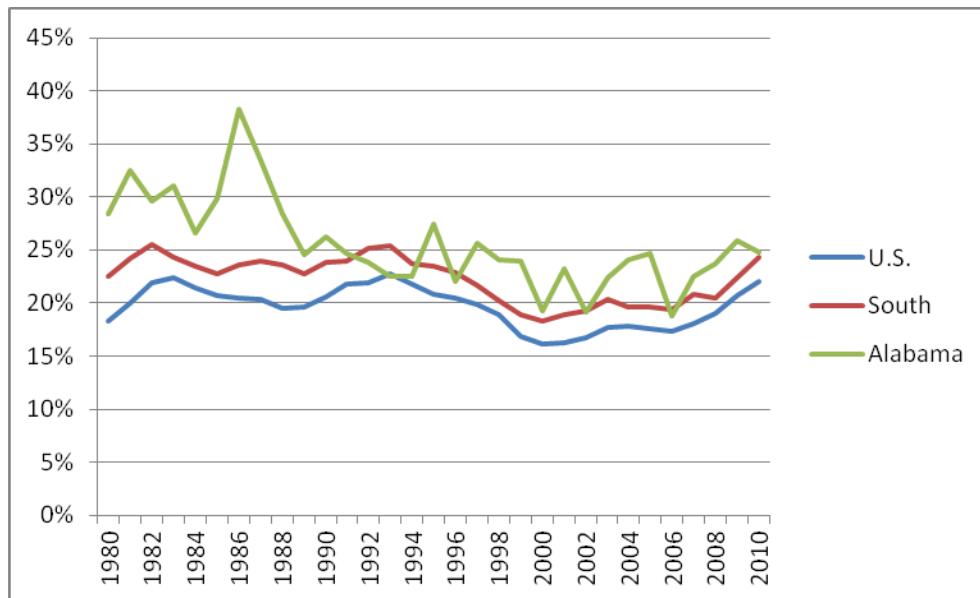
The American Community Survey (ACS) placed Alabama’s poverty rate at 19 percent in 2010, up sharply from 17.5 percent in 2009 and 15.7 percent just two years earlier. The ACS also found a huge increase in the state’s child poverty rate, from 24.7 percent in 2009 to 27.7 percent last year. To examine long-term trends, this report uses data from the Census Bureau’s other survey, the Current Population Survey (CPS), because recent methodological changes could invalidate comparisons between Alabama’s ACS poverty estimates for 2001 and 2010.

Both overall poverty and child poverty have increased in Alabama since 2000-01, CPS data show, but the increases have been even more pronounced in both the South and United States as a whole. Nationwide, the poverty rate soared by almost 28 percent in the last decade, rising from 11.5 percent in 2000-01 to 14.7 percent in 2009-10. The number of Americans living in poverty has climbed above 46 million. Southern poverty jumped more than 23 percent, going from 13.2 percent in 2000-01 to 16.3 percent in 2009-10. In Alabama, where poverty long has been higher than regional and national averages, the poverty rate has increased about 16.4 percent in the last decade, going from 14.6 percent in 2000-01 to 17 percent in 2009-10.



Child poverty has been more intense than overall poverty in Alabama in the last decade. The share of the state’s children living in poverty increased 18.8 percent between 2000-01 and 2009-10, CPS data show, going from 21.3 percent to 25.3 percent. Child poverty has increased more in the last decade in both the South (25.5 percent) and the nation as a whole (31.4 percent) than in Alabama. Still, the two-year average child poverty rate for Alabama remained higher in 2009-10 than the rates for the South (23.4 percent) and United States (21.4 percent).

Child poverty is at levels last seen in the early 1990s

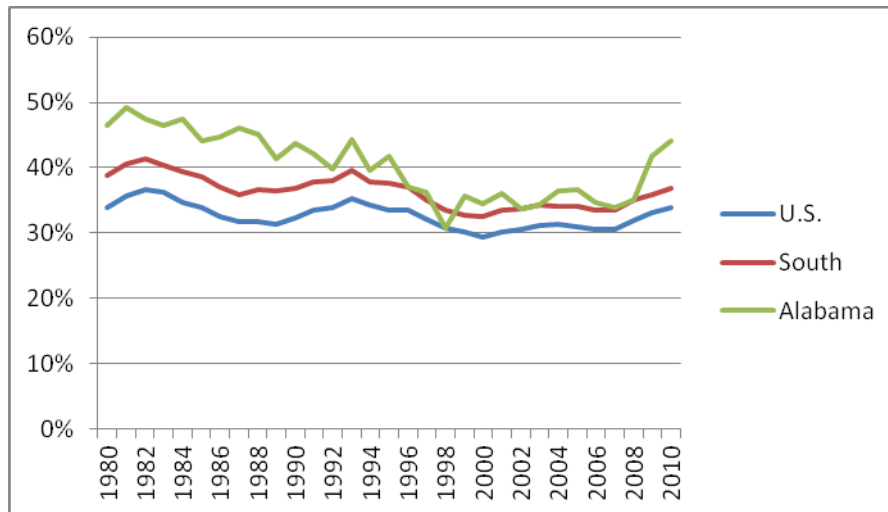


Source: Economic Policy Institute analysis of Current Population Survey’s March supplement

Many Alabama workers simply don’t make enough to escape poverty. A full-time, year-round worker had to earn an hourly wage of \$10.73 last year to reach the federal poverty threshold for a family of four, which was \$22,314. Almost a third of Alabama’s workers – 32.5 percent – made less than that in 2010. That share was at its highest level since 1998. The state’s share of workers earning below the poverty wage in 2010 was higher than the national average (26 percent) and the Southern average (28.7 percent). Like Alabama, both the South and the nation have seen increases in their shares of workers below the poverty wage since 2001.

As large as those shares might seem, the poverty line likely is too low to reflect today’s cost of living. The official poverty measure is based on a 1960s assumption that families spend about one-third of their budget on food, which is no longer true amid rising costs for housing and transportation. Many poverty experts say the amount needed to maintain a minimally self-sufficient standard of living is closer to twice the amount of the federal poverty threshold.

