



2005 State of Working Arkansas

**ARKANSAS
ADVOCATES
FOR CHILDREN & FAMILIES**



December 2005

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Introduction

The last six years have been an unpredictable rollercoaster ride for the Arkansas economy, Arkansas workers, and families. During the last part of the 1990s, a thriving national economy led to near record employment (by recent historical standards), growing wages for most workers and families, and flush tax revenues for most state governments. This was followed by the tragic terrorist events of 9/11 and a recession at the beginning of the decade that resulted in higher unemployment, stagnant wages, declining job quality, and slowing tax revenues in many state governments (especially as tax cuts enacted in better times began to take effect).

The national and state economies have begun to improve the last year or two, resulting in lower unemployment, if not necessarily in better jobs and higher wages for workers and families. This improvement, however, is occurring at a time when there is growing uncertainty over the economy. The continued decline of manufacturing, the economic devastation wrought by hurricanes Katrina and Rita (the implications of which are national in scope), rising energy costs, rising inflation and interest rates, and the threat of a housing bubble bursting have led some economists to question

whether an economic slowdown might again be on the horizon.

This report is the third installment of *The State of Working Arkansas*. Previous editions (2000 and 2002) documented the economic status of Arkansas families and identified major issues that need to be addressed to move families forward in an increasing volatile state and national economy. *The State of Working Arkansas 2005* is our effort to make sense of recent economic trends and how Arkansas families are faring on this economic rollercoaster. What has this rollercoaster meant for employment, job quality, wages, poverty, family assets, access to health care, and other basic family needs? This report shows that by any measure, the recession that hit the U.S. and Arkansas at the beginning of the decade has hit Arkansas families hard.

Arkansas has taken the initial steps to improve the well-being and income earning power of families by reforming its education system, investing in quality pre-school education, and improving health care for children. However, while the economy has recently picked up, structural flaws in the Arkansas economy – low paying jobs, future jobs that will continue to pay low wages, high poverty rates, jobs without health care coverage, a tax

system that hurts low-income families, and an education system that still trails other states – mean that many Arkansas families will continue to struggle unless we take new steps to move forward. While it was beyond the scope of this report to discuss new policy options for the future, it does identify areas that need improvement. We hope this will lead to new public discourse about the economic plight of families and areas for future policy change.

Unless otherwise noted, the data in this report relies heavily on the Current Population Survey (CPS), a survey conducted by the U.S. Census Bureau for the U.S. Bureau of Labor Statistics. The CPS is a monthly survey of households nationwide dealing with wages, income, employment, health insurance and demographic factors such as race, age, gender, and race. The CPS is the primary source of information on the U.S. labor force. Unless otherwise noted, the CPS data that appears in this report has been compiled and provided to us by the Economic Policy Institute (EPI), an economic research organization based in Washington, D.C. EPI has produced its own State of Working America report every two years since 1988. We gratefully acknowledge their support in making this data available to us.

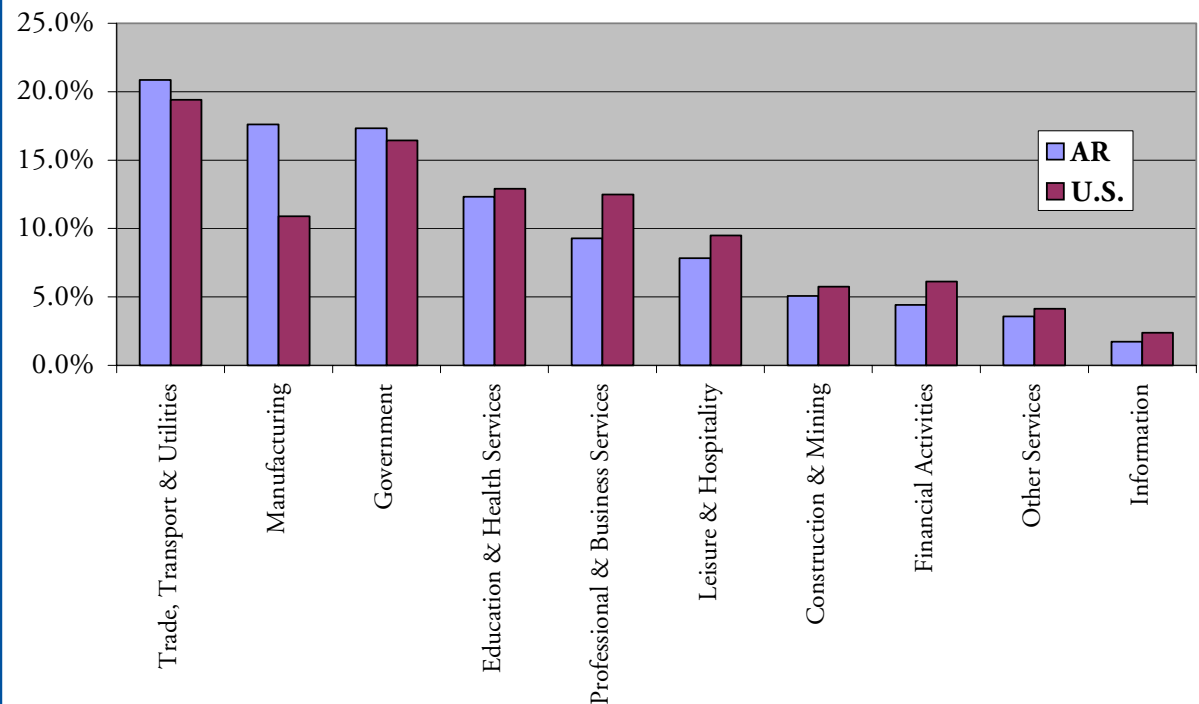
The State of Working Arkansas ...

The Arkansas Economy is Changing

The Arkansas economy, like the national economy, is changing. Manufacturing continues to decline, while the services sector continues to grow. Services such as professional and business services, educational and health services, and leisure and hospitality are growing by leaps and bounds.

In 2004, Arkansas non-farm employment was 1,158,700. Three sectors – Manufacturing, Government, and Trade, Transportation, & Utilities — continue to dominate Arkansas’ non-farm employment. The largest sector — Trade, Transportation, & Utilities – comprises 241,500 jobs or 21 percent of total non-farm employment. This was slightly above the national average of 19 percent. Arkansas manufacturing consists of 204,000 jobs or 18 percent of non-farm employment. This is way above the national average of 11 percent, reflecting an Arkansas economy that benefited from scores of companies that located here and in other Southern states in the 1980s and 1990s because of the region’s lower wage structure.

