



**STATE OF  
WORKING  
ALABAMA  
2007**

**Arise Citizens' Policy Project**

# THE STATE OF WORKING ALABAMA 2007

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# THE STATE OF WORKING ALABAMA 2007

## ABOUT THIS PUBLICATION

Arise Citizens' Policy Project (ACPP) has teamed with the Economic Policy Institute (EPI) to assess the economic condition of Alabama's working families in 2007 against the backdrop of national, regional and historical trends. Since 1988, the EPI has released a biennial publication titled *The State of Working America*. The publication offers a wealth of data on working families, including analysis of trends in wages, income, jobs and employment. ACPP is one of many groups nationwide that have joined with the EPI to produce state-level reports using the EPI's analysis of the Census Bureau's 2006 Current Population Survey and other data sources. Unless otherwise noted, this report uses 2006 dollar figures, adjusted for inflation.

This report was written by ACPP policy analyst Chris Sanders, with ACPP policy director Ron Gilbert and ACPP communications director Jim Carnes.

## ARISE CITIZENS' POLICY PROJECT

Arise Citizens' Policy Project (ACPP) is a nonprofit statewide citizens' organization comprising 150 congregations and community groups that promotes policies to improve the lives of low-income Alabamians. ACPP analyzes the impact of current and proposed state policies and educates its members on poverty issues.

# OVERVIEW

The rising tide hasn't lifted all boats in Alabama.

The state's economy has grown in a number of ways since the recession of 2001-02. The unemployment level is notably below the national and regional average, with some areas of the state experiencing what economists would call full employment. Almost 100,000 new jobs have been created since 2002. Median wages for college graduates have risen at a higher rate in Alabama than in the South or the United States since the turn of the century. And the state is still ahead of the national curve for the percentage of children with health insurance.

But for many working Alabamians, the news is far from sunshine and rainbows. The poverty rate in 2005-06 was higher than in 2000-01. Despite the construction of several large automotive plants in Alabama in the last decade, the state has hemorrhaged manufacturing jobs at an even higher rate than the nation as a whole in that time. Partly as a result, median wages for the state's high school graduates, adjusted for inflation, are down compared to 1979 and have stagnated since 2001. Median wages also are largely unchanged since the new decade began. And with information proving to be a booming, high-paying field nationally, the number of Alabamians working in that sector has fallen since 2001.

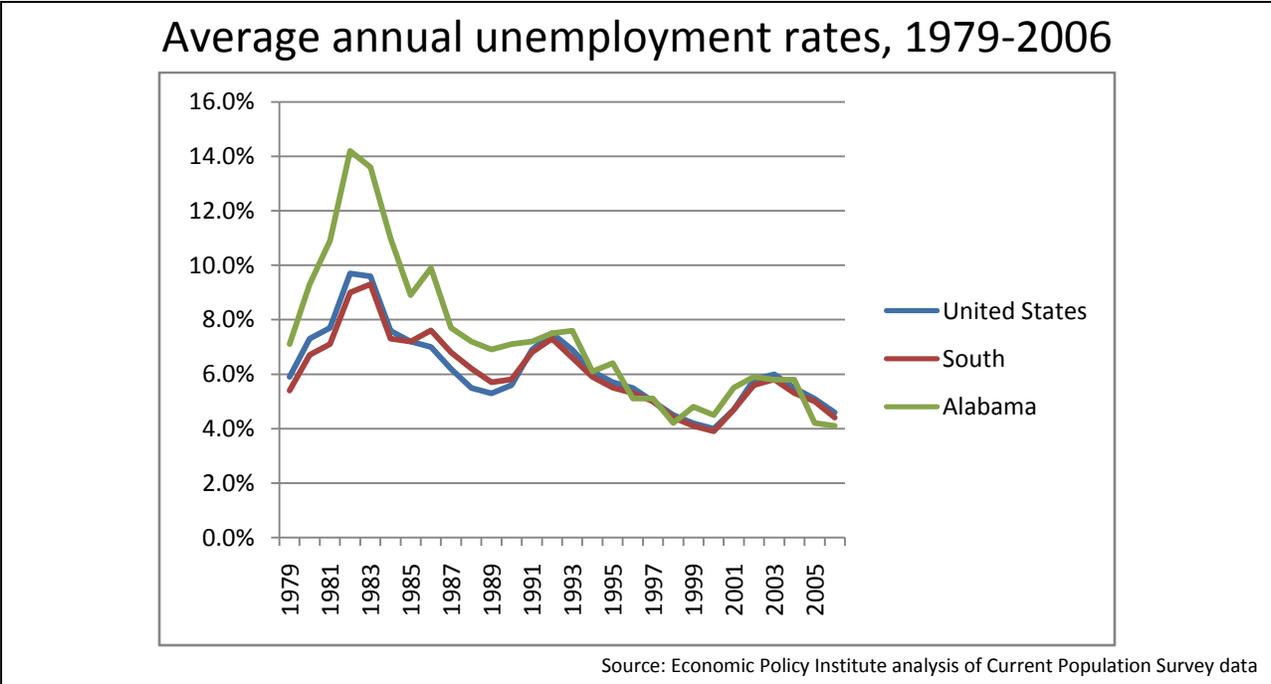
Long-time racial and gender disparities continue. Median wages for African Americans are nearly a third lower than those for Whites in Alabama, and the unemployment rate for African Americans is more than twice as high as that for Whites. Meanwhile, the median wage gap between Alabama's men and women is higher than the regional and national differences, and women participate in the workforce at a rate more than 20 percent lower than for men.

State workers still face broader challenges in their efforts to climb the economic ladder. Tuition is increasing steadily at the state's four-year public universities, making it tougher for low-income people to pursue the bachelor's degree that is the surest route to a higher income. The state's heavy reliance on regressive sales taxes continues. And though Alabama took a good first step toward a fairer tax system last year by raising the level at which citizens begin to owe state income taxes, low-income residents still pay the state a larger percentage of what they make than wealthier citizens do.

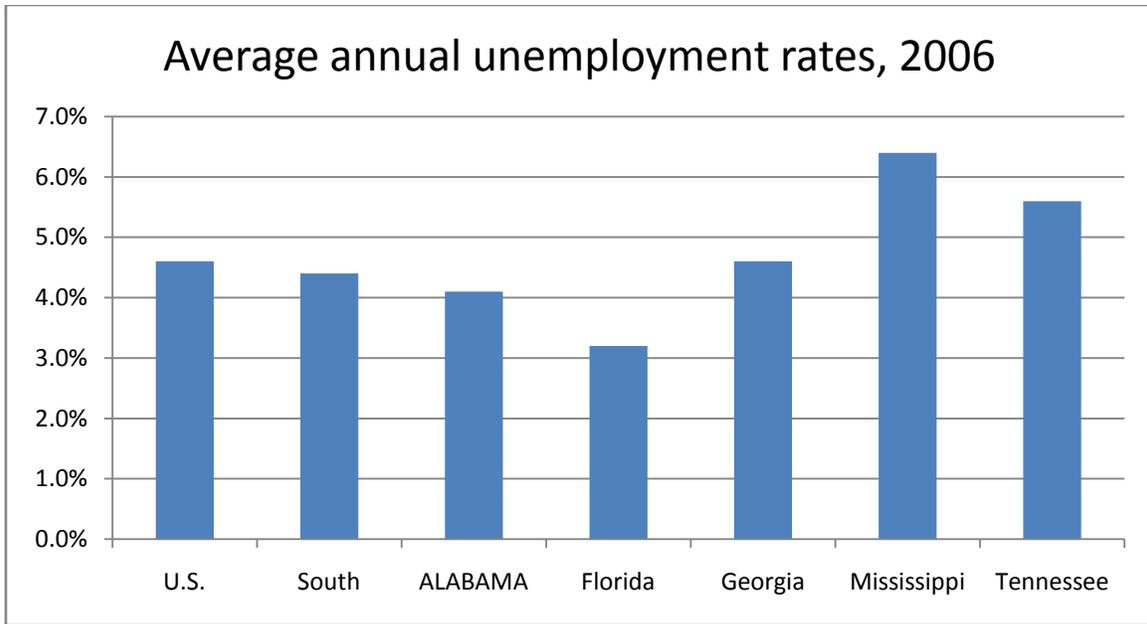
Alabama's economy is better by many measures than it was at the start of the 21st century, but challenges remain for many of the state's workers. This report aims to illuminate both the emerging highs and lingering lows for working Alabamians in 2007.

# EMPLOYMENT

Perhaps the brightest star in Alabama’s economy has been the state’s unemployment rate, which is below both the regional and national levels and is lower than that for all but one of Alabama’s neighbors. Unemployment in the state stood at 4.1 percent in 2006 after ticking steadily downward over the last few years, and the trend has continued thus far this year, with unemployment below 4 percent for much of 2007. The current level is a marked improvement from 1979, when unemployment stood at 7.9 percent, and from the recession level in 2001, when the rate was 5.5 percent.



Alabama’s unemployment rate compares favorably to that of its neighbors. Georgia’s unemployment rate of 4.6 percent matched the national average in 2006, while Mississippi stood at 6.4 percent and Tennessee at 5.2 percent. Only Florida, with a rate of 3.2 percent, bested Alabama’s mark. The overall rate for the South was 4.4 percent.