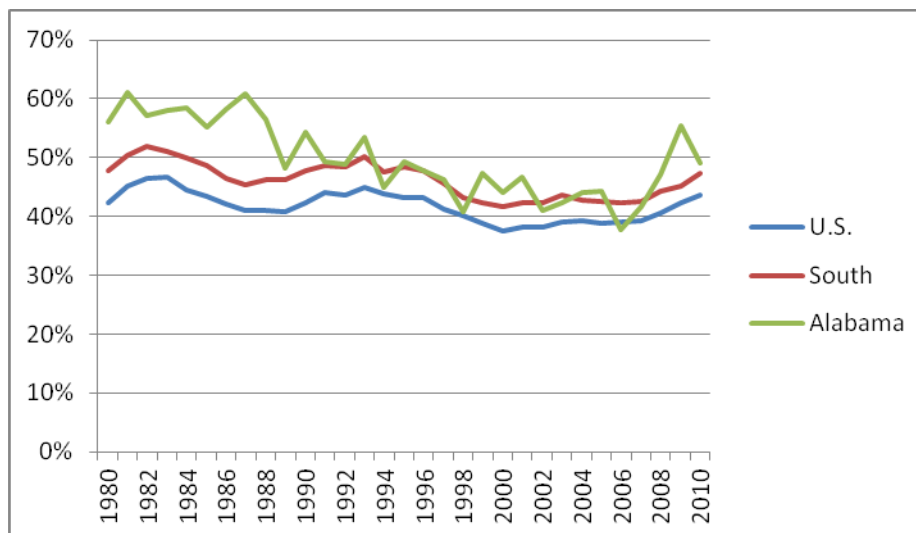
More than a third of all Alabamians make less than 200 percent of the federal poverty threshold



Source: Economic Policy Institute analysis of Current Population Survey's March supplement

In Alabama, 43 percent of people fell below that 200 percent threshold in 2009-10, a significantly higher rate than in the South (36.4 percent) or nation (33.5 percent) as a whole. Among children, the two-year averages were far higher: 52.3 percent in Alabama, 46.3 percent in the South, and 42.9 percent in the United States.

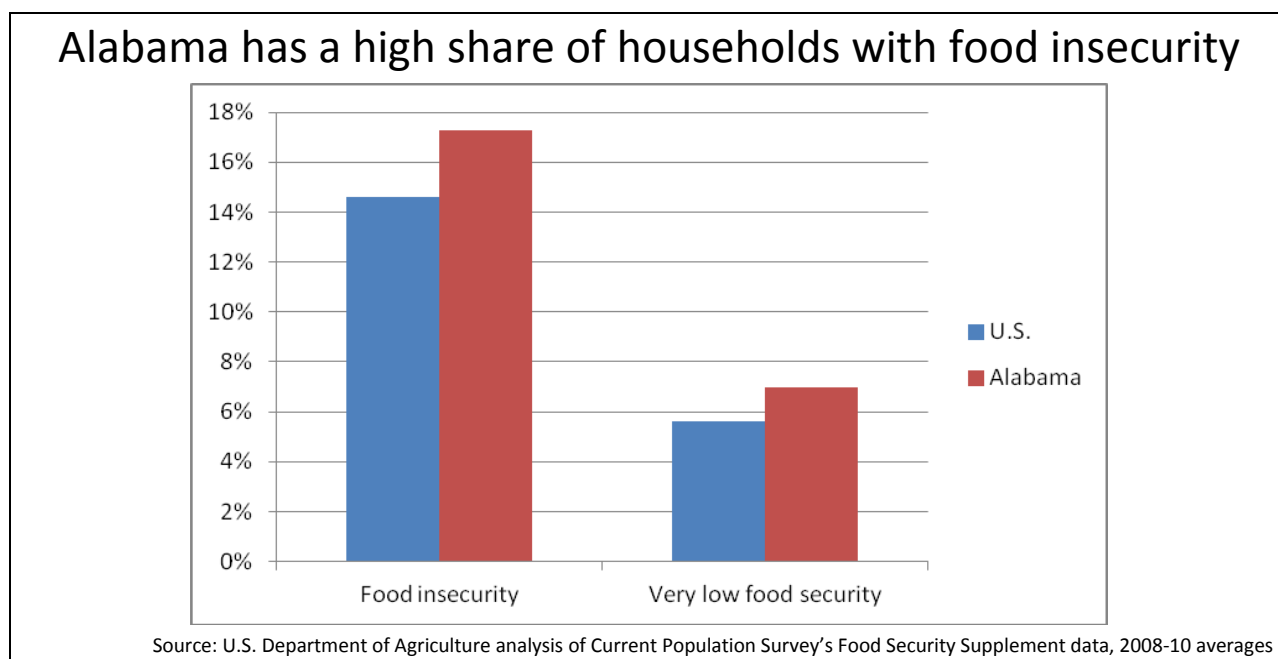
Nearly half of Alabama's children live below 200 percent of the federal poverty threshold



Source: Economic Policy Institute analysis of Current Population Survey's March supplement

The share of Alabama children living below 200 percent of the poverty threshold has increased substantially during the Great Recession. The total share of Alabamians living below 200 percent of the poverty threshold also has jumped since 2000-01. The recent increases have wiped out about 20 years of progress that the state had made on those fronts.

Higher poverty has forced more Alabama households into “very low food security,” meaning they had to reduce their food intake because of a lack of resources, according to the U.S. Department of Agriculture. The USDA said 7 percent of Alabama households did just that in 2008-10. That was the country’s third highest rate, better than only Arkansas and Oklahoma. The USDA classified 17.3 percent of Alabama households as more broadly “food insecure” in 2008-10, meaning they were unable at some point during the year to afford adequate food. That was the fourth highest rate in the nation, below only Arkansas, Mississippi and Texas.



Despite increasing poverty rates and rising costs for food, transportation and other necessities in recent years, the federal minimum wage remained at \$5.15 an hour for more than a decade, until Congress voted in 2007 to phase in an increase over three years. The hourly minimum wage rose to \$5.85 in July 2007 and to \$6.55 in July 2008. As of July 2009, the federal minimum wage stands at \$7.25. Even after the increases, the minimum wage is still only about two-thirds of the poverty wage for a family of four, which was \$10.73 last year.

The federal government may have increased its minimum wage, but Alabama remains one of only five states that do not have a state minimum wage law at all, according to the U.S.

Department of Labor. (Louisiana, Mississippi, South Carolina and Tennessee are the others.) In 23 states, minimum wage rates match the federal one, while 18 states set their own higher minimum wage. In four states, the official minimum wage is lower than the federal level, but the higher federal rate applies for most employers.

Families getting by on minimum wage or similarly low incomes often struggle to save enough money to buy a home or help their children pay for college. Alabama this year joined the more than two-thirds of states that have established Individual Development Account (IDA) programs to try to bridge this gap. IDA programs allow qualifying low-income participants to save up to \$2,000 and receive matching money from both the state and federal governments. Participants must receive financial literacy education before they can access the funds, which they can use to attend college, buy a first home or start a small business.