Composition of Non-Farm Employment, 2004
Arkansas vs. U.S.



source: Economic Policy Institute (EPI) analysis of Current Employment Statistics data

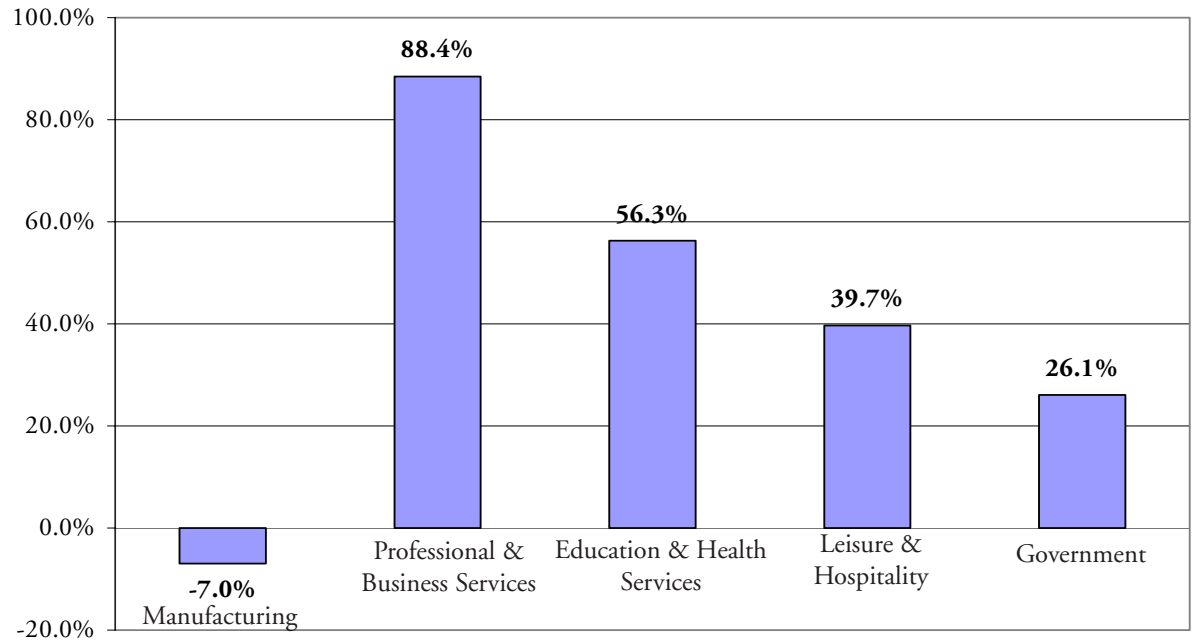
Manufacturing on the Decline, Services on the Rise

This look at the Arkansas economy, however, obscures important trends that will impact scores of future workers, families, and children. From 1990 to 2004, total non-farm employment increased by 235,300 jobs, or 26 percent. Manufacturing, once widely looked upon as the source of higher paying jobs, comprised nearly 24 percent of all jobs in 1990, but now accounts for just 18 percent of jobs. From 1990 to 2004, the manufacturing sector lost 153,000 jobs, a decline of 7 percent.

In contrast, jobs in three rapidly growing services sectors – professional and business services, education and health services, and leisure and hospitality services – have increased by 88 percent (50,500 jobs), 56 percent (51,400 jobs), and 40 percent (25,800 jobs) respectively. Together these three sectors have created 127,700 jobs for the state.

Despite all of the public rhetoric about the growth of government, this sector grew 26 percent from 1990 to 2004, roughly the same rate as growth in total non-farm employment (25 percent). Government comprises the same share of jobs today (17 percent of non-farm employment) as it did in 1990 (17 percent).

**Percent Change in Arkansas Employment in Selected Sectors
1990-2004**



source: AACF Calculations using EPI analysis of Current Employment Statistics data

The Arkansas Workforce is More Diverse

Like the Arkansas economy, the Arkansas workforce is also changing. The Arkansas workforce now includes more than 1.1 million jobs, including those who are employed and those actively seeking employment. The Arkansas workforce, like the U.S. workforce overall, has become more diverse over the past 20 years.

Since 1984, the Arkansas workforce includes more females (47 percent, up from 44 percent in 2004). The workforce is increasingly older, relying less on younger workers ages 16-24 years (now just 15 percent of the laborforce, down from 23 percent) and more on workers ages 25-64 (69 percent of all workers) and 55

years and older (16 percent of all workers). While whites still comprise the overwhelming share of the Arkansas workforce at 78 percent, this is far less than 86 percent share the group comprised in 1984. African Americans and Hispanics now comprise 15 percent and 4 percent, respectively, of the total workforce.

Employment by Industry by Year in Arkansas
(Not seasonally adjusted, in thousands)

| | 1990 | | 2004 | | Change in # of Jobs | % change in # of Jobs |
|-------------------------------------|--------|-----------|-----------|-----------|---------------------|-----------------------|
| | # Jobs | % of jobs | # of Jobs | % of jobs | | |
| Total Nonfarm | 923.4 | 100% | 1158.7 | 100% | 235.3 | 25.5% |
| Total Private | 764.2 | 82.8% | 958.0 | 82.7% | 193.8 | 25.4% |
| Construction & Mining | 45.4 | 4.9% | 58.8 | 5.1% | 13.4 | 29.5% |
| Natural Resources and Mining | 7.2 | 0.8% | 7.2 | 0.6% | 0 | 0.0% |
| Construction | 38.2 | 4.1% | 51.6 | 4.5% | 13.4 | 35.1% |
| Manufacturing | 219.3 | 23.7% | 204.0 | 17.6% | -15.3 | -7.0% |
| Manuf Durable Goods | 118.1 | 12.8% | 108.2 | 9.3% | -9.9 | -8.4% |
| Manuf Non Durable Goods | 101.2 | 11.0% | 95.8 | 8.3% | -5.4 | -5.3% |
| Trade, Transportation and Utilities | 194.5 | 21.1% | 241.5 | 20.8% | 47.0 | 24.2% |
| Wholesale Trade | 38.7 | 4.2% | 45.9 | 4.0% | 7.2 | 18.6% |
| Retail Trade | 103.9 | 11.3% | 130.9 | 11.3% | 27.0 | 26.0% |
| Transportation and Utilities | 51.9 | 5.6% | 64.8 | 5.6% | 12.9 | 24.9% |
| Information | 17.7 | 1.9% | 20.2 | 1.7% | 2.5 | 14.1% |
| Financial Activities | 40.1 | 4.3% | 51.0 | 4.4% | 10.9 | 27.2% |
| Professional & Business Services | 57.1 | 6.2% | 107.6 | 9.3% | 50.5 | 88.4% |
| Education & Health Services | 91.3 | 9.9% | 142.7 | 12.3% | 51.4 | 56.3% |
| Leisure & Hospitality | 65.0 | 7.0% | 90.8 | 7.8% | 25.8 | 39.7% |
| Other Services | 33.3 | 3.6% | 41.3 | 3.6% | 8.0 | 24.0% |
| Government | 159.2 | 17.2% | 200.7 | 17.3% | 41.5 | 26.1% |

