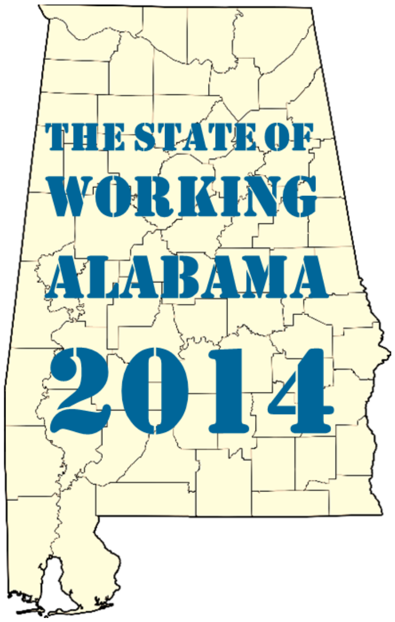

The Growing Divide: Alabama's Income Gap Is Approaching Gilded Age Levels

By Carol Gundlach, policy analyst
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Some people make more money than others. Hard work, talent and creativity undoubtedly play a role, but so do broader circumstances beyond a person's control. Better childhood nutrition and better access to health care and educational opportunities can go a long way toward helping someone end up on a higher rung of the economic ladder as an adult. Public policy decisions on wages, taxes, schools and infrastructure investments shape the environment in which people strive to get ahead. But too often, in Alabama and elsewhere, those rules have produced an uneven playing field, making it harder for low-income families to build better lives for themselves and their children.

Moderate levels of income inequality can encourage hard work, savings, education and other efforts to advance oneself and contribute to society. But when the gap between the rich and everyone else gets too large, or when the benefits of economic growth accrue only to the wealthiest, the resulting inequality can threaten America's foundations of fairness, equality and opportunity. This happened during the Gilded Age at the end of the 19th century, and again immediately preceding the Great Depression. The growth in income inequality in recent decades raises very real concerns that we again could be facing the social and economic instability that resulted from earlier "gilded" periods in American history.

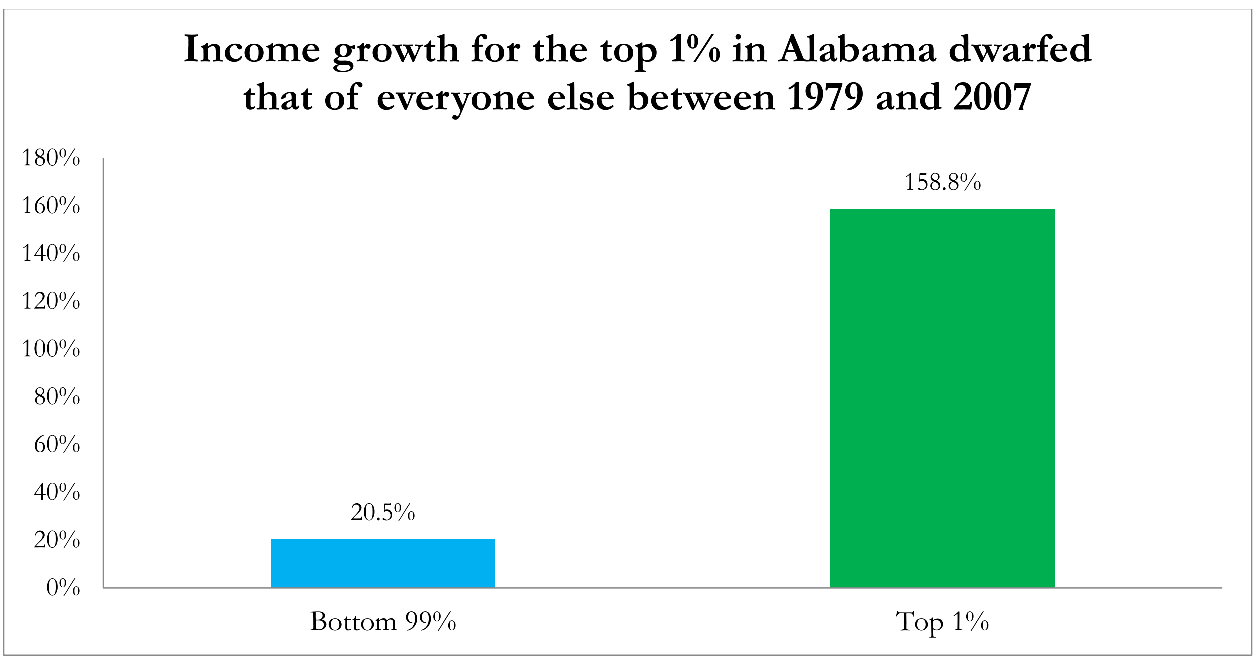
Income inequality in Alabama is deep, and it's been getting even deeper