The Alabama Legislature in 2011 approved a bill to set up a state IDA program and allow the state to offer matching funds, and Gov. Robert Bentley signed it into law. The measure did not provide a state appropriation, but it created a mechanism by which Alabama could fund the program in the future. One possibility the state could explore next year would be to devote a small portion of two-year college funding to IDAs, expanding educational opportunities for low-income students and effectively tripling the state's return on that money.

Housing costs are another persistent challenge for many low-income Alabamians. The state has a significant shortfall of affordable housing, which the U.S. Department of Housing and Urban Development defines as housing for which a household pays no more than 30 percent of its income for rent and utilities or for a mortgage and related expenses. More than 90,000 affordable homes are needed to house people with extremely low incomes, the Low Income Housing Coalition of Alabama estimates. The April 2011 tornadoes, which killed more than 240 Alabamians, added to the housing shortage by destroying more than 23,000 homes, many in low-income communities. (Kenneth Kesner, "Weather Channel expert says North Alabama tornadoes helped make 2011 new benchmark year," *Huntsville Times*, Sept. 17, 2011.) In all, 51 percent of Alabama renters do not make enough to afford the state's fair market rent for a two-bedroom apartment (\$664 a month) without paying more than 30 percent of their incomes, according to the National Low Income Housing Coalition.

Forty-two states and the District of Columbia have set up housing trust funds to help create, maintain and retain homes for low-income households and to reduce homelessness. Legislation to establish an Affordable Housing Trust Fund in Alabama received unanimous House approval in 2011, but the bill did not receive a vote in the Senate. Like the IDA law, the measure would not have provided a state appropriation but would have created a mechanism by which Alabama could fund the program in the future. The Housing Trust Fund bill's sponsors have said they intend to introduce it again during the 2012 legislative session.

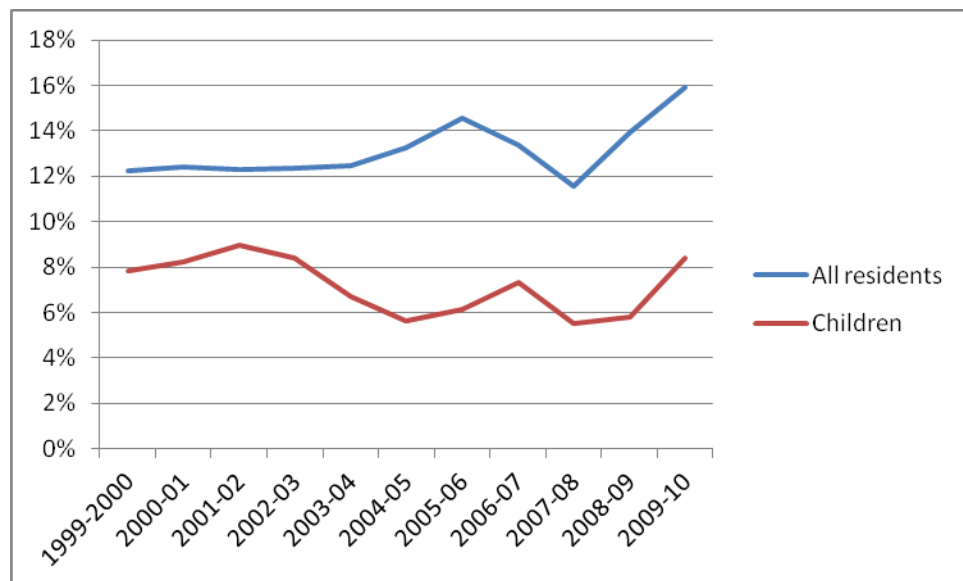
Health insurance

The Affordable Care Act (ACA) will make insurance coverage more available and affordable in coming years while also taking steps to reduce long-term health care costs. Those expansions cannot come soon enough for many uninsured Americans, whose ranks swelled last year to 49.9 million, or 16.3 percent of the population. Alabama's percentage of uninsured people, while also up, has been lower than the national rate, partly because the share of Alabamians covered by public insurance programs is larger than the national average.

Alabama was the first state to participate in the State Children's Health Insurance Program (SCHIP), and the state's pioneering program, ALL Kids, has played a critical role in providing health insurance for thousands of children who otherwise might not receive it. Medicaid and ALL Kids have helped to drive Alabama's rate of uninsured children well below the national average. Nationwide, 9.8 percent of children under age 18 had no health insurance coverage in 2009-10. In Alabama, though, the figure was 8.4 percent.

The share of Alabama children who lacked health insurance coverage in 2009-10, though still lower than the national average, was up significantly from the 2007-08 level of 5.5 percent. The change broke the downward trend in the state's share of uninsured children for much of the last decade, leaving that percentage about the same as it was in 2000-01.

Share of uninsured Alabamians has skyrocketed since 2008



Source: U.S. Census Bureau, Current Population Survey
* Two-year rolling averages

As the number of uninsured children grows, so too do the ranks of Alabama adults without coverage. The share of all Alabamians with no health insurance has increased from 12.5 percent in 2000-01 to 15.9 percent in 2009-10 as mounting job losses during the Great Recession have stripped many Alabama workers of their employer-sponsored insurance.

Significantly more Alabamians relied on public health insurance programs like Medicaid and ALL Kids in the last two years than at the start of the decade. The state's percentage of residents covered by private health insurance decreased 11.3 percent between 2000-01 and 2009-10, falling from 72.5 percent to 64.3 percent. Fueled by an aging population and a slumping economy, the share of Alabamians covered by public insurance programs jumped more than a quarter in the same time, rising from 26.1 percent to 33.3 percent.

Medicaid and ALL Kids enrollments have soared during the Great Recession. More than 1 million Alabamians, or more than a fifth of the state's 4.8 million people, were eligible for Medicaid in fiscal year (FY) 2010, the Alabama Medicaid Agency reported. Of those, more than 878,000 actually received care. ALL Kids added about 7,400 more children last year, the program reported in September 2010, bringing its rolls to 75,842. The state boosted Medicaid's General Fund appropriation by more than 60 percent in FY 2012, not to expand services but simply to meet the growing demand and help offset the loss of temporary Recovery Act aid.

Major elements of the ACA already have taken effect, including greater protections for children with pre-existing health conditions and young adults who want to stay on their parents' health insurance briefly after college. Starting in 2014, many Americans will receive subsidies to help them buy private insurance. By then, Medicaid also will cover all individuals who have incomes up to 133 percent of the federal poverty level and who do not qualify for Medicare. That expansion could add up to 500,000 people to Alabama's Medicaid rolls. The federal government will pay the entire cost of the expansion for three years and up to 90 percent of the cost thereafter, giving the state five years to figure how to chip in its share.