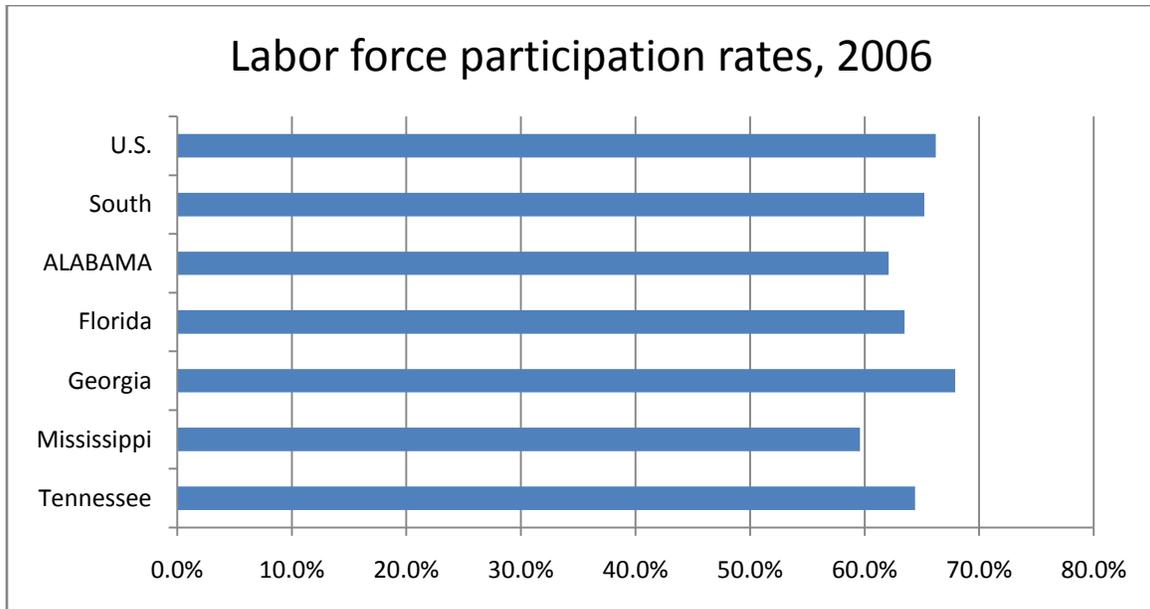
Source: Economic Policy Institute analysis of Current Population Survey data

Though unemployment is down across Alabama, it remains well above the national average in many rural areas. That’s especially true in Black Belt counties like Perry and Wilcox, where the unemployment rates are consistently more than double the statewide level.

Unemployment rates in selected Alabama counties, June 2007			
Alabama (seasonally adjusted): 3.5%			
Ten highest:		Ten lowest:	
Wilcox	9.8%	Shelby	2.6%
Perry	9.1%	Baldwin	2.9%
Dallas	9.0%	Blount	3.1%
Bullock	8.6%	Madison	3.1%
Lowndes	7.8%	Autauga	3.2%
Clarke	6.9%	Cullman	3.3%
Sumter	6.9%	Elmore	3.3%
Monroe	6.6%	Houston	3.3%
Lamar	6.4%	Chilton	3.4%
Washington	6.4%	Cleburne	3.4%
Greene	6.3%	Four tied	3.5%

Source: Alabama Department of Industrial Relations

Despite the rosy employment figures, Alabama continues to lag behind most other states in the share of working-age people who are employed or looking for work. The state's labor force participation rate in 2006 was 62.1 percent, the fourth lowest in the United States, and that mark is virtually identical to the state's 2001 performance. The national rate in 2006, by contrast, was 66.2 percent. Only Louisiana, Mississippi and West Virginia had lower labor force participation than Alabama.



Source: Economic Policy Institute analysis of Current Population Survey data

Notable racial disparities linger in Alabama's employment atmosphere. Among the state's African American population, unemployment was 7.5 percent in 2006, more than double the 3.1 percent rate for Whites. Likewise, 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 more than twice as high among African Americans than among Whites. And the share of workers who are part-time for economic reasons was almost three times as high for African Americans as for their White counterparts.

Alabama labor force statistics by race, 2006				
	White	African American	Hispanic	Asian/Pacific Islander
Labor force participation rate	62.8%	58.9%	74.5%	(a)
Unemployment rate	3.1%	7.5%	(a)	(a)
Underemployment rate	5.3%	13.7%	(a)	(a)
Part-time workers share	20.4%	21.9%	(a)	(a)
Part-time for economic reasons share	8.9%	25.5%	(a)	(a)
Source: Economic Policy Institute analysis of Current Population Survey data (a) Does not meet standards for sample size.				

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 labor force participation rate for men last year was 69.8 percent, while the rate for women was only 55.2 percent. More than 27 percent of the women in Alabama’s labor force worked part-time in 2006, compared to 15.4 percent of men. Women also were underemployed at a rate almost 35 percent higher than that for men.

Alabama labor force statistics by gender, 2006		
	Male	Female
Labor force participation rate	69.8%	55.2%
Unemployment rate	3.9%	4.4%
Underemployment rate	6.3%	8.5%
Part-time workers share	15.4%	27.4%
Part-time for economic reasons share	13.2%	12.7%
Source: Economic Policy Institute analysis of Current Population Survey data		

Alabama’s labor force is older and more male than it was when the decade began. Men represented 53.3 percent of Alabama’s labor force in 2006, with women making up 46.7 percent. Those numbers are virtually identical to the regional and national breakdown, but they indicate almost a full percentage-point decrease in the percentage of women in the state’s workforce since 2001.

As in the rest of the nation, the share of the Alabama workforce aged 16 to 24 has trended steadily downward for the last three decades, falling from 23.3 percent in 1979 to 16.3 percent in 2001 and 14.8 percent in 2006. 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 workforce in 2001 to 17.7 percent in 2006.

Share of Alabama labor force by demographic					
	1979	1989	1995	2001	2006
<b>Gender</b>					
Male	59.7%	55.5%	53.5%	52.5%	53.3%
Female	40.3%	44.5%	46.5%	47.5%	46.7%
<b>Age</b>					
16-24 yrs	23.3%	17.4%	19.3%	16.3%	14.8%
25-54 yrs	62.3%	70.1%	69.5%	70.1%	67.5%
55 yrs and older	14.4%	12.5%	11.3%	13.6%	17.7%
<b>Race / ethnicity</b>					
White	76.8%	78.6%	74.1%	74.1%	71.8%
African American	22.4%	20.5%	24.5%	23.4%	23.3%
Hispanic	(a)	0.6%	0.7%	1.7%	2.4%
Asian/Pacific Islander	(a)	(a)	(a)	0.6%	(a)
Source: Economic Policy Institute analysis of Current Population Survey data					
(a) Does not meet standards for sample size.					

Whites still make up the vast majority of Alabama’s labor force, but the reported share of Hispanic workers has grown substantially in the last decade, up more than 240 percent since 1995. Last year, Census data indicated that 2.4 percent of the state’s workforce was Hispanic, but because of underreporting, the actual share may be even higher. The share of African Americans in the state’s workforce is not significantly different from the 2001 level.

# JOBS

Alabama has added almost 100,000 new jobs since 2002, but growth has been slow or nonexistent in many of the highest-paying sectors of the economy. In addition, even though the state has lured several major automakers to build factories here in the last decade, Alabama has continued to lose manufacturing jobs even more quickly than the nation at large.

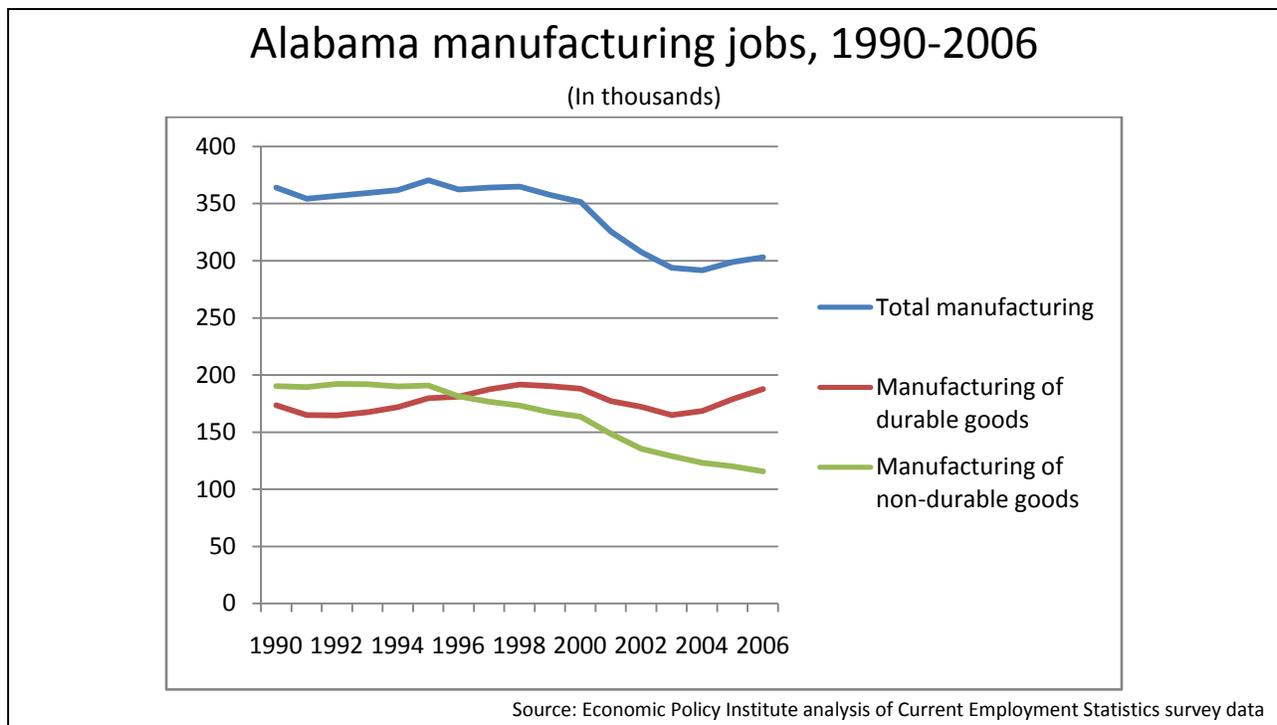
Professional and business services have been Alabama’s fastest-growing sector since 1990. Almost 100,000 new jobs have been added in that area since 1990, an increase of more than 85 percent. Other high-growth sectors in that time include leisure and hospitality (up 60 percent), education and health services (up 58 percent), construction (up 29 percent), and retail trade (up 23 percent).

Employment by industry in Alabama				
	1990	1995	2001	2006
Total nonfarm	1635.8	1803.7	1908.7	1982.4
Total private	1309.1	1460.5	1556.8	1611.7
Natural resources and mining	18.9	18	13.5	13.1
Construction and mining	104.3	107.5	118.6	123.4
Construction	85.4	89.5	105.1	110.3
Manufacturing	363.8	370.3	325.5	303.1
Manufacturing of durable goods	173.4	179.5	177	187.6
Manufacturing of non-durable goods	190.3	190.8	148.4	115.5
Trade transportation and utilities	317.3	359.6	380.1	387.1
Wholesale trade	67.6	77	82.9	81.3
Retail trade	191.6	218.5	229.3	235.8
Transportation and utilities	58.2	64.2	67.9	70
Information	31.8	31.2	35.9	30.3
Financial activities	80.2	83.6	98	98.5
Professional and business services	115.8	148.3	185.5	215
Education and health services	128.5	159.2	177.3	203.5
Leisure and hospitality	106.4	131	151	170.3
Other services	61.1	69.8	85.1	80.6
Government	326.7	343.2	352	370.7
Source: Economic Policy Institute analysis of Current Employment Statistics survey data Figures not seasonally adjusted, in thousands				

For other sectors of Alabama’s economy, however, the last decade and a half hasn’t brought such happy news. The number of Alabamians working in the natural resources and mining field is down more than 30 percent, and the state has lost 15 percent of its jobs in the

high-paying information sector since 2001. In addition, job growth as a whole has been slower in Alabama than in the nation at large, as has the growth in many employment sectors, including construction and mining, transportation and utilities, and government.