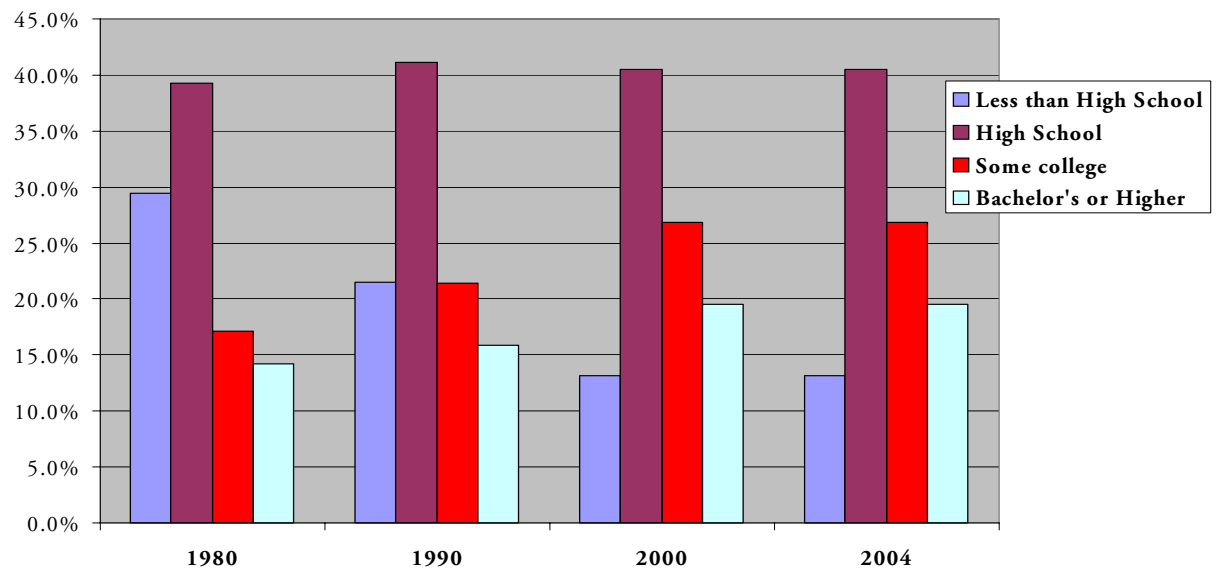
source: ACF calculations using EPI analysis of Current Employment Statistics Data

Arkansas Workforce is Better Educated, But Still Trails Other States

The educational attainment of the Arkansas workforce has improved dramatically over the last quarter century. The percent of the Arkansas workforce with some college has increased from 17 percent in 1984 to nearly 29 percent in 2004. Similarly, the share of the Arkansas workforce with a bachelor's degree or higher has also increased, from 15 percent in 1984 to nearly 20 percent today. Workers with less than a high school degree are much less likely to be part of the workforce than before. The share of the Arkansas workforce with less than a high school degree is now only 13 percent of all workers, down nearly in half from the 25 percent share this group comprised 20 years ago.

Despite this progress, Arkansas workers are still less educated than their counterparts in other states. The share of U.S. workers with a bachelor's degree or higher now stands at 29 percent, compared to just 20 percent for Arkansas workers.

**Educational Attainment in Arkansas Labor Force
1980-2004**

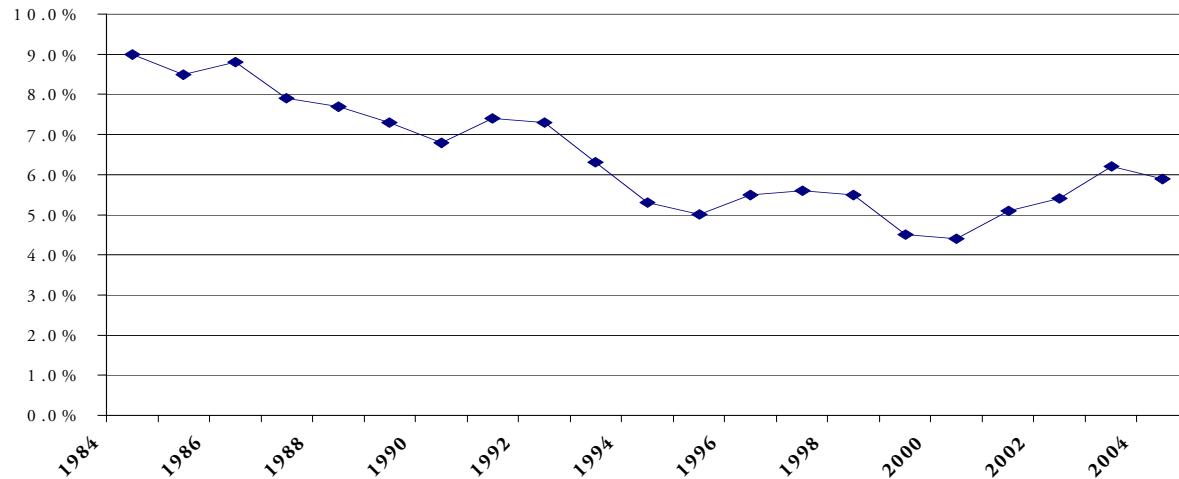


source: EPI analysis of Current Population Survey (CPS) data

Unemployment Finally on the Decline After the Recession ...