The health care landscape could change quickly in coming months. The U.S. Supreme Court is expected to rule in spring 2012 on a lawsuit against the ACA filed by Alabama and other states. Meanwhile, a state commission is studying ways to implement a portion of the ACA by designing a health insurance exchange to allow eligible individuals and small businesses to compare and buy plans in Alabama. The panel's report is due to the governor by Dec. 1, 2011.

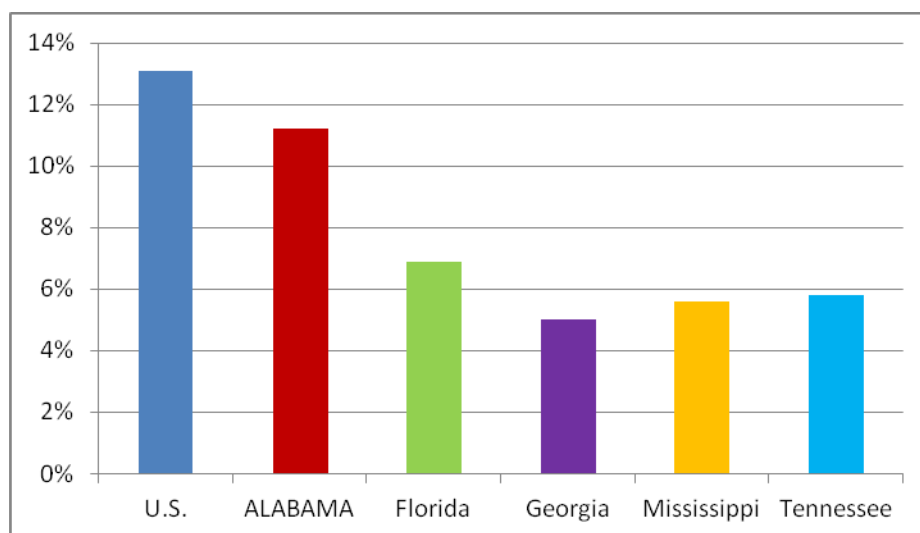
Budgetary problems soon may squeeze health coverage in Alabama. Tepid growth and disappearing windfalls mean next year's General Fund shortfall may exceed \$400 million, which could endanger state funding for Medicaid, ALL Kids and other public services. Alabama stood to lose some federal Medicaid money under deficit reduction, but the failure of a congressional "super committee" to strike a deal will trigger budget cuts from which Medicaid is exempt.

Unions

Union membership grew in Alabama in the last decade, even as it has fallen across the nation as a whole. The state's union membership declined in 2010, ending three straight years of gains. Unions lost about 8,000 members in Alabama last year, according to the online Union Membership and Coverage Database. The share of the state's labor force that has union membership fell to 10.1 percent, down from 10.9 percent in 2009. Despite the decrease, union membership in Alabama remained above its 2001 level of 9.4 percent.

Alabama's union membership share last year was lower than the national average (11.9 percent), but the state's rate remained well above that of its Deep South neighbors, largely because of a high union membership rate among public employees. Alabama's unionization level was the fourth highest among Southern states, exceeded only by Delaware, Maryland and West Virginia. Among the states that border Alabama, Florida had the highest rate of union membership in 2010, checking in at 5.6 percent. Georgia, at 4 percent, had the lowest.

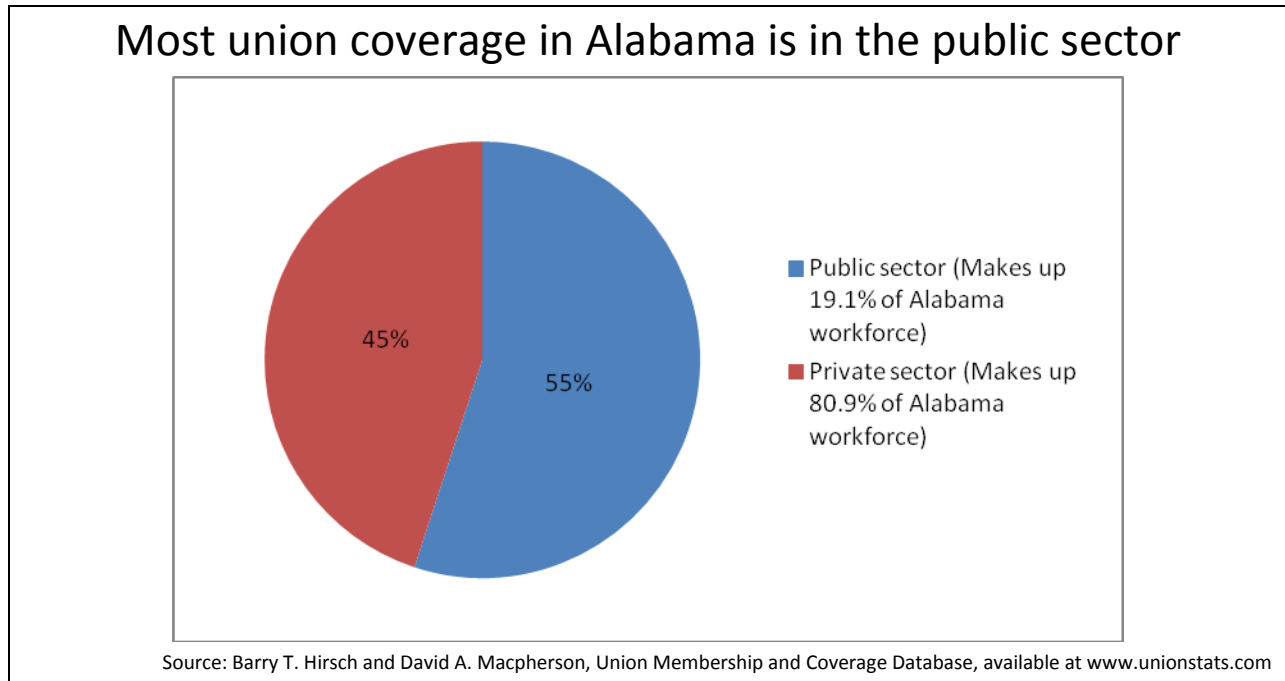
Alabama outstripped its neighbors in union coverage in 2010



Source: Bureau of Labor Statistics

Alabama also continued to have one of the region's largest percentages of workers who have union coverage, meaning they either are union members or are covered by a union contract at work. The state's union coverage rate of 11.2 percent last year was down from a year before but still up from the 2001 level of 10.8 percent. Alabama's union coverage trailed the national average of 13.1 percent, but it was the fourth highest percentage among Southern

states, behind only Delaware, Maryland and West Virginia. Among the four states contiguous to Alabama, the highest union coverage rate belonged to Florida at 6.9 percent.