Perhaps most notably, Alabama has lost more than 60,000 manufacturing jobs since 1990. That's a decrease of more than 16 percent, despite a burgeoning automobile industry that helped increase the number of jobs in the manufacturing of durable goods by more than 8 percent in that time. Almost 80 percent of the manufacturing drop has occurred since 2000, fueled by a precipitous decline in the number of jobs in the manufacturing of non-durable goods like clothing and textiles.

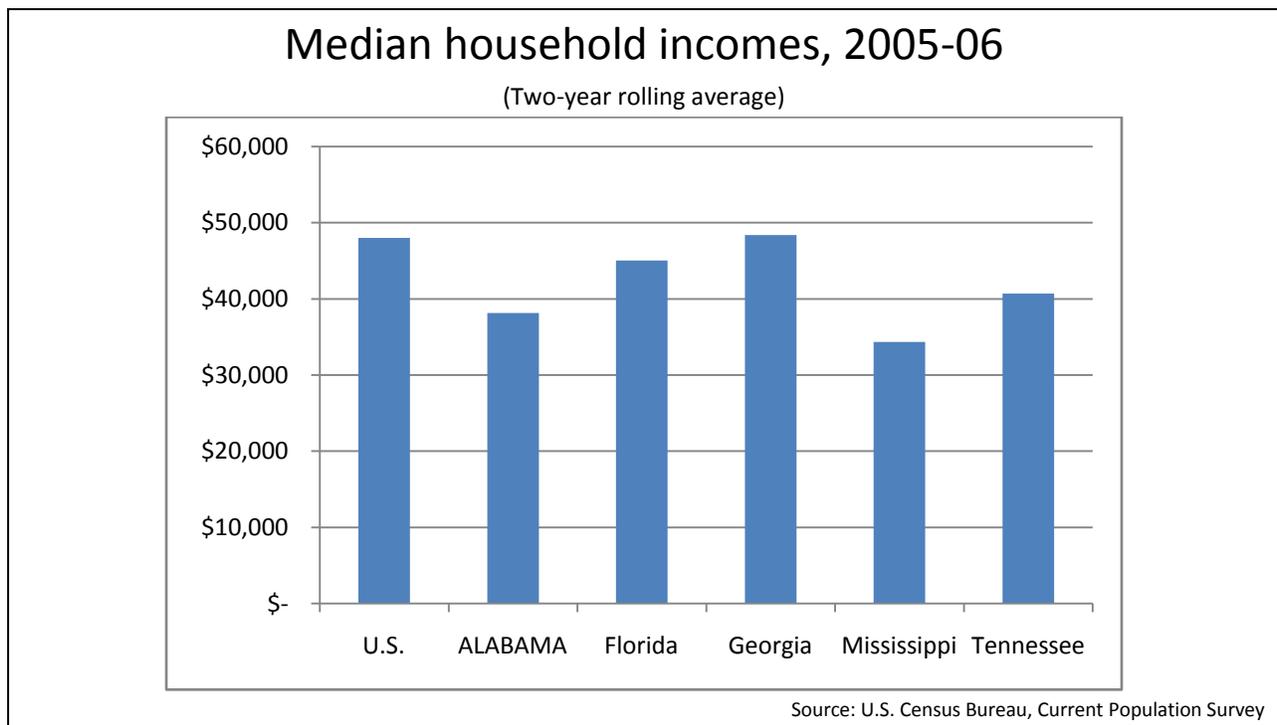


Manufacturing, which was the largest sector of Alabama's economy in 1990, was the third largest last year, behind the largest, trade transportation and utilities, and the second largest, government. Rounding out the top five are retail trade at No. 4 and education and health services at No. 5.

# INCOME AND WAGES

The news has been discouraging for many American workers in the last five years, as they made no gains in median household income. But the income news is even worse in Alabama, where the state has fallen further behind where it was when the century began.

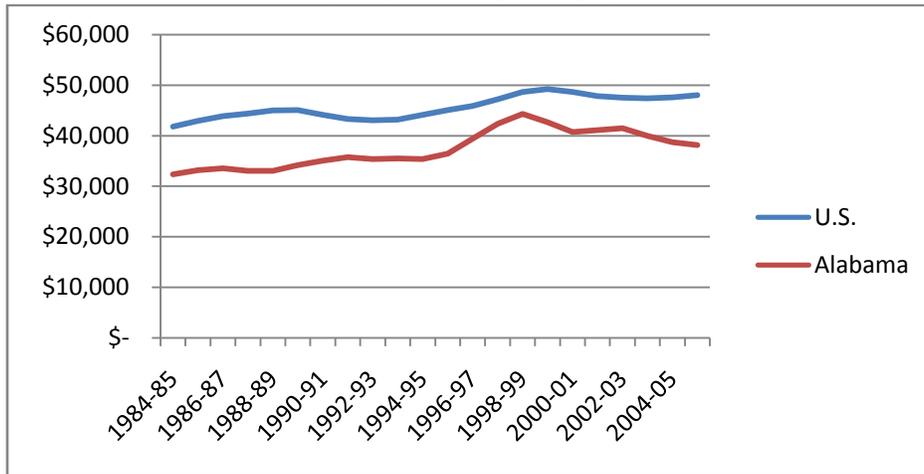
Median income in Alabama fell for the third straight year in 2005-06, dropping to \$38,160. That number was the fifth lowest in the country, trailing all but Arkansas, Louisiana, Mississippi and West Virginia. It also was more than 20 percent below the national median income of \$48,023. Georgia's median income for 2005-06 was more than 21 percent higher than Alabama's figure, while Florida and Tennessee notched median incomes that were 15 percent and 6 percent higher than Alabama's mark, respectively.



Alabama's 2005-06 median income was down 8 percent, in constant dollars, from the 2002-03 mark of \$41,495, and it represented a 6.4 percent decrease from the 2000-01 level of \$40,758. Nationally, median household income was virtually unchanged since 2000-01, with the 2005-06 level of \$48,023 marking a 1.2 percent decrease over the last five years. Median income gives a more accurate picture of workers' well-being than income per capita because income per capita is an average that can be distorted by increases at the top end of the scale.

## Median household incomes, 1984-2006

(Two-year rolling averages)



Source: U.S. Census Bureau, Current Population Survey

Even though Alabama workers are producing more than ever, their pay isn't reflecting it. The state's gross domestic product has increased by more than 18 percent since 2001, easily outstripping the national rate. However, median household income in the state is down more than 6 percent from 2000-01, and a 4.3 percent fall in median wages for Alabama workers in 2005 has left wages essentially flat-lined since the recession ended, up by only 7 cents an hour from their 2001 level.

## Median hourly wages, 2001-06

	2001	2002	2003	2004	2005	2006	Change since 2001
U.S.	\$14.63	\$14.75	\$14.93	\$14.93	\$14.75	\$14.81	1.23%
South	\$13.73	\$13.81	\$13.93	\$13.96	\$13.72	\$13.97	1.75%
Alabama	\$13.37	\$13.68	\$14.08	\$13.51	\$14.05	\$13.44	0.52%

Source: Economic Policy Institute analysis of Current Population Survey data

## Real gross domestic product, 2001-06

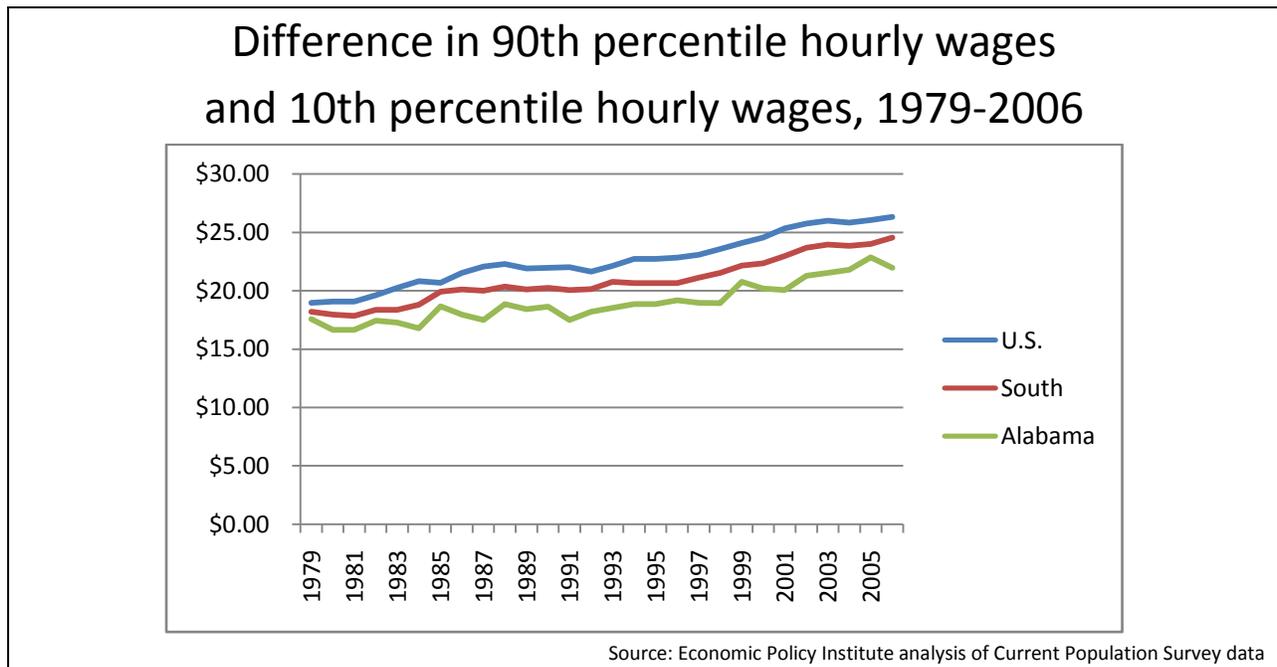
(Chained 2000 dollars, in millions)