In 2000, Arkansas employment enjoyed its strongest showing over the last 2 decades with an average annual unemployment rate of only 4.4 percent. As a result of the 2001 recession, however, unemployment steadily rose to 6.2 percent by 2003. The Arkansas economy began to show life again in 2004, as the rate dropped to 5.9 percent. Another drop is expected when end of year figures for 2005 are released.

Arkansas Unemployment Rate, 1984-2004



source: EPI analysis of CPS data

Unemployment Rate by State by Year

| | 2000 | 2004 |
|---------------|------|------|
| United States | 4.0% | 5.5% |
| Arkansas | 4.4% | 5.9% |
| Louisiana | 5.4% | 6.0% |
| Mississippi | 5.6% | 6.2% |
| Missouri | 3.4% | 5.7% |
| Oklahoma | 3.1% | 4.9% |
| Tennessee | 3.9% | 5.1% |
| Texas | 4.2% | 6.0% |

source: EPI analysis of CPS data

... But Unemployment Remains Worse in Arkansas and the Region

Not surprisingly, unemployment is higher in Arkansas and surrounding states and remains higher than the national average. At the end of 2004, unemployment remained higher in Arkansas than in the U.S. as a whole, 5.9 percent versus the national rate of 5 percent.

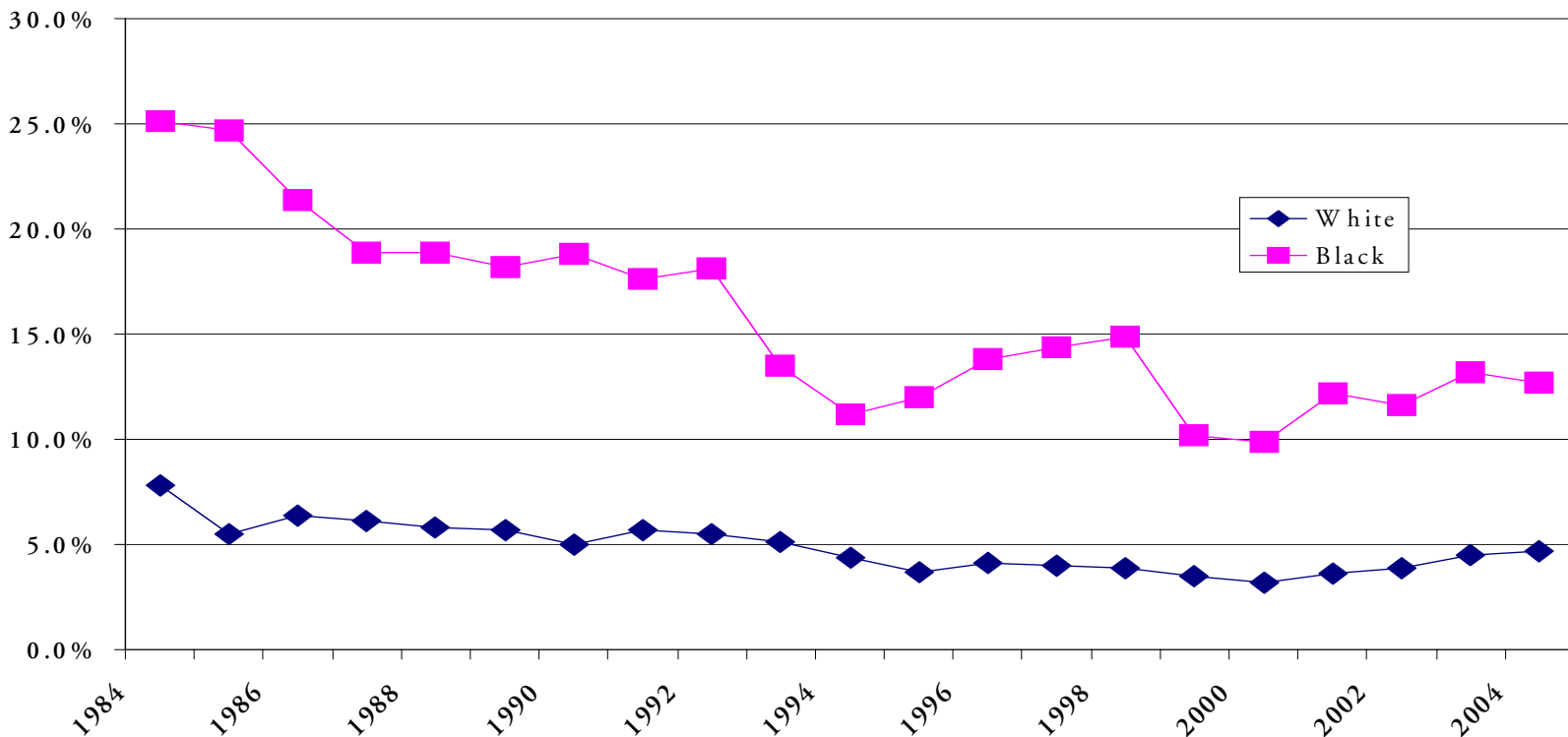
African Americans Hardest Hit by the 2001 Recession

Prior to the recession of 2001, African Americans had made major progress in joining the Arkansas laborforce. Although still trailing their white counterparts, the unemployment

rate for African Americans had dropped to under 10 percent in 2000, down substantially from the 25 percent unemployment rate for this group in 1984. This group was particularly hard hit by

the 2001 recession, as unemployment increased from under 10 percent to 13 percent in 2003 and 2004.

**Unemployment Rate by Race
1984-2004**



source: EPI analysis of CPS data

Demographics Matter in Employment Success

Employment success varies significantly by gender, age, race, and level of educational attainment. Men are more likely to be part of the laborforce, more likely to be employed, and less likely to be under-employed than women. Younger workers (ages 16-24), many of whom

are still in high school or college, are less likely to be part of the labor force, more likely to be unemployed, and more likely to be underemployed.

Race and educational attainment are two of the most important factors in employment success. In 2004, African Americans were nearly three times as likely to be unemployed and twice as likely to be

underemployed than their white counterparts. Workers with less than a high school degree were nearly four times as likely to be unemployed than workers with at least some college and three times as likely to be underemployed. Workers with less than a high school degree were seven times as likely to be underemployed than those with a college degree or higher.