Public employees made up 19.1 percent of the state's labor force in 2010, but they accounted for nearly 100,000 of Alabama's 183,000 union members, according to the Union Membership and Coverage Database. Almost a third of the state's public employees had union coverage last year, but that figure was down since 2009. Those numbers may decline further in coming years after a 2010 Alabama law forbade automatic deduction of membership dues from public employees' checks for groups that "use funds for political activities." The law is enjoined temporarily pending a ruling in a federal lawsuit brought by the Alabama Education Association.

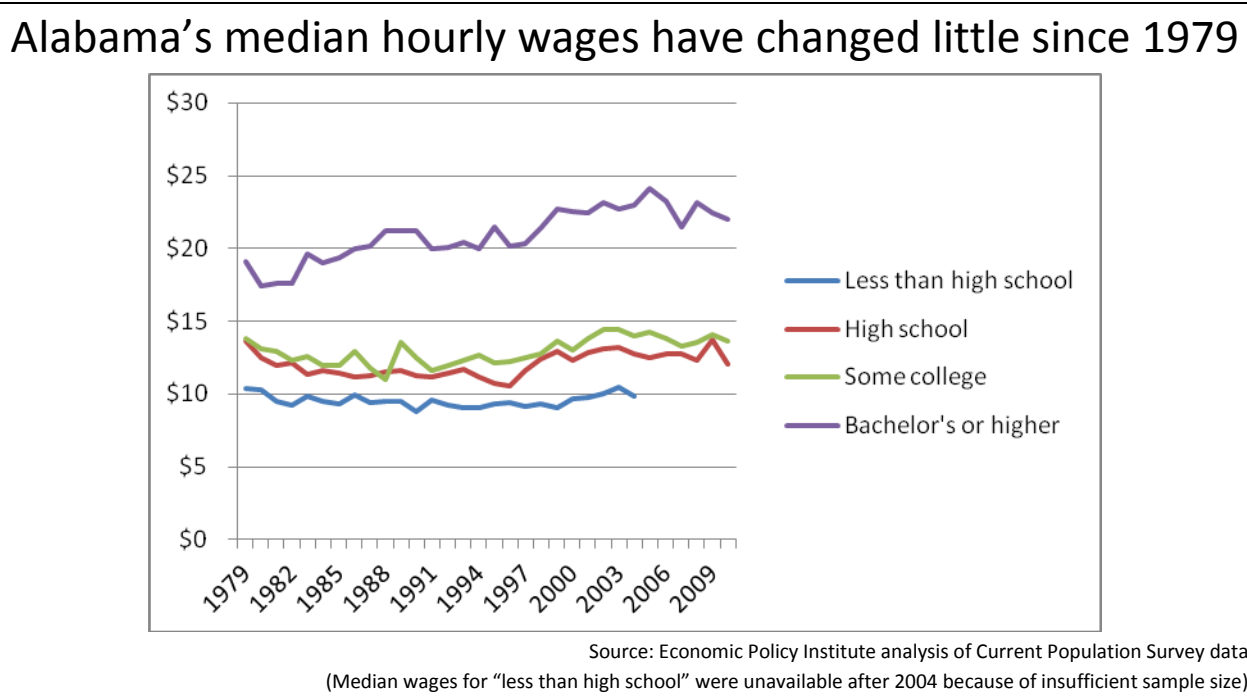
Union membership remains comparatively rare in Alabama's private sector. Almost 1.5 million Alabamians were employed in private-sector jobs last year, but only about 84,000 were union members last year, a membership rate of 5.7 percent. More than 91,000 private-sector employees in Alabama had union coverage last year, for a rate of 6.2 percent.

Median wages for union workers historically have been higher than those for non-union workers. Comparison data were unavailable in 2010, but Alabama's union employees in 2009 earned a median hourly wage of \$20.44, compared to \$14.68 for workers outside a union. Nationally, union workers' median wage last year was \$19.63, while non-union employees' median wage was \$14.86.

Education

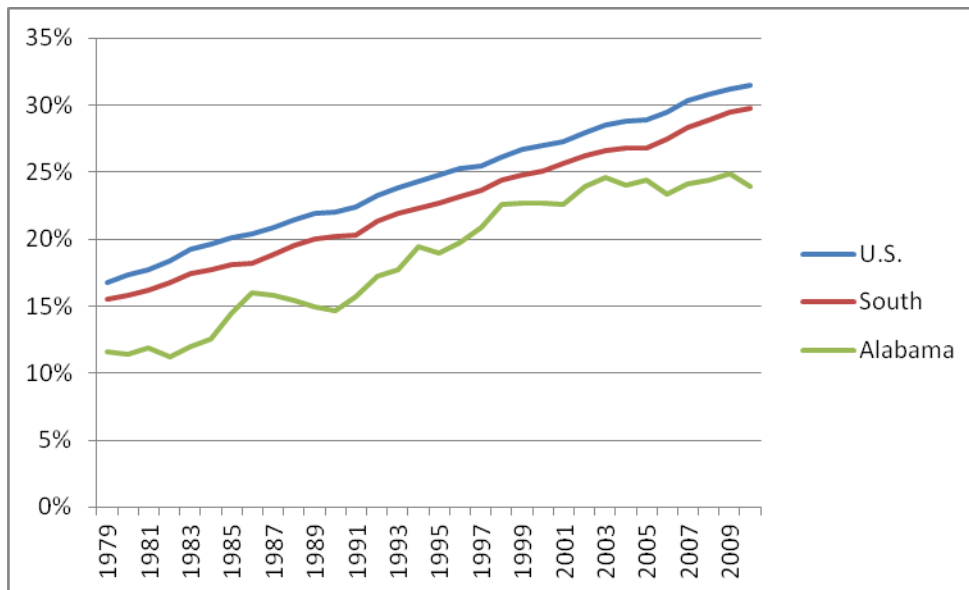
Alabama’s workforce is more highly educated now than it was a decade ago, but those added qualifications haven’t paid off in higher median wages. As in the rest of the nation, Alabama workers of all educational levels have seen little or no improvement to their median hourly wages since 2001. And even as wages largely have stood still, Alabamians have seen the median cost of a college education – perhaps the surest path to higher earnings in the modern American economy – soar well out of reach for many working households.