	2001	2002	2003	2004	2005	2006	Change since 2001
U.S.	\$9,836,576	\$9,981,850	\$10,225,679	\$10,608,934	\$10,923,951	\$11,291,375	14.79%
Alabama	\$115,599	\$118,185	\$121,564	\$127,962	\$132,477	\$136,576	18.15%

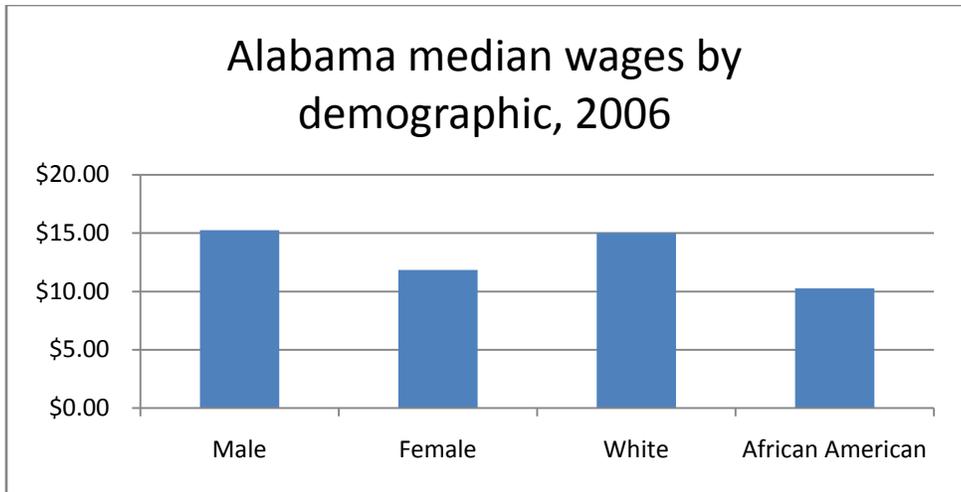
Source: Bureau of Economic Analysis, U.S. Department of Commerce

Alabama’s median wages last year were more than 9 percent below those for U.S. workers as a whole and 3.7 percent behind the Southern average. Because the state’s wages are comparatively low, Alabama sees less disparity between its highest and lowest earners than the region and nation. The hourly wage gap between workers in the state’s 90th percentile and its 10th percentile last year was \$21.94, down slightly from \$22.85 in 2005. For the South, the gap was \$24.53; for the nation, it was \$26.31.

As in the rest of the country, the wage disparity has grown substantially in Alabama since 1979, though at a lower rate than the region and nation. Alabama’s disparity has grown almost 25 percent since 1979, compared to a 34.8 percent increase for the South and a 38.7 percent jump for the United States. Of the states that border Alabama, only Tennessee has seen a smaller increase in wage disparity since 1979.



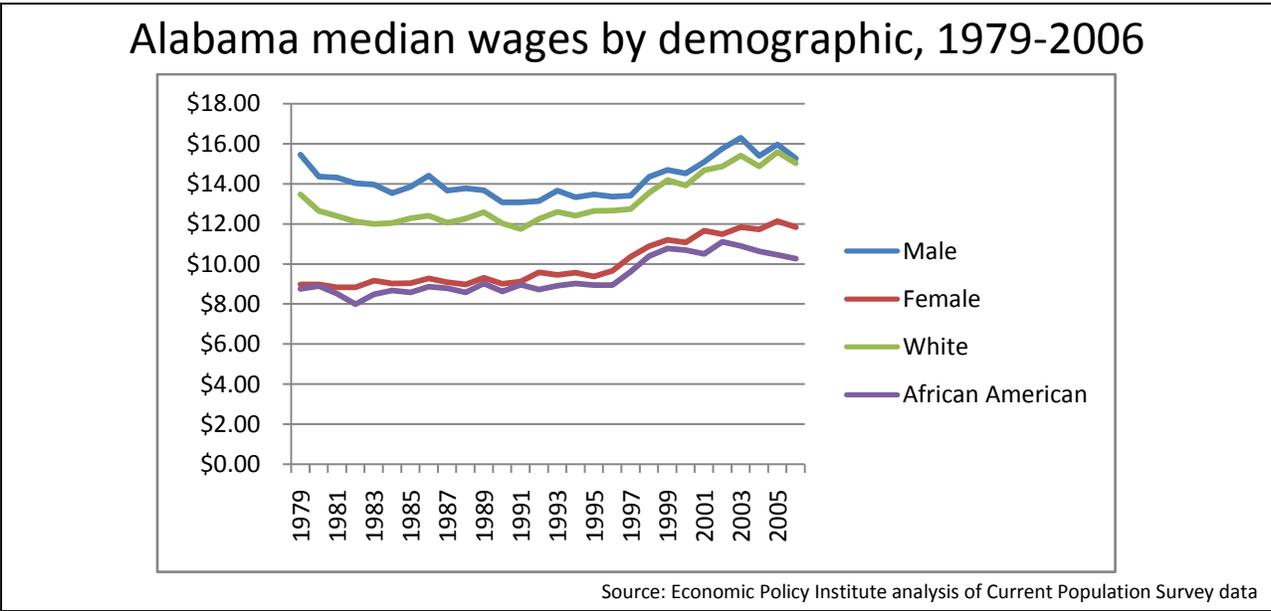
Women in Alabama make less on average than men do, and their wage gap here is larger than the regional and national averages. Median wages for Alabama’s female workers last year were 22.5 percent lower than the corresponding figures for males. That disparity has closed considerably since 1979, but it is still larger than the national gap of 17.9 percent and the Southern gap of 17 percent.



Source: Economic Policy Institute analysis of Current Population Survey data  
 Note: Median wages for Hispanic workers unavailable due to insufficient sample size

Alabama’s median income gap between White and African American workers has not closed appreciably in the last three decades, however. White workers’ median income in Alabama was 31.6 percent higher than that of African American workers in 2006, compared to a 35 percent gap in 1979. That disparity is markedly higher than the regional and national gaps, both of which stood at 21.9 percent in 2006.

Median wages for Hispanic workers were unavailable for Alabama due to insufficient sample size. In the South and the United States, however, Hispanics’ median wages remain below those of African Americans and have changed little from their 1979 and 2001 levels.