Employment Characteristics by Demographic Group - 2004

| | Share of Labor Force | Labor Force Participation Rate | Unemployment Rate | Underemployment Rate | Part-time for Economic Reasons | Employment to Population Ratio |
|-------------------------|----------------------|--------------------------------|-------------------|----------------------|--------------------------------|--------------------------------|
| All | 100.0% | 62.2% | 5.9% | 10.4% | 17.5% | 58.5% |
| Gender | | | | | | |
| Male | 54.1% | 70.1% | 5.5% | 9.6% | 21.4% | 66.3% |
| Female | 45.9% | 54.9% | 6.4% | 11.2% | 14.8% | 51.4% |
| Age | | | | | | |
| 16-24 yrs | 15.4% | 60.3% | 14.3% | 22.3% | 16.7% | 51.7% |
| 25-54 yrs | 68.6% | 80.6% | 4.6% | 8.6% | 20.8% | 76.9% |
| 55 yrs and older | 16.0% | 31.9% | (a) | 6.3% | (a) | 30.9% |
| Race / ethnicity | | | | | | |
| White | 77.9% | 61.6% | 4.7% | 8.6% | 15.5% | 58.7% |
| African-American | 14.5% | 62.5% | 12.7% | 19.1% | 22.0% | 54.6% |
| Hispanic | 3.9% | 73.9% | (a) | 13.8% | (a) | 70.0% |
| Asian/Pacific islander | 1.1% | 63.9% | (a) | (a) | (a) | 62.4% |
| Education | | | | | | |
| Less than high school | 12.9% | 38.0% | 13.7% | 21.3% | 18.4% | 32.8% |
| High school | 39.1% | 64.2% | 6.8% | 12.1% | 22.9% | 59.9% |
| Some college | 28.6% | 71.5% | 3.8% | 7.3% | 13.5% | 68.8% |
| Bachelor's or higher | 19.5% | 74.7% | (a) | 3.8% | (a) | 73.2% |

source: Economic Policy Institute analysis of CPS data, (a) Does not meet standards for sample size.

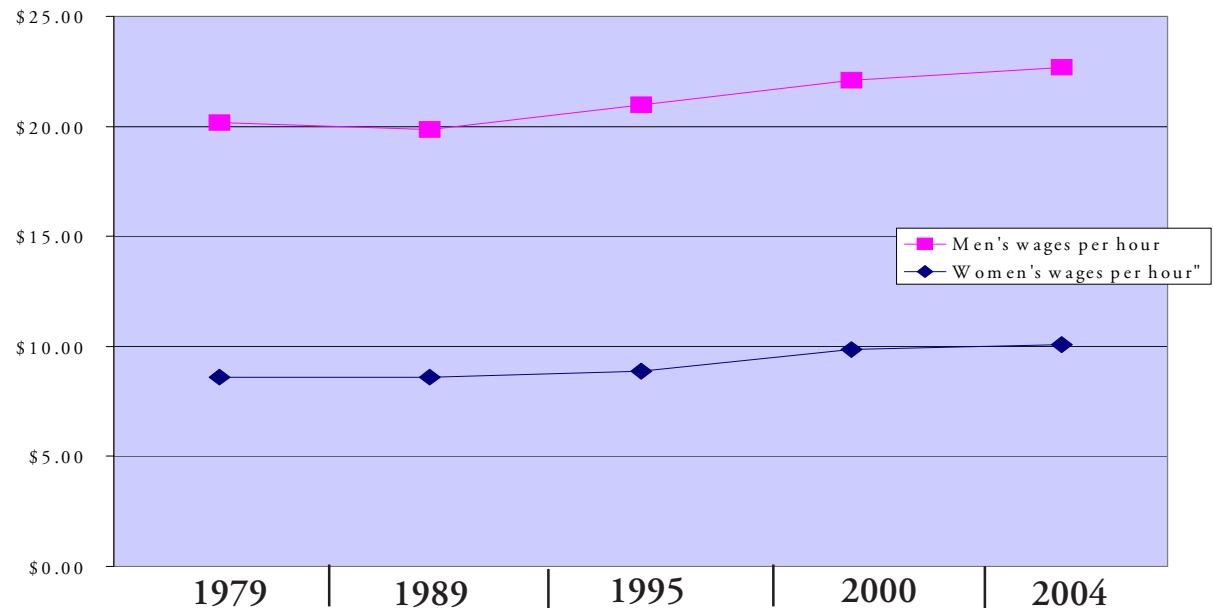
Economic Recovery Slow to Impact Arkansas Wages

Wages in Arkansas are holding steady. In 2001, the median hourly wage rate for Arkansans was \$11.01; in 2004, the median hourly wage was just \$11.26, an increase of only 2.3 percent. Low-wage workers (those workers at the bottom 20 percent of the wage scale) likewise saw an increase of just 2.3 percent. The typical Arkansan actually saw a decrease in real wages between 2003 and 2004. Median wages are not keeping pace with the increased costs of living.

Wages for women still lag behind wages for men. Today, the typical female wage earner would need a raise of almost 25 percent to equal the wages earned by a male counterpart. This is a startling fact because as a percentage of the total work force, women held 44.3 percent of the jobs in 1979 and today hold 45.9 percent. Women have made up almost the same percentage of the work force for 25 years yet still today face a disparity in hourly wages of 25 percent.

Single parent households run by women account for 83,545 of the 323,412 family households with children in Arkansas. The wage disparity means that those 83,545 families are having an even tougher time making ends meet than they would if headed by a male. (Census, ACS, 2003 demographic data)

Median Wages for Men & Women in Arkansas



source: EPI analysis of CPS data

** Using CPI-U-RS

Wages by Decile by Year in Arkansas (in 2004 dollars) **

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|-----------------|---------|---------|---------|---------|---------|
| 20th percentile | \$7.51 | \$7.69 | \$7.40 | \$7.63 | \$7.87 |
| 50th percentile | \$11.00 | \$11.01 | \$11.29 | \$11.54 | \$11.26 |
| 80th percentile | \$17.90 | \$17.99 | \$19.25 | \$18.49 | \$18.27 |