The Great Recession took its toll on wages for Alabama workers across the spectrum of educational attainment last year, but the toll was particularly heavy for high school graduates. Median wages for the group fell more than 12 percent in just one year, plummeting from \$13.72 an hour in 2009 to \$12.06 in 2010. The decline left the earnings measure below its 2001 level (\$12.81) and significantly below where it stood in 1979 (\$13.63). Meanwhile, wages for Alabama workers who completed some college – often those with a two-year associate’s degree – have shown little change in three decades. The median wage for such workers was \$13.68 last year, down slightly from \$13.82 in 2001 and \$13.81 in 1979. Wage information for Alabama workers who did not complete high school has been unavailable since 2004, but such workers in the South and the nation at large have seen declines in their median wages since 1979 – the national drop was 18.4 percent – and little change since 2001.



University graduates in Alabama earned appreciably higher wages last year than workers with less education, but their median wages were no higher than a decade ago. The median wage for Alabama workers who hold at least a bachelor’s degree was \$22.02 in 2010, up substantially since 1979 (\$19.10) but slightly lower than in 2001 (\$22.46). Median wages for university graduates across the South and the nation likewise have been stagnant for a decade, though they remained higher than in Alabama in 2010. The South’s median wage last year was \$23.90, while the national figure was \$24.91.

Alabama is falling further behind the U.S. and South in the share of its labor force with a bachelor’s degree or higher

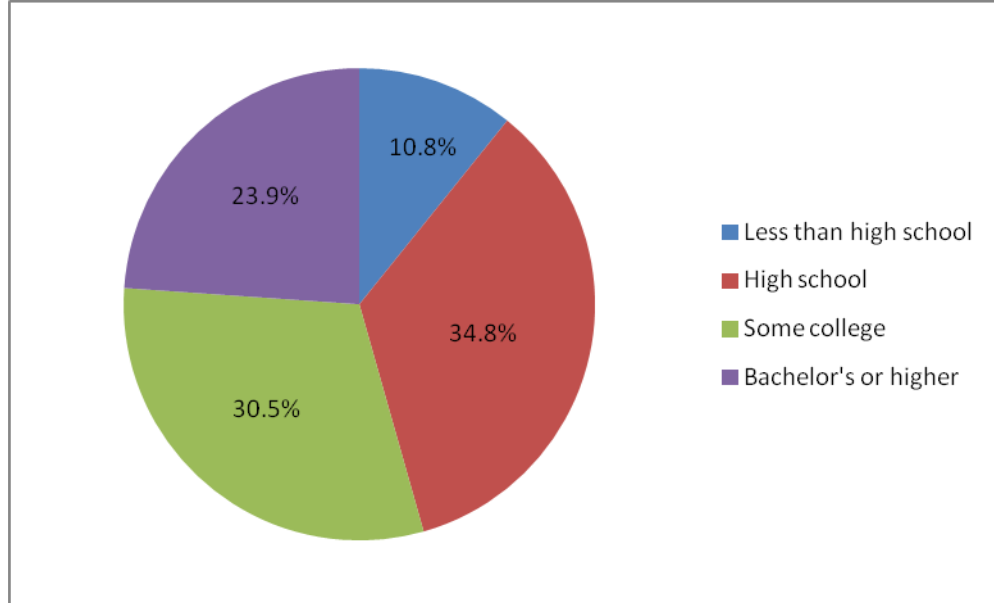


Source: Economic Policy Institute analysis of Current Population Survey data

A growing number of Alabamians are able to cash in on the wage benefits that accompany a bachelor’s degree, but the state still trails the South and the nation in its share of highly educated workers. The share of Alabama’s labor force with a four-year degree has increased in the last three decades, rising from 11.6 percent in 1979 to 22.6 percent in 2001 and 23.9 percent in 2010. The percentage of state workers with some college also has ticked up since 2001, improving from 29.3 percent to 30.5 percent.

Alabama still lags considerably behind the region and nation in educational attainment, however, and the disparity has widened in recent years. A substantial number of state workers – 45.6 percent – have a high school education or less, which means the 30-year decrease in wages for high school graduates has hit Alabama harder than many other states.

Almost half of Alabama's labor force has no college education



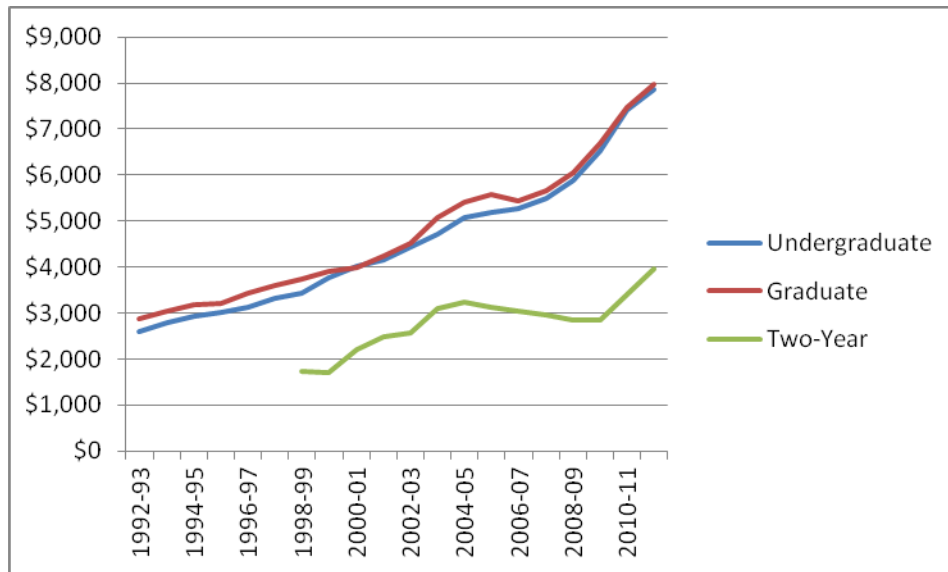
Source: Economic Policy Institute analysis of Current Population Survey data

Despite a decade of wage stagnation, Alabamians with bachelor's degrees still enjoy much higher median wages than their less-educated counterparts. But the cost of obtaining a four-year degree to increase earning power is growing much more quickly than earnings are. That cost explosion has accelerated further in the face of slumping revenues for Alabama's education budget, which has undergone three straight years of proration, or across-the-board mid-year cuts, despite \$1 billion of federal Recovery Act aid that limited the size of the cuts.