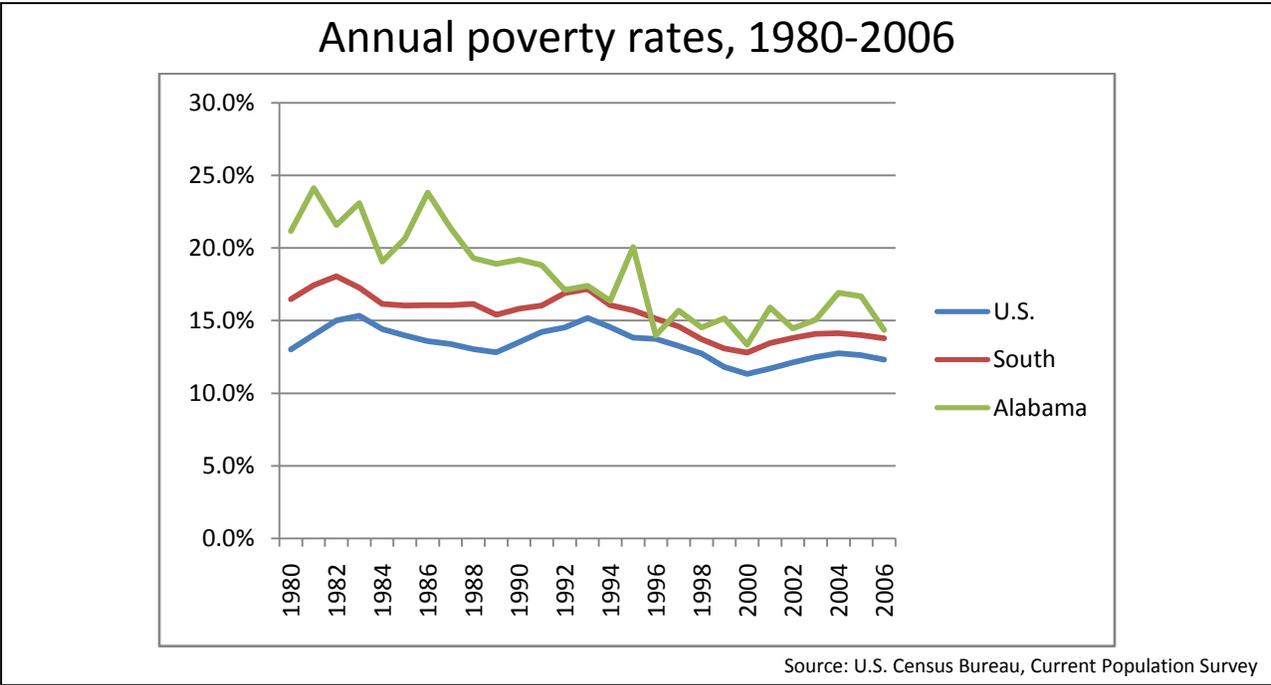


Source: Economic Policy Institute analysis of Current Population Survey data

# POVERTY

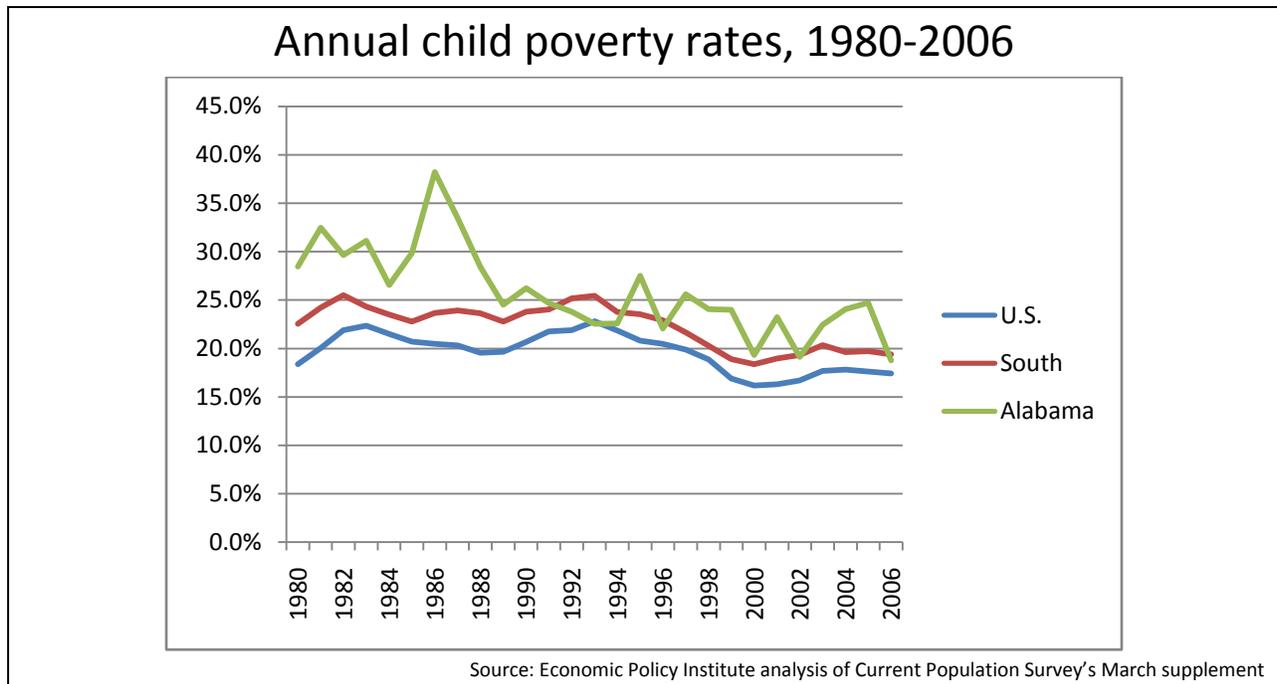
Alabama remains among the poorest states in the country, with its poverty rate consistently higher than the regional and national averages. The state's average poverty rate over the last two years was up from where it was when the recession bottomed out in 2000-01, despite a falling unemployment rate. As in the country at large, Alabama's child poverty rate also has ticked up slightly since the beginning of the decade.

Nationwide, the poverty rate jumped 8.7 percent in the last five years, rising from 11.5 percent in 2000-01 to 12.5 percent in 2005-06. Poverty grew somewhat more slowly in Alabama in that time, as the poverty rate went up from 14.6 percent in 2000-01 to 15.5 percent in 2005-06, for an increase of about 6.2 percent. (The state's rate experienced a one-year drop from 16.7 percent in 2005 to 14.3 percent in 2006, but two-year rolling averages provide a more reliable picture of poverty trends.) Alabama's increase in this decade was greater than that in the South as a whole. The region's poverty rate ticked up 5.3 percent, going from 13.2 percent in 2000-01 to 13.9 percent in 2005-06.



Child poverty rates have followed a similar growth trend, but the increase has been smaller in Alabama than the South and United States as a whole. The state's percentage of children under age 18 living in poverty grew 2.3 percent from 2000-01 to 2005-06, rising from

21.3 percent to 21.8 percent. The growth in Alabama’s rate compares favorably to the South, where child poverty increased 4.8 percent this decade, and the United States, which has seen an increase of about 7.6 percent from the 2000-01 average. Nonetheless, the two-year rolling average child poverty rate for Alabama remained higher than the rates for the South (19.6 percent) and United States (17.5 percent).

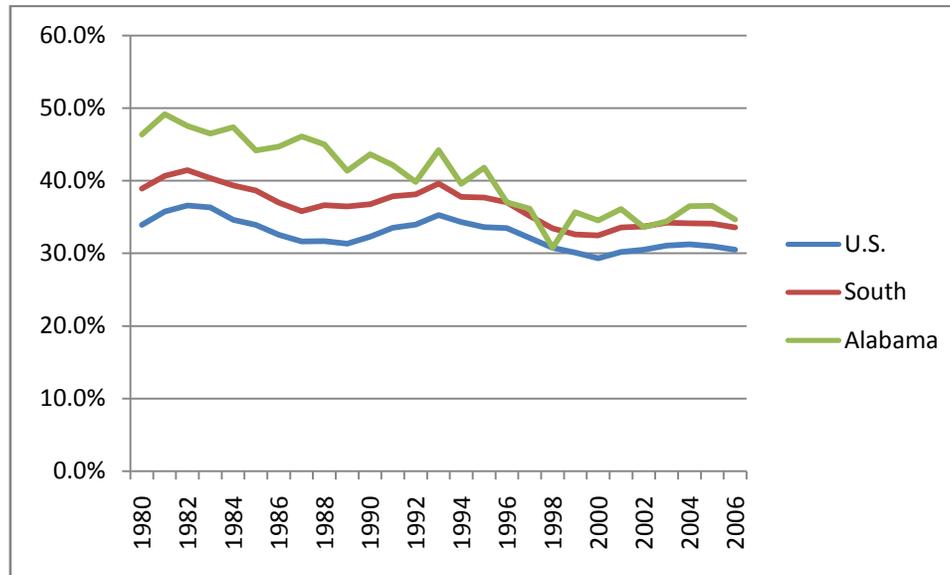


A full-time, year-round worker had to make an hourly wage of \$9.91 last year to reach the federal poverty threshold for a family of four, which was \$20,615. In Alabama, 28.1 percent of workers earned less than that in 2006. That mark was higher than both the national level of 23.3 percent and the Southern average of 25.8 percent.

As large as those numbers might seem, many economists argue that they do not reflect the full extent of poverty. Instead, they say, the amount of income needed to maintain a minimally self-sufficient standard of living is twice the amount of the federal poverty rate. In Alabama, 35.6 percent of people fell below that 200 percent threshold in 2005-06, compared to 33.9 percent in the South and 30.8 percent in the United States.

Among children, the 2005-06 rate was 41.1 percent in Alabama, 42.5 percent in the South, and 39 percent in the United States. Unlike the region and nation, however, Alabama’s percentage of children living below 200 percent of the federal poverty line was down from its 2000-01 level.

## Annual percentages of people below 200 percent of federal poverty threshold, 1980-2006



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

After a decade of maintaining the status quo of \$5.15 an hour, Congress increased the federal minimum wage in January 2007. The hourly minimum wage, which now stands at \$5.85, is set to increase to \$6.55 in July 2008 and to \$7.25 in July 2009. Because the higher minimum wage only took effect on July 24, 2007, the increase's effect was not visible in the 2006 Census figures for wages, incomes and poverty.

Even though the federal government has increased its minimum wage, Alabama remains one of only five states without a state minimum wage law, according to the U.S. Department of Labor. Louisiana, Mississippi, South Carolina and Tennessee are the others.

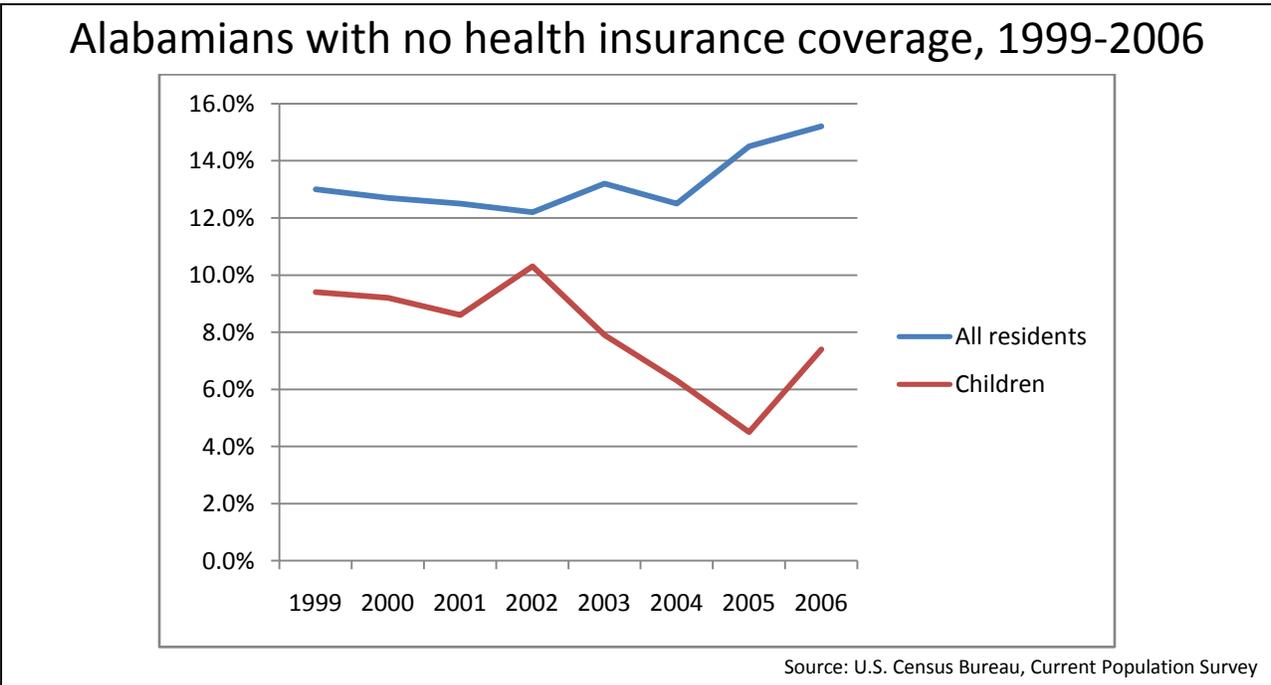
**ACPP has called on the Legislature to remove Alabama from that short list by enacting a state minimum wage law.**

# HEALTH INSURANCE

Alabama has had a lower percentage of uninsured residents than the country as a whole throughout this decade. But in keeping with the national trend, the state’s share of people without coverage has increased in the last two years.

One of the few areas in which Alabama has been a national pacesetter in the last decade is providing health insurance coverage for children. Nationwide, 11.7 percent of children under age 18 had no insurance coverage in 2006. In Alabama, though, the figure was 7.4 percent, thanks in no small part to ALL Kids, the state’s pioneering effort under the State Children’s Health Insurance Program (SCHIP).