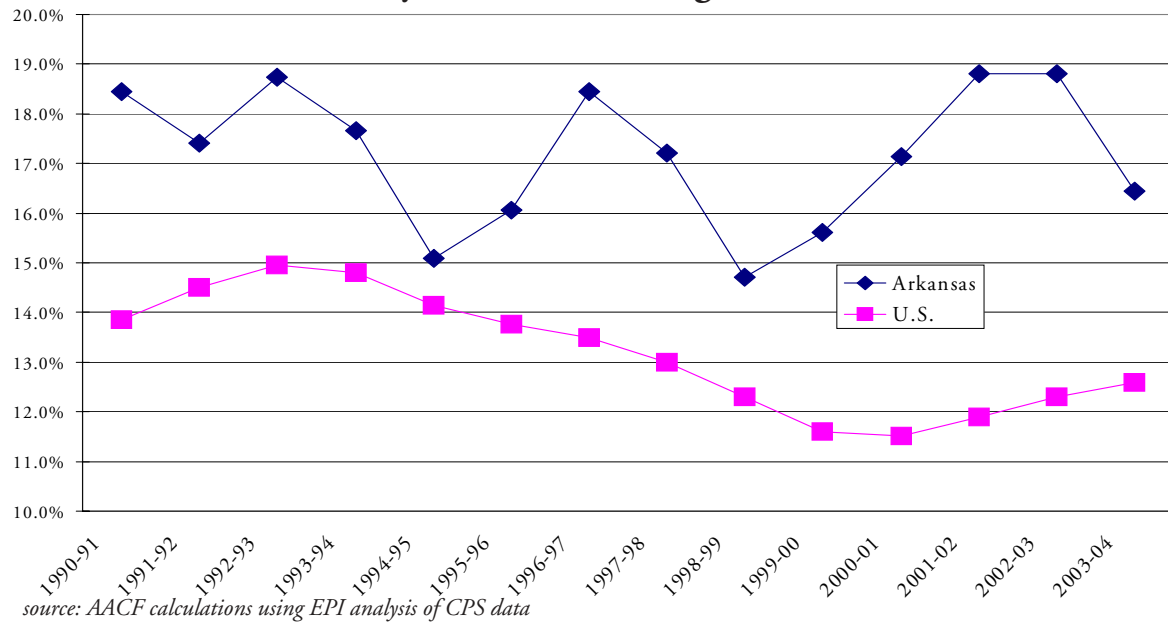
source: EPI analysis of CPS data

** Using CPI-U-RS

Poverty Still High Despite Recent Progress

One key indicator of family well-being is the poverty rate. The poverty rate is the federal government's attempt to measure how many families don't earn the income required to meet their most basic needs. The Arkansas poverty rate declined from 18.8 percent in 2002-03 to 16.5 percent in 2003-04. While Arkansas no longer ranks last in overall poverty, it still has one of the nation's worst poverty rates (a ranking of 46th in 2003-04). Only Louisiana (16.8 percent), Mississippi (17.3 percent), New Mexico (17.3 percent), Texas (16.7 percent), and the District of Columbia (16.7 percent) have higher overall poverty rates. Arkansas' rate of 16.4 percent is still substantially above the overall U.S. average of 12.6 percent.

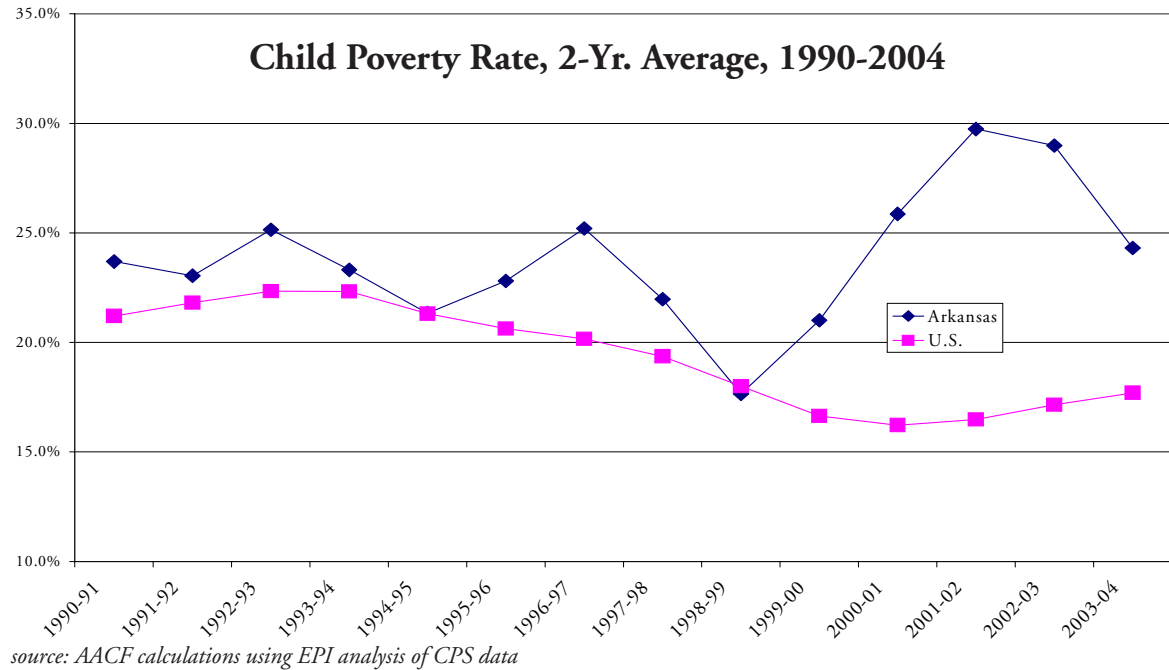
Poverty Rate, 2-Yr. Average, 1990-2004



Nearly 1 in 4 Arkansas Children Still Live in Poverty

Arkansas has made progress in fighting child poverty in recent years. The state's child poverty rate declined from 29 percent in 2002-03 to 24 percent in 2003-04. While that represents a substantial reduction, nearly 1 in 4 Arkansas children remain in poverty. The Arkansas poverty rate of 24 percent is still way above the U.S. child poverty rate of 18 percent. Child poverty, especially for our youngest children, is among the worst kind of poverty because it prevents children from getting the start they need to succeed in school and later in life.