The annual median in-state cost of undergraduate tuition and required fees at Alabama's public four-year universities has more than tripled in the last two decades, skyrocketing from \$2,608 per year in 1992-93 to \$7,865 for 2011-12. (All tuition amounts are adjusted to 2011 dollars.) The figure today is almost double its 2000-01 level, according to an analysis of data from the Alabama Commission on Higher Education (ACHE). Costs have risen a bit more slowly for graduate students since the early 1990s, but the median annual in-state cost of graduate school tuition and required fees at an Alabama four-year public university still has increased 177.2 percent since 1992-93, rising from \$2,874 then to today's mark of \$7,968, according to ACHE figures. Since 2000-01, graduate school costs have more than doubled.

Community college costs have grown more slowly in Alabama, thanks to several years of tuition freezes earlier in the decade, but now price increases are beginning to pile up there, too. Median in-state tuition and required fees at two-year colleges have jumped 79.7 percent since 2000-01, going from \$2,208 then to \$3,968 today, according to ACHE data.

Median in-state tuition and required fees have soared at Alabama public higher education institutions in the last decade



Source: ACPP analysis of data from Alabama Commission on Higher Education Annual Tuition and Fee Schedule (ACHE data on two-year colleges' median in-state tuition and required fees begin in 1998-99 school year; amounts adjusted to 2011 dollars using online Consumer Price Index calculator from Federal Reserve Bank of Minneapolis)

The sales tax and income tax revenues that constitute the biggest chunk of education funding in Alabama have rebounded slowly after the recession. On top of that trend, the state's FY 2013 education budget will be at least \$108 million smaller than this year because of a law the Legislature passed in 2011 to cap the budget's annual spending growth in an effort to make proration less common, Gov. Robert Bentley said in October 2011. Those factors mean tuition increases are unlikely to slow down any time soon. The University of Alabama increased in-state undergraduate tuition for fall 2011 by 8.9 percent, while Auburn University increased tuition and fees by about 10 percent. Other notable increases came at Alabama A&M University (10.6 percent), the University of South Alabama (8.4 percent) and the University of Alabama at Birmingham (7.9 percent).

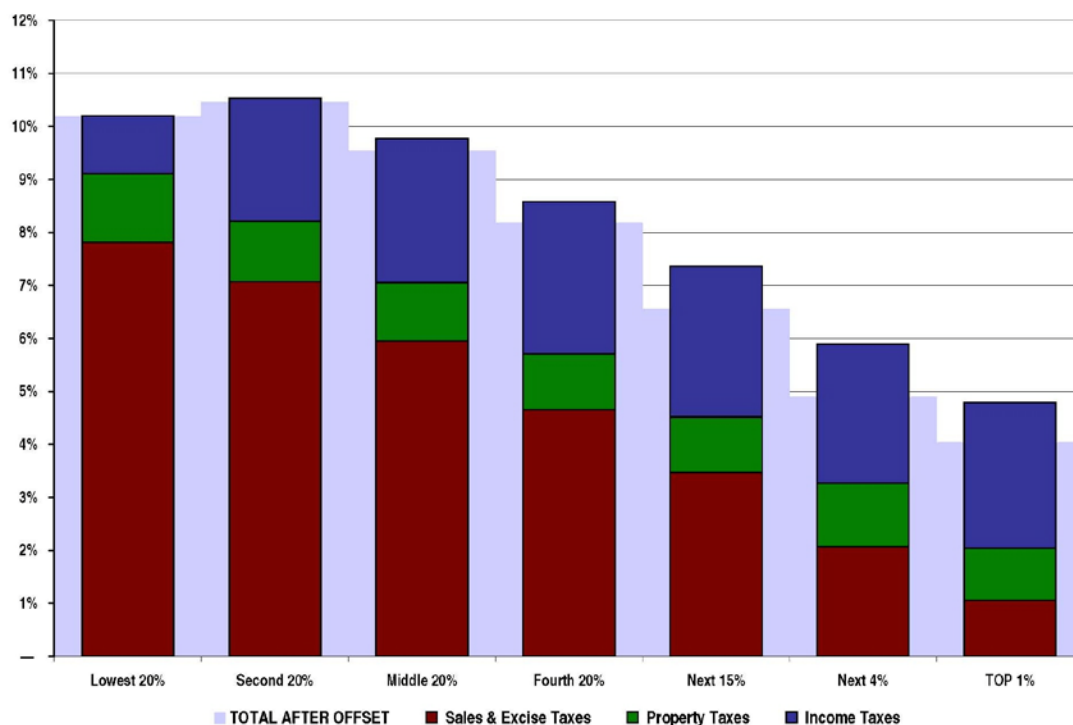
Alabama's falling median income and stagnant median wages have left many families unable to afford the growing cost of higher education. Many of the Alabamians who do attend college graduate with significant student debt loads that can act as a counterweight to their efforts to get ahead for years or even decades. About 56 percent of Alabama seniors graduated with debt in 2010, according to a November 2011 report by the Project on Student Debt, an initiative of the Institute for College Access and Success. Those students owed an average student loan debt of \$24,821, the report found, the 14th highest average in the nation and higher than the amounts owed in Alabama's four neighboring states.

Taxes

Alabama’s per capita taxes are the lowest in the nation, but taxes aren’t low for most workers. The income tax for a family of four at the poverty line is the nation’s highest, and sales taxes also claim a big chunk of low-income families’ earnings. The state’s upside-down tax system demands more from those who make the least than from those who make the most.

The bottom fifth of Alabama’s income earners – those who made less than \$16,000 in 2007 – on average pay 10.2 percent of their income in state and local taxes, according to the 2009 edition of *Who Pays? A Distributional Analysis of the Tax Systems of All 50 States*. The study, conducted by the Institute on Taxation and Economic Policy (ITEP), takes a state-by-state look at the shares of income people in each income range pay annually in state and local taxes. By contrast, the top 1 percent of Alabama’s earners — those who made at least \$384,000 in 2007 — pay 4.8 percent in taxes. Their effective rate falls to 4 percent when the federal income tax offset for state income and property taxes is taken into account.

Alabama taxes: The more you make, the smaller share you pay



Source: Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 3rd ed. (Table shows shares of family income that non-elderly taxpayers pay in state and local taxes and applies 2009 tax law at 2007 income levels)

High sales taxes, extremely low property taxes and an effectively flat income tax are key factors in the state tax system’s imbalance. Across the board, the overall trend is clear: The more people make in Alabama, the smaller share of it they pay in state and local taxes. Largely as a result, state and local governments’ revenue collections in Alabama are about \$1,000 less per person than the national median. That means far fewer resources for schools, roads, health care and other public services that improve residents’ quality of life and provide a long-term foundation for broad economic growth.