On a troubling note, Alabama’s 2006 uninsured-children figure was a 64 percent one-year increase from the 2005 level of 4.5 percent. However, the number of uninsured Alabama children is still down from 8.6 percent in 2001 and from 9.4 percent in 1999, the last year for which reliable comparison data is available from the U.S. Census Bureau.



For Alabama adults, however, the insurance trends haven’t been quite as promising in this decade. The share of the state’s residents with no health insurance coverage increased from 12.5 percent in 2001 to 15.2 percent in 2006. In addition, Alabamians are increasingly

reliant on government health insurance programs. The percentage of Alabamians covered by private health insurance fell 4 percent between 2001 and 2006, while those covered by government insurance programs increased 2.8 percent in that time.

These negative trends are of particular concern at a time when Alabama's Medicaid commissioner is warning that the program faces an almost \$200 million shortfall due to rising costs and the loss of a one-time infusion of federal dollars following Hurricane Katrina. (See David White, "Medicaid Shortfall Threatens to Hit State Hard, Chief Warns," *Birmingham News*, Aug. 24, 2007, at 1A.) These budget woes imperil the program's future, even though the state already provides little more than barebones services through Medicaid and doesn't extend eligibility to parents who make more than \$4,391 a year.

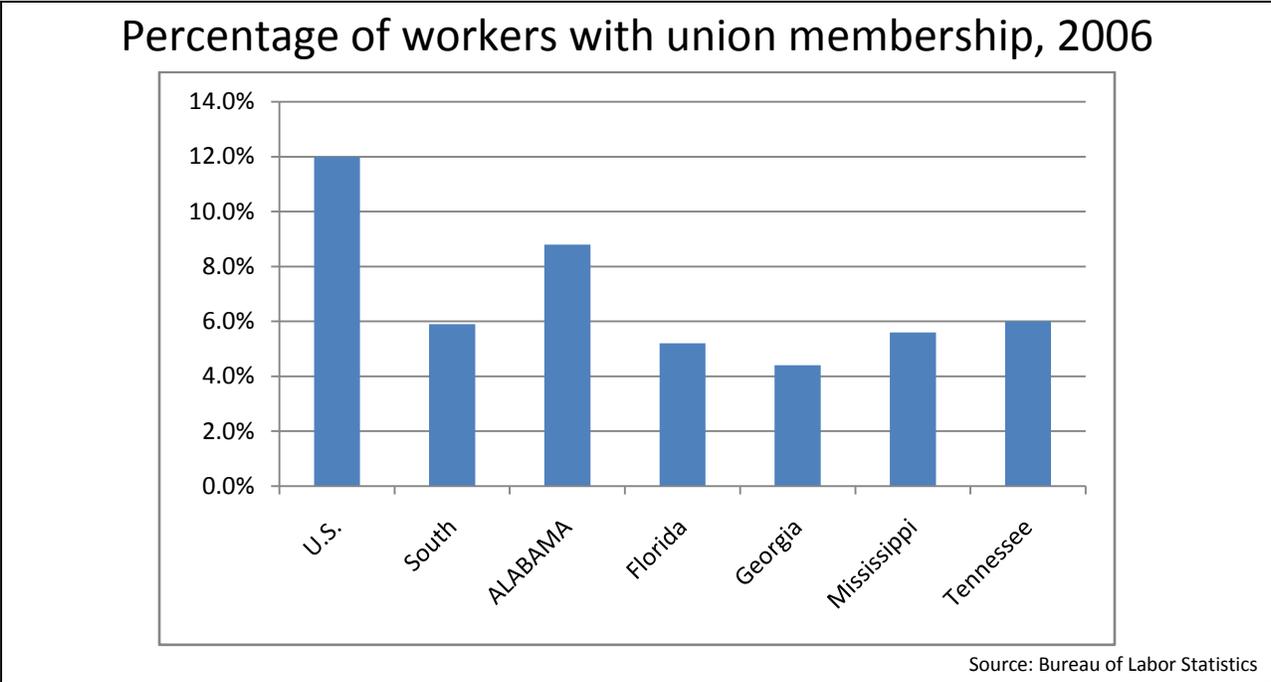
With the number of uninsured children ticking upward, both statewide and nationally, the ongoing congressional debate over renewal and expansion of SCHIP, which is set to expire on Sept. 30, 2007, will be of particular interest in the coming weeks. The Congressional Budget Office estimates that reauthorization bills passed by the House and Senate would enable insurance coverage for 4 million to 5 million American children who otherwise would be uninsured in 2012. (Those figures include about 800,000 children now covered by SCHIP who would lose their coverage were the program's funding levels to remain unchanged.)

President Bush has threatened to veto the SCHIP measures that have gained House and Senate approval. (See Christopher Lee, "Bush: No Deal on Children's Health Plan," *Washington Post*, July 19, 2007, at A3.) Meanwhile, Gov. Bob Riley has joined many other state governors, both Democrats and Republicans, in calling for Congress to renew and expand SCHIP. (See Editorial, "This Is Sick," *Anniston Star*, Aug. 22, 2007, at 8A.)

# UNIONS

Once vibrant in many parts of the state, unions have lost much of their influence in Alabama in the last few decades, particularly in the private sector. Following the national pattern, unionization has continued a downward trend in the state in recent years. However, labor unions have proved a bit more resilient in Alabama than elsewhere in the South, thanks largely to a high membership rate among public employees.

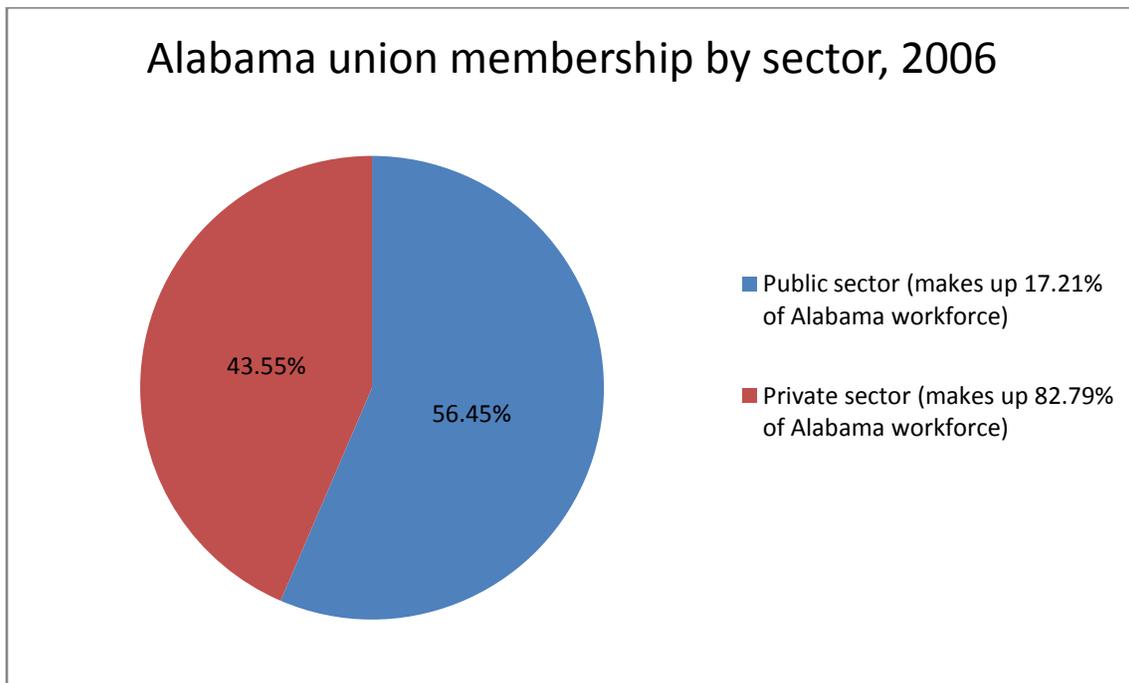
At 8.8 percent, Alabama’s union membership rate last year was significantly less than the 12 percent national average. However, the state’s rate was considerably higher than any of its neighboring states and was above the level for all but four states in the South: Delaware, Kentucky, Maryland and West Virginia (all of which the U.S. Census Bureau classifies as Southern states). The next highest union membership rate among the states that border Alabama was in Tennessee, which clocked in at 6 percent.



Alabama is similarly positioned in the region when it comes to the percentage of workers covered by a collective bargaining agreement. Though the state’s rate of 10 percent was below the national average of 13.1 percent, it was the fourth-highest percentage in the South and was well above Alabama’s neighboring states. Among the four states contiguous to Alabama, the highest union coverage rate belonged to Mississippi at 7.3 percent.

Public employees made up the majority of unionized workers in Alabama in 2006, with the public sector representing slightly more than 96,000 of the state’s 170,113 union members. Nearly a third of public employees were covered by a collective bargaining agreement last year, and almost 29 percent of Alabama’s public employees claimed union membership.

In the private sector, however, unions have failed to grab anywhere near as large of a foothold. Of the almost 1.6 million Alabamians employed in the private sector, just more than 74,000 were union members last year, a rate of 4.6 percent. Union coverage among Alabama’s private employees stood at 5.3 percent.