Income inequality measures the difference in income, from employment or investments, between richer and poorer shares of a geographic area's population. This inequality has increased dramatically in recent decades, both nationwide and in Alabama. In 1979, the wealthiest 1 percent of Alabamians held 9.5 percent of the state's total income. By 2007, that share had nearly doubled to 18.5 percent. By 2011, the average income of the top 1 percent of Alabamians was $665,117, while the average income of everyone else was $34,874. Between 2009 and 2011, the average inflation-adjusted income of Alabama's top 1 percent grew by 4.3 percent, but it declined by 2.9 percent for everyone else. *(Data from "The Increasingly Unequal States of America: Income Inequality by State, 1917-2007," an Economic Policy Institute report written by Estelle Sommellier and Mark Price.)*

Public assistance has blunted some of the worst effects of this inequality for many low-income households, but Alabama's income gap still has grown even after accounting for the value of those safety nets. In 1970, the poorest fifth of Alabamians made 16 cents for every dollar that the richest fifth made (an income of $14,105 a year compared to $88,156). By the mid-2000s, though, the average income of the poorest fifth of Alabamians had dropped to just 11 cents on the dollar compared to that of the top fifth ($18,477 a year compared to $150,723). This was the case even after including the value of housing assistance, the Earned Income Tax Credit (EITC) and food aid under the Supplemental Nutrition Assistance Program (SNAP).

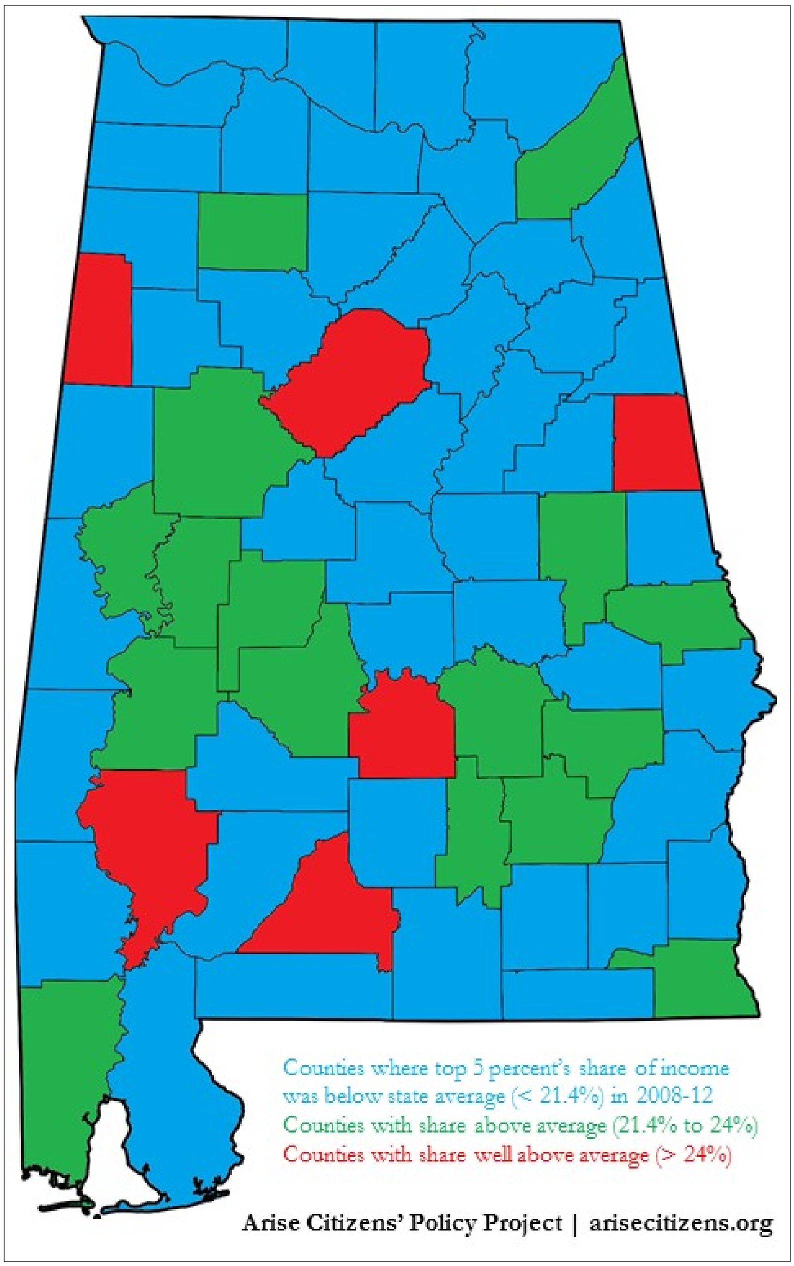
The income of the wealthiest Alabamians grew by 70 percent during these years, adjusted for inflation, while the poorest Alabamians saw growth of just 30 percent. If the value of public assistance is excluded, that gap grows even wider, with the income of the bottom 20 percent growing only 17 percent over this 35-year period. *(Data from the U.S. Census Bureau.)*