Child Poverty Rate, 2-Yr. Average, 1990-2004



The Real Poverty Rate is Higher Than You Think

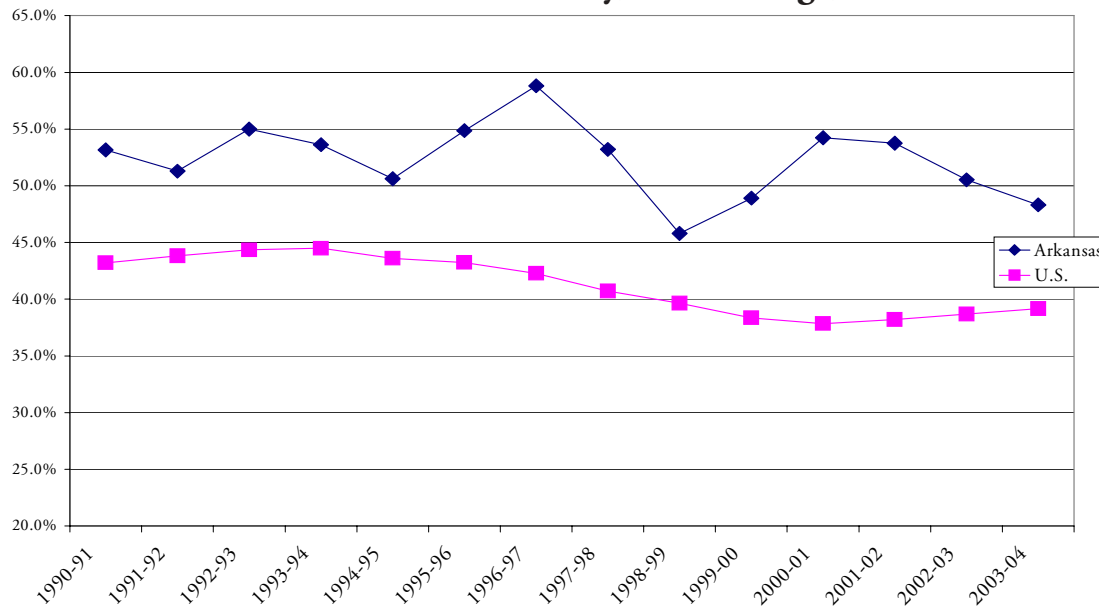
The measure of whether a family is earning enough to meet its basic needs has traditionally been the federal poverty line, but that measure is not a true indicator of how much it actually costs to feed, clothe, house, transport, and provide health care for a family in today's world. The Basic Family Budget is a measure that assesses these costs and provides a truer picture of the cost of raising a family. The Budget does not include restaurant meals, the cost for renter's insurance, or even a set-aside for

emergencies. When Arkansans' budgets do not measure up, true needs are going unmet.

A comparison of the Federal Poverty Level to the Basic Family Budget in Arkansas shows that the federal poverty level is a poor measure of what it costs to raise a family. According to studies by Arkansas Advocates for Children & Families and others, families must earn an income substantially higher than the federal line to meet all of their needs. One commonly accepted measure of the income needed to meet basic needs is 200 percent of the federal poverty line.

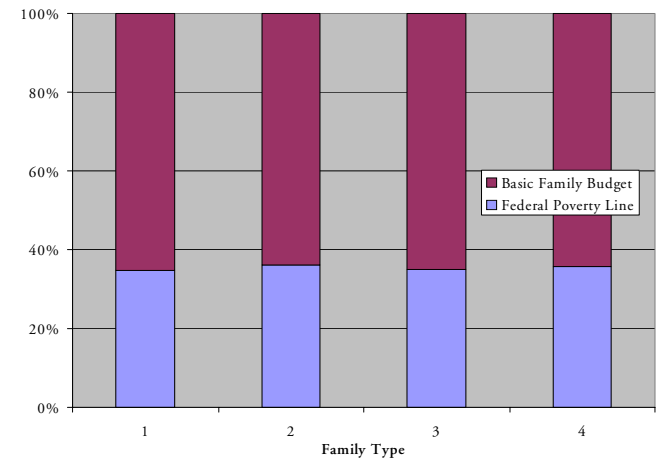
The current federal poverty line is \$19,350 for a family of four. Twice this amount, or 200 percent of the poverty line, is \$38,700. The percentage of children living in families with income below the 200 percent level has steadily declined each year from 54 percent in 2000-01 to 48 percent in 2003-04. The Arkansas rate of 48 percent is dramatically higher than the U.S. rate of 39 percent. Despite the progress, it is worth noting that nearly 1 in 2 Arkansas children live in families with incomes too low to meet all of their basic needs.

Children Under 200% of Poverty, 2-Yr Average, 1990-2004



source: AACF calculations using EPI analysis of CPS data

Federal Poverty Line as a Percentage of Basic Family Budgets



source: Arkansas Advocates for Children and Families calculations based on the EPI's Basic Family Budget Calculator, 2005.

Too Many Low Paying Jobs

According to the Arkansas Employment Security Department, the occupation that will have the most annual openings in the future will be that of cashier, followed closely by retail sales. These two types

of jobs, on average, pay median annual wages of \$14,000 and \$16,580 respectively. Among the top 20 fields with the most annual openings, one can find only three - registered nurses, sales representatives, and general and operations

managers – that have median annual wages above \$40,000 a year. The lack of availability in higher paying jobs is yet another factor in the lackluster outlook for many working Arkansans.

Top 20 Growth Occupations with the Most Annual Openings (2002-2012)