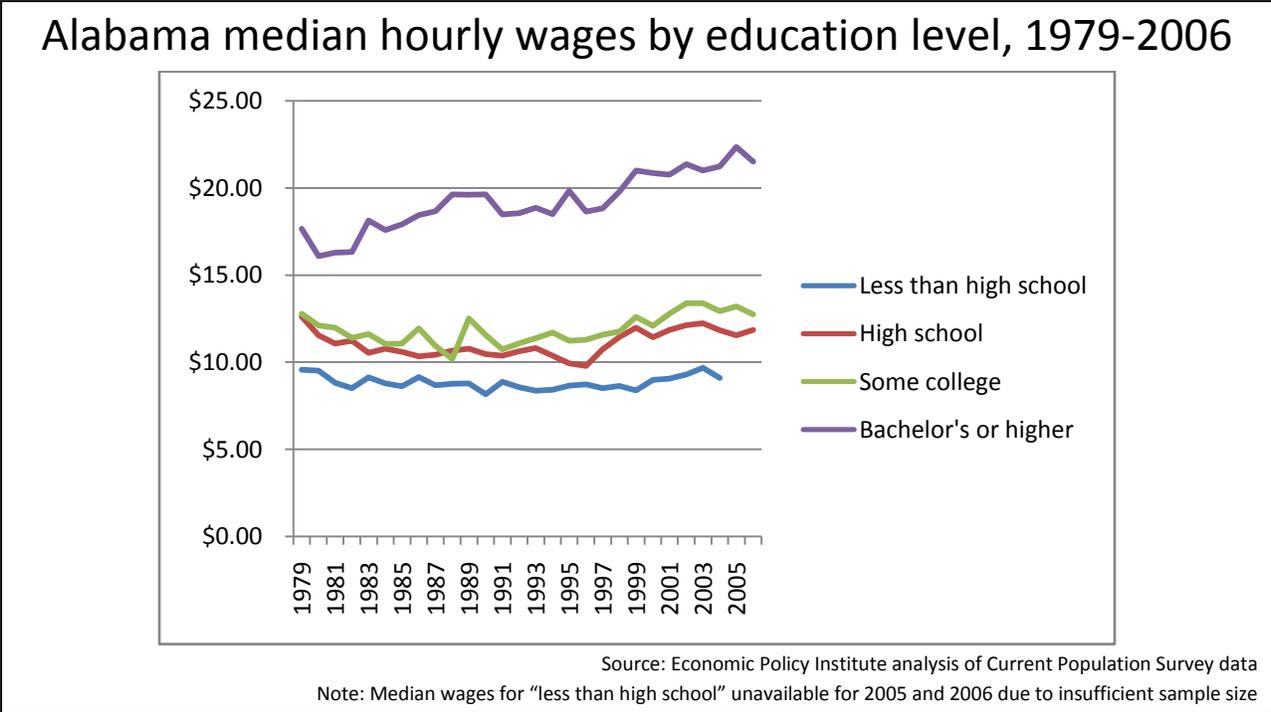


Source: Barry T. Hirsch and David A. Macpherson, Union Membership and Coverage Database, available at [www.unionstats.com](http://www.unionstats.com)

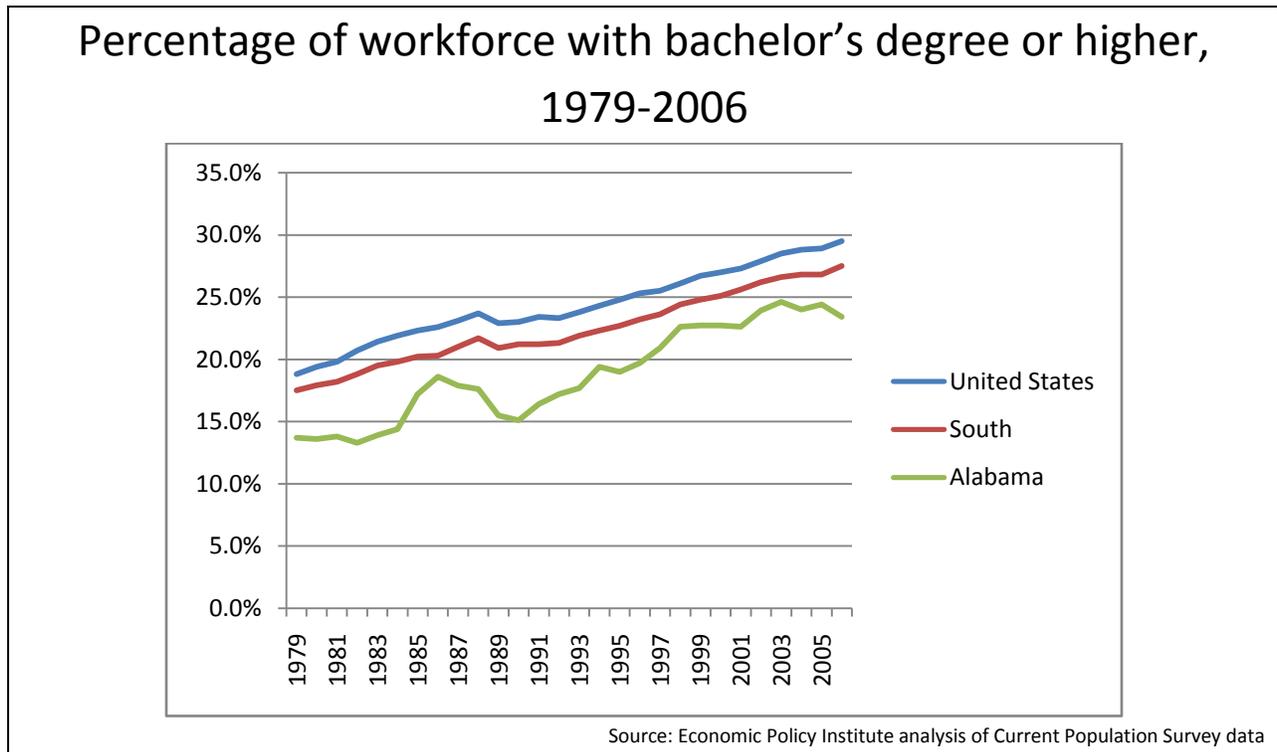
# EDUCATION

It's perhaps the most historically reliable relationship in the entire American economy: The more education that workers have, the more money they tend to make. That pattern has held true throughout the years in Alabama as well, and wage growth for college graduates in the state has been consistently strong. But wages have stagnated or declined in recent years for Alabama workers whose education ended after high school or community college.

As in the rest of the country, median wages for Alabamians with a high school diploma have fallen since 1979 and have remained at the status quo since 2001. In 1979, the median wage for an Alabama high school graduate was \$12.61 an hour. That number fell to \$11.85 in 2001 and sat at \$11.84 last year. Likewise, wages for Alabama workers who completed some college have not risen from their levels in 1979 and 2001. The median wage for such workers was \$12.77 in 1979, compared to \$12.78 in 2001 and \$12.74 in 2006. (Wage information for Alabama workers who did not complete high school was unavailable for 2006, but such workers have seen slight increases in their wages in the South and the nation.)



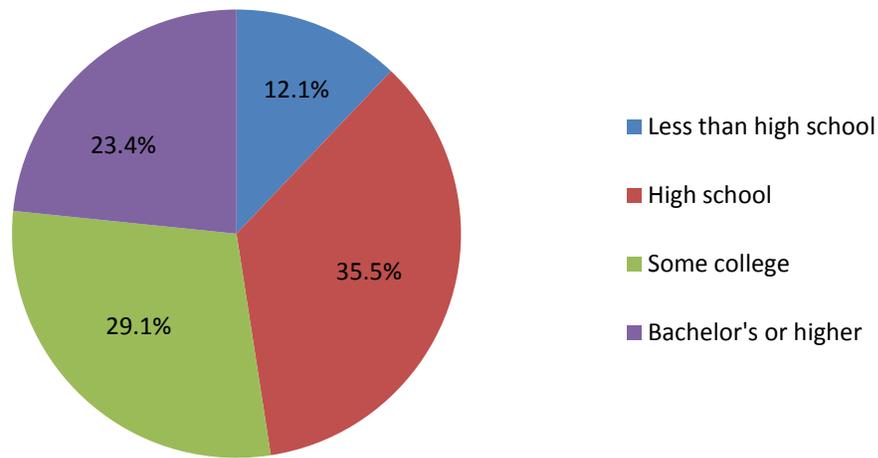
Wages for college graduates in Alabama still trail the national level, but they have risen since 2001 even as they have stagnated for such workers nationally. The median wage for workers who hold at least a bachelor's degree was \$21.51 in 2006, up from \$20.77 in 2001 and \$17.66 in 1979. In the United States as a whole, college graduates have seen only a statistically insignificant increase in hourly wages, from \$22.99 in 2001 to \$23.03 today. Wages for college-educated workers also have ticked up slightly in the South since 2001, increasing from \$21.71 to \$21.89.



A growing number of Alabamians are able to cash in on the wage trend favoring college graduates, but the state still trails the South and the nation in the percentage of highly educated workers. Following a national trend, the share of Alabama's workforce that is college-educated has increased in the last three decades, rising from 13.7 percent in 1979 to 22.6 percent in 2001 and 23.4 percent in 2006. The percentage of state workers with some college, meanwhile, has hovered around 29 percent since 2000.

Alabama still lags considerably behind the region and nation in educational attainment, however. Just under half of the state's workers — 47.6 percent — have a high school education or less, so the stagnation of wages for high school graduates has hit Alabama harder than many other states.

## Alabama labor force by education level, 2006



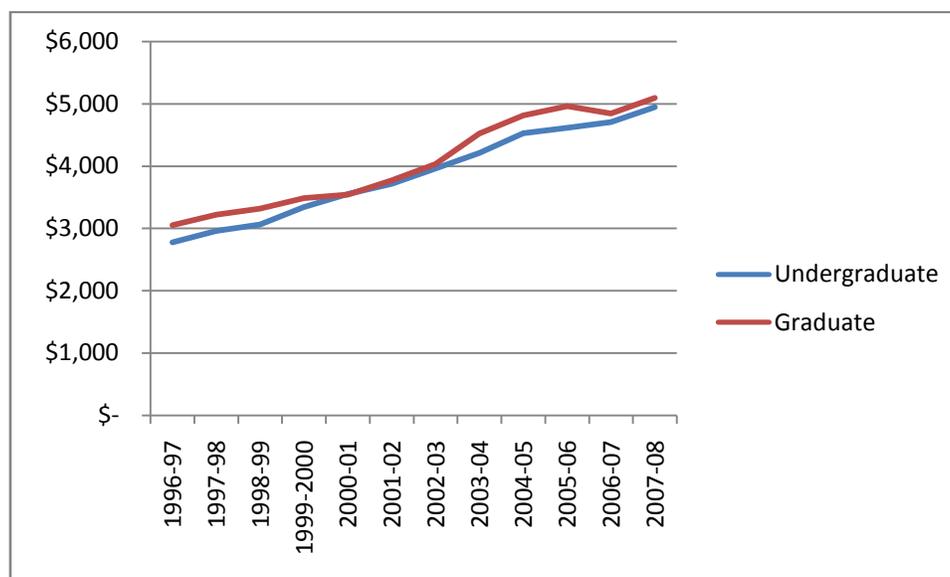
Source: Economic Policy Institute analysis of Current Population Survey data

Alabamians with bachelor's degrees have seen the sort of sustained, meaningful wage growth that has eluded their less-educated counterparts in the last three decades. But it's costing more and more for the state's workers to seek the college education that could increase their earning power — at least if they're looking to do it at a state-funded institution.