Lawmakers in 2006 increased the state’s income tax threshold – the level at which people begin to owe state income tax – for a family of four from \$4,600 to \$12,600. But even after the change, Alabama continues to tax workers whose earnings fall far below the federal poverty line, which was \$22,314 for a family of four in 2010. Further, the state’s income tax on a family of four at the poverty line last year (\$498) was the nation’s highest, according to the Center on Budget and Policy Priorities. Only 15 states require families with incomes that low to pay any income tax at all.

Other Southern states have much higher income tax thresholds	
ALABAMA	\$12,600
Georgia	\$15,900
Mississippi	\$19,600
Louisiana	\$21,000
Arkansas	\$21,700
North Carolina	\$23,200
South Carolina	\$32,400
Source: Center on Budget and Policy Priorities (Income tax thresholds are for two-parent family of four in 2010)	

Alabama’s current income tax threshold, though much higher than the pre-2006 model, still burdens many people trying to climb out of poverty. The state’s threshold of \$12,600 for a family of four is the second lowest in the country, ahead of only Montana (\$12,200). And because Montana’s threshold rises along with inflation but Alabama’s does not, Alabama likely will have the nation’s lowest income tax threshold in the near future if nothing changes.

Income tax rates in Alabama have stayed the same since 1935. Yearly taxable income under \$500 (\$1,000 for a couple) is assessed at 2 percent, while income between \$500 and \$2,999 (double for couples) is taxed at 4 percent. All taxable income of \$3,000 or more (double

for couples) is subject to a rate of 5 percent. That means most Alabamians, whether low-income or high-income, owe income tax at the same top (or marginal) rate. Almost two-thirds of Alabama families pay income tax at the top rate, according to ITEP. And though the income tax is nominally progressive, the state's full deduction for federal income taxes results in an effective income tax rate that actually declines at upper income levels.

Alabama offers a full state income tax deduction for federal income taxes paid or accrued (known as the "FIT deduction"), which mainly benefits wealthier Alabamians. More than 80 percent of the tax break goes to the top fifth of earners, ITEP estimates. Only two other states – Iowa and Louisiana – allow a full state FIT deduction. (Three other states have partial FIT deductions.) Alabama also permits a deduction for Social Security contributions, but this relief is available only to taxpayers who, unlike many low- and middle-income earners, itemize their deductions. That quirk means the break often doesn't help low-income people, even though they pay a larger share of their incomes in payroll taxes than top earners do.

The income tax rate schedule and the FIT deduction contribute to the regressive nature of the state's tax system. Sales taxes are regressive, requiring people who make less money to pay a larger share of their income than people who make more. Most states try to balance that effect with a progressive income tax that requires wealthier people to pay more than people who make less. But because 66 percent of Alabamians pay at the top income tax rate, the state's income tax is effectively flat and does little to offset the regressive nature of the sales tax. As a result, Alabama has the nation's 10th most regressive tax system, according to ITEP.

Even though sales taxes are highly regressive, Alabama relies heavily on them to fund education, and the overall rates here are some of the nation's highest. (The combined state and local sales tax rate in Birmingham and Montgomery, for example, is 10 percent.) One reason the state's sales tax is especially regressive is that it applies to necessities. Alabama taxes over-the-counter medicines, and it is one of only two states in the country – Mississippi is the other – that tax groceries fully without any discount for low- and middle-income families. Reduction, removal or offset of Alabama's sales tax on groceries would pump hundreds of millions of dollars into the retail economy. It also would make the state's tax system more progressive and put Alabama more in line with the tax practices of the vast majority of states.

Another factor in the regressive nature of the state's sales tax is what is not subject to the tax. Alabama's sales tax applies mainly to spending on goods and entertainment, but not to most personal and professional services, on which wealthier taxpayers tend to spend a larger share of their incomes than lower-income people do. If Alabama broadened its sales tax base to include such services, the state could reduce its overall sales tax rate of 4 percent without reducing revenues for education and other public services.

Outlook

A November 2011 cover story in *Time* magazine asked a troubling question — “Can You Still Move Up in America?” — and got an even more troubling answer: Not as easily as you once could. Upward mobility, long at the heart of the American dream, is now more difficult to achieve in the United States than in Canada and most developed European countries, *Time* found. At a time when U.S. income inequality is reaching levels unseen since the Great Depression, declining incomes and skyrocketing college costs have left many Americans unable to climb the economic ladder by working harder or obtaining more education.

Unease over growing income disparities and the nation’s sluggish economic recovery has taken on many forms. Perhaps the most visible is the 99 Percent Movement, which began in September 2011 with a small protest in New York that since has spawned hundreds of similar events worldwide, including some in Alabama, loosely organized under the Occupy Wall Street banner. A more hidden reaction has been a change in many young people’s attitudes about the future. Nearly half of Americans between the ages of 18 and 34 believe their generation will be worse off than their parents, according to a recent poll by the nonprofit groups Demos and Young Invincibles. Almost half of the respondents in that age range said they have put off buying a home because of the economy, the poll found. One in four has delayed marriage.

Alabama, like the rest of the nation, is unlikely to experience the sort of rapid, dramatic economic rebound that could quickly soothe those concerns. The mortgage research group RealtyTrac found that Alabama foreclosures were up 12.2 percent in October 2011 compared to the previous year, *The Birmingham News* reported in November 2011. The state’s jobless rate has fallen for much of the latter half of this year, but unemployment in Alabama is still high compared to other post-recession years. In addition, state budget shortfalls likely will force layoffs of many public employees in coming years, removing consumer spending from the retail economy and at least partially offsetting any job gains in Alabama’s private sector.

The state’s economy will expand by about 2 percent in 2012, a rate too slow to make a substantial dent in the unemployment rate, according to an estimate by the University of Alabama’s Center for Business and Economic Research. It may take up to four more years for joblessness to return to pre-recession levels in Alabama, UA economist Ahmad Ijaz told the *Montgomery Advertiser* in November 2011.

Tough times have left many Alabamians fearing a bleak future, but it doesn’t have to be that way. Strong investments in education, health care, transportation and other public structures would strengthen Alabama’s foundation for robust growth and help ensure that the state’s next generation gets the same shot to attain the American dream that their parents had.



Arise Citizens' Policy Project
P.O. Box 1188, Montgomery, AL 36101
(800) 832-9060
www.arisecitizens.org