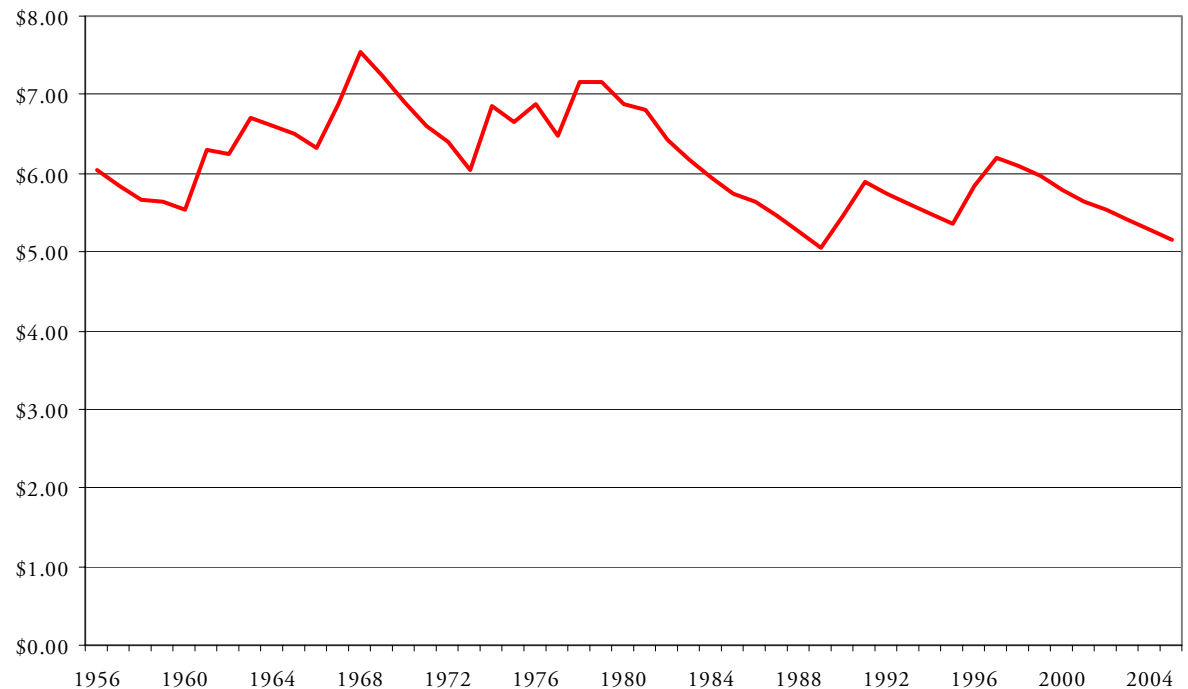
| Occupational Title | Total Annual Openings | Entry Hourly Wage | Entry Annual Wage | Median Hourly Wage | Median Annual Wage |
|---|-----------------------|-------------------|-------------------|--------------------|--------------------|
| Cashiers | 1,927 | \$6.05 | \$12,590 | \$6.73 | \$14,000 |
| Retail Salespersons | 1,889 | \$6.15 | \$12,790 | \$7.97 | \$16,580 |
| Combined Food Preparation and Serving Workers | 1,422 | \$5.97 | \$12,410 | \$6.34 | \$13,190 |
| Truck Drivers | 1,283 | \$10.14 | \$21,090 | \$15.42 | \$32,060 |
| Waiters and Waitresses | 1,179 | \$5.99 | \$12,460 | \$6.33 | \$13,170 |
| Laborers and Freight, Stock, and Material Movers | 1,000 | \$6.79 | \$14,120 | \$8.58 | \$17,850 |
| Registered Nurses | 946 | \$15.64 | \$32,530 | \$20.70 | \$43,060 |
| Office Clerks | 856 | \$6.51 | \$13,540 | \$8.58 | \$17,850 |
| Farmworkers and Laborers, Crop, Nursery, and Greenhouse | 810 | \$6.50 | \$13,520 | \$9.21 | \$19,160 |
| Janitors and Cleaners, except maids & housekeeping cleaners | 688 | \$6.06 | \$12,610 | \$7.58 | \$15,780 |
| Child Care Workers | 631 | \$5.97 | \$12,420 | \$6.48 | \$13,480 |
| General and Operations Managers | 600 | \$18.41 | \$38,290 | \$32.09 | \$66,750 |
| Stock Clerks and Order Fillers | 566 | \$6.44 | \$13,400 | \$8.63 | \$17,960 |
| Team Assemblers | 564 | \$8.11 | \$16,860 | \$10.67 | \$22,190 |
| First-line Supervisors/Managers of Retail Sales Workers | 563 | \$8.71 | \$18,110 | \$12.35 | \$25,680 |
| Sales Rep., Wholesale & Manufacturing, except technical & scientific products | 560 | \$12.21 | \$25,410 | \$19.49 | \$40,540 |
| Nursing aides, orderlies, and attendants | 532 | \$6.79 | \$14,120 | \$8.09 | \$16,830 |
| Maintenance and Repair Workers, general | 524 | \$8.53 | \$17,750 | \$12.66 | \$26,340 |
| Bookkeeping, accounting, and auditing clerks | 485 | \$8.77 | \$18,240 | \$11.33 | \$23,560 |
| Packaging and Filling Machine Operators and Tenders | 484 | \$7.56 | \$15,720 | \$10.23 | \$21,290 |

source: Arkansas Occupational Employment and Wage Survey, January 2005 and Arkansas Employment Security Department

The Power of the Minimum Wage Continues to Decline

The minimum wage in Arkansas is currently \$5.15 an hour and is not scaled for inflation. While the price of necessities such as food, clothing, and gasoline increase, the minimum wage does not. The last time that the minimum wage was raised was in 1997 – in these past eight years, the buying power of the minimum wage has decreased 17 percent. Arkansans working for the minimum wage are able to buy fewer goods and services than in all but one of the last 50 years. A full-time worker at the minimum wage makes only \$10,712 per year – this is 2/3 of the federal poverty rate for a family of three.

Purchasing Power of the Federal Minimum Wage, 1956-2005



source: EPI conversion of the nominal federal wage to the real federal wage using the CPI-U-RS inflation rate

Many Arkansans would benefit from just a small, one dollar increase in the minimum wage from \$5.15 to \$6.15 an hour. They would continue to benefit if the minimum wage was also scaled for inflation - that means that as the price of goods and services goes up, so does the

minimum wage – preventing the continual decrease in buying power that has been seen over the last half century.

An increase of this size would impact 127,000 Arkansans. Eighty percent of these workers are over the age of 20 and 53 percent

work full-time. This increase is a necessary first step to ensure that someone who works hard and plays by the rules does not live in poverty.

Characteristics of Arkansas Workers Affected by Minimum Wage Increase to \$6.15

| | Affected Directly | Other Low-Wage Workers | Total Workforce |
|---|-------------------|------------------------|-----------------|
| Number of workers | 56,000 | 71,000 | 1,055,000 |
| Percent of workforce | 5% | 7% | 100% |
| <i>Gender</i> | | | |
| Male | 38% | 52% | |
| Female | 62% | 48% | |
| <i>Age</i> | | | |
| 20 and older | 80% | 96% | |
| <i>Work hours</i> | | | |
| 20-34 hours per week | 29% | 11% | |
| Full-time (35+ hrs.) | 53% | 85% | |
| <i>Industry</i> | | | |
| Retail trade or leisure and hospitality | 45% | 20% | |
| <i>Occupation</i> | | | |
| Sales or service | 55% | 24% | |