The annual median in-state cost of tuition and required fees at Alabama's public four-year universities, adjusted to 2006 dollars, has skyrocketed by 78 percent in the last decade, jumping from \$2,775 per year in 1996-97 to \$5,040 (\$4,944 in 2006 dollars) for 2007-08. The increase for in-state students at these schools was slightly larger than the one for out-of-state students, whose cost of tuition and required fees increased about 76 percent in the same time.

Costs have risen somewhat more slowly for graduate students, but advanced degrees nonetheless are noticeably more expensive than they were a decade ago. The median annual in-state cost of graduate school tuition and required fees at an Alabama four-year public university, adjusted to 2006 dollars, has increased almost 67 percent since 1996-97, rising from \$3,053 then to today's mark of \$5,192 (\$5,093 in 2006 dollars), according to figures from the Alabama Commission on Higher Education.

## Median in-state tuition and required fees at Alabama's public four-year institutions, 1996-present



Source: ACPP analysis of data from Alabama Commission on Higher Education Survey, *Annual Tuition and Fee Schedule*

Alabama's falling median income and stagnant median wages in recent years have left many families unable to afford the growing cost of higher education. The percentage of income that the average Alabama family must devote to college expenses, even after financial aid, increased from 24 percent in 1992 to 26 percent in 2006, according to the National Center for Public Policy and Higher Education (NCPPE).

The center reports that the trend is even worse for the state's poorest families, for whom tuition at Alabama's lowest-priced colleges would cost 28 percent of their annual income in 2006, compared to 18 percent in 1992. The net college cost — tuition, room and board, minus financial aid — for the 40 percent of the state's families with the lowest incomes would be about 36 percent of annual income for community college and 39 percent for a public four-year college or university, according to the NCPPE.

More than 100,000 students at two- or four-year state institutions qualified for need-based financial aid in 2005-06, but the Alabama Student Assistance Program gave grants, averaging \$555 apiece, to only 3,742 of those eligible. (See Thomas Spencer, "House Doubles Need-Based College Aid," *Birmingham News*, May 10, 2007, at 5C.) Because of these statistics and others, the NCPPE gave Alabama an *F* in the affordability category of its *Measuring Up 2006* state report card on higher education.

# TAXES

Alabama took a positive step toward tax fairness last year by raising its income tax threshold. The move wasn't a panacea for the ills of the state's tax system, though. Even after the increase, Alabama taxes workers whose earnings fall far below the federal poverty line. The same tax rate still applies to all taxable income above \$3,000 for a single person or \$6,000 for a couple. And state and local governments continue to rely heavily on regressive sales taxes and to collect them on grocery purchases. As a result, many lower-income Alabamians still pay the state a much larger share of what they make each year than do wealthier residents.

An increase in the income tax threshold might merit little more than a passing mention in many states, but in Alabama, it was huge news. That's because the state spent decades collecting income tax from two-parent families of four who made \$4,600 a year. The initial \$3,600 threshold, set in 1935 during the Great Depression, was progressive when it was enacted; only about 7,000 Alabamians made enough at the time to owe any income tax. But the threshold saw only minor updates over the decades, in time giving Alabama the dubious distinction of being the only state in the country where families still could owe income tax even if their earnings were below 25 percent of the federal poverty line.

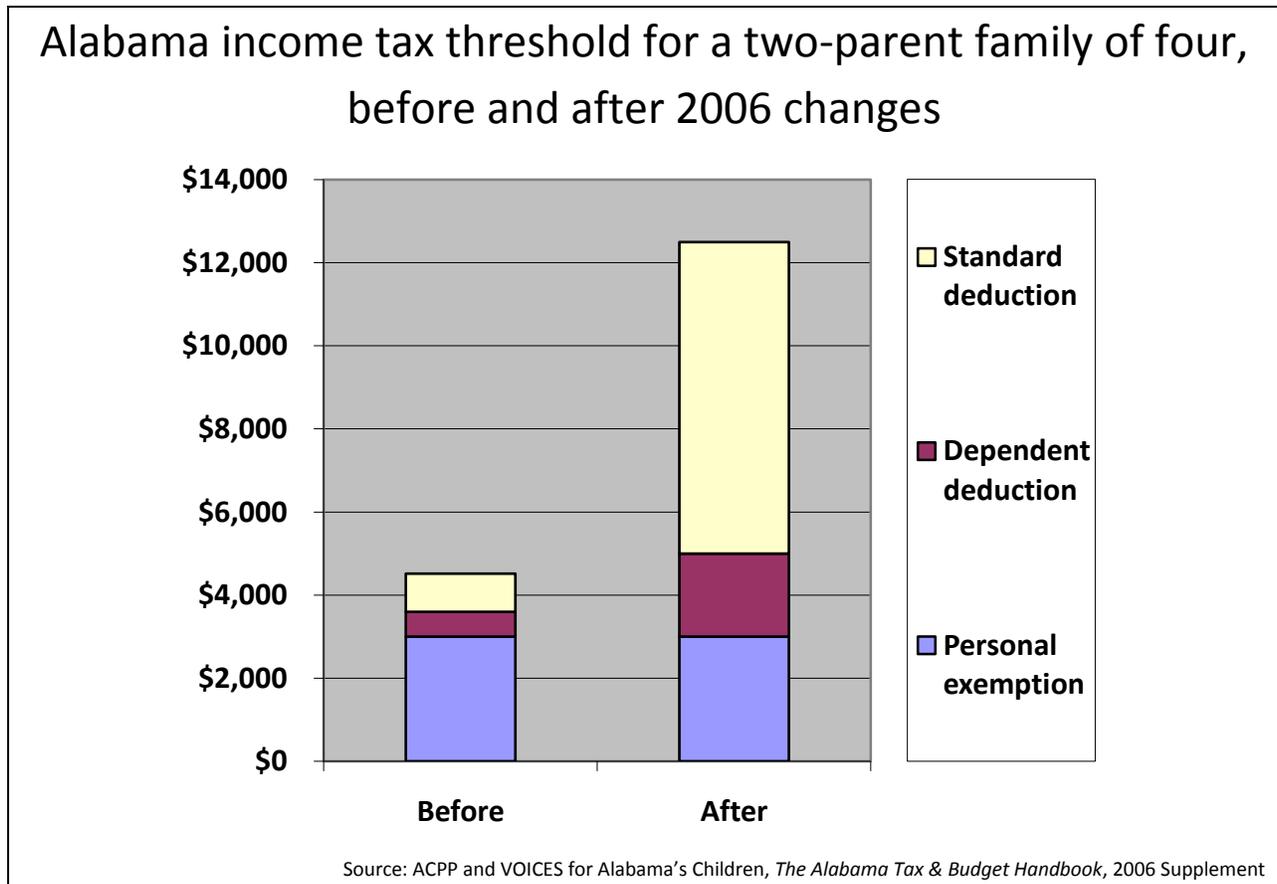
Alabama finally shed that status in 2006, when the Legislature raised the income tax threshold for a family of four to \$12,600 by increasing the amounts allowed for standard deductions and dependent deductions. The old standard deduction for married couples was the lower of \$4,000 or 20 percent of income; the 2006 law increased the standard deduction to \$7,500 for couples who file jointly at incomes of \$20,000 or less, and phased it down to \$4,000 for couples who file at \$30,000 or above.

Meanwhile, the old dependent deduction of \$300 per child remains in place only for taxpayers earning more than \$100,000 annually. For taxpayers who make \$20,000 or less, the deduction rose to \$1,000 for each child; for those who earn more than \$20,000 and up to \$100,000, the deduction is \$500 apiece.

The shake-up in deductions and exemptions wasn't complete, though. The personal exemptions set in 1935 — \$1,500 for single adults and \$3,000 for couples — are still in effect, as is the deduction for Social Security contributions. (However, this relief is available only for 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 income toward Social Security.) The state also permits a deduction for federal income tax paid, which mainly helps wealthier Alabamians; 80 percent of the nearly \$600 million tax break goes to the top 20 percent of earners.

ACPP has called for the Legislature to raise the state’s income tax deductions and exemptions to federal levels and to link them to federal levels to keep pace with annual increases in the cost of living.

ACPP also has called for constitutional change to eliminate the state’s deduction for federal income taxes paid, a tax break that primarily benefits high-income taxpayers and costs the state almost \$600 million a year.



The current income tax threshold, though an improvement, still burdens many people trying to climb out of poverty. Even after a substantial increase, Alabama’s threshold of \$12,600 for a family of four remains the third lowest in the country, ahead of only West Virginia (\$10,000) and Montana (\$11,300). Alabama begins to tax residents at a little more than half of the federal poverty income, which was \$20,615 for a family of four in 2006. Most states with an income tax have thresholds above the poverty line.

Alabama's income tax is effectively a flat tax for the majority of state taxpayers, thanks to tax rates that have not been changed 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 rate. Indeed, more than 70 percent of state families paid at the top rate in 2002. For workers at the middle or bottom of the income scale, who must use a larger share of their earnings to buy basic necessities, this rate schedule works against their efforts to get ahead.

**ACPP has called for a new state income tax structure: 6 percent on income above \$150,000 per couple (\$75,000 for singles) and 5 percent below that level.**

As hard as the state's income tax hits low-income Alabamians, sales taxes hit them even harder. Alabama relies heavily on regressive sales taxes, and the overall rates here are some of the highest in the United States. (Sales taxes are regressive because low-income workers must pay a larger percentage of their income in them.) Combined local and state sales taxes represent almost half of all state and local taxes, and Alabama's average combined state and local sales tax rate is 8 percent, one of the nation's highest.

Further, the state's sales tax attaches mainly to spending on goods and entertainment, but not on most personal and professional services, on which wealthier taxpayers tend to spend a larger percentage of their incomes than lower-income people do. Alabama also taxes over-the-counter medications, and it is one of only two states in the country — the other is Mississippi — that taxes groceries fully without any rebate for low- and middle-income families.

**ACPP has called for sales tax relief for low- and middle-income people buying basic necessities like groceries, through a targeted sales tax rebate on food purchases for low- and middle-income Alabamians, removal of the state portion of the grocery tax, or a complete removal of the state and local sales taxes on these necessities.**

**ACPP also has called for a reduction in the state sales tax rate and for the sales tax to be modernized to reflect new buying patterns. Proposed measures include applying the sales tax to many personal and professional services and implementing the Streamlined Sales Tax Agreement, an interstate effort to simplify state sales tax laws.**