Alabama is in the top half of all states for the severity of its income inequality, and the rate at which its inequality is increasing is one of the highest in the nation. Between 1979 and 2007, Alabama's total real income grew by 33.7 percent. But those gains were not evenly shared: The top 1 percent saw income growth of 158.8 percent, while the incomes of everyone else grew by an average of only 20.5 percent. (*Data from "Pulling Apart," written by Elizabeth McNichol, Douglas Hall, David Cooper and Vincent Palacios.*) And the job losses and declining incomes of the Great Recession did nothing to slow the growth of income inequality: Between 2009 and 2011, every bit of income growth in Alabama accrued to the top 1 percent. *(Data from "The Increasingly Unequal States of America.")*



Between 2008 and 2012, the top fifth of Alabamians held more than half of the state's total income, and the top 5 percent alone held 21.4 percent. The bottom fifth held only 3.18 percent of income statewide. But as the map below shows, income gaps are larger in some Alabama counties than in others. Many counties (Autauga, Bibb, Blount and Clay, for example) had lower concentrations of income at the top, with greater shares of income held by households at the middle and bottom of the income scale. But in 22 counties, the top 5 percent's share of income exceeded the state average. In six of those counties – Clarke, Conecuh, Jefferson, Lamar, Lowndes and Randolph – that share topped 24 percent.

Share of income held by top 5 percent in each county, 2008-12



What can be done to reduce Alabama's income gap?

Alabama is slowly recovering from the recession, but that recovery is not being felt equally across all income levels. Indeed, the wealthiest Alabamians have received nearly all the benefits of our economic growth since 2009. When income inequality becomes as severe as is found in Alabama, it can hurt the state's economy by reducing consumer spending and making it more difficult for entrepreneurs to start and maintain small businesses. Severe inequality also can carry longer-term effects, reducing civic engagement among adults and educational opportunities for children.

Public policies have a significant role to play in reducing income inequality and mitigating its effects. Our state's elected officials have a wide range of options, including:

- Greater investments in public education at both the K-12 and postsecondary levels;
- Investment in public transportation, affordable housing and other job-creating infrastructure improvements;
- Progressive tax changes, such as ending Alabama's state sales tax on groceries and replacing the revenue responsibly, to raise money for critical public investments and to reduce the extent to which the state taxes low-income people deeper into poverty;
- The creation of a state minimum wage;
- The creation of a state EITC to help reward work for low-income families;
- An end to Alabama's lifetime SNAP eligibility ban for people who have completed their sentence for a felony drug conviction;
- Dedicated state revenue for the Alabama Housing Trust Fund to help build, maintain and rehabilitate affordable housing for low-income families;
- Expansion of Medicaid to close the health coverage gap for hundreds of thousands of low-income Alabama adults; and
- Ongoing efforts to address the gender, race and age gaps in income and employment.

Broadly shared prosperity is good for Alabama's present and even better for its future. By creating a more level economic playing field and investing in our current and future workforce, our state's leaders can narrow our income gap, boost our economy and expand opportunity for all Alabamians.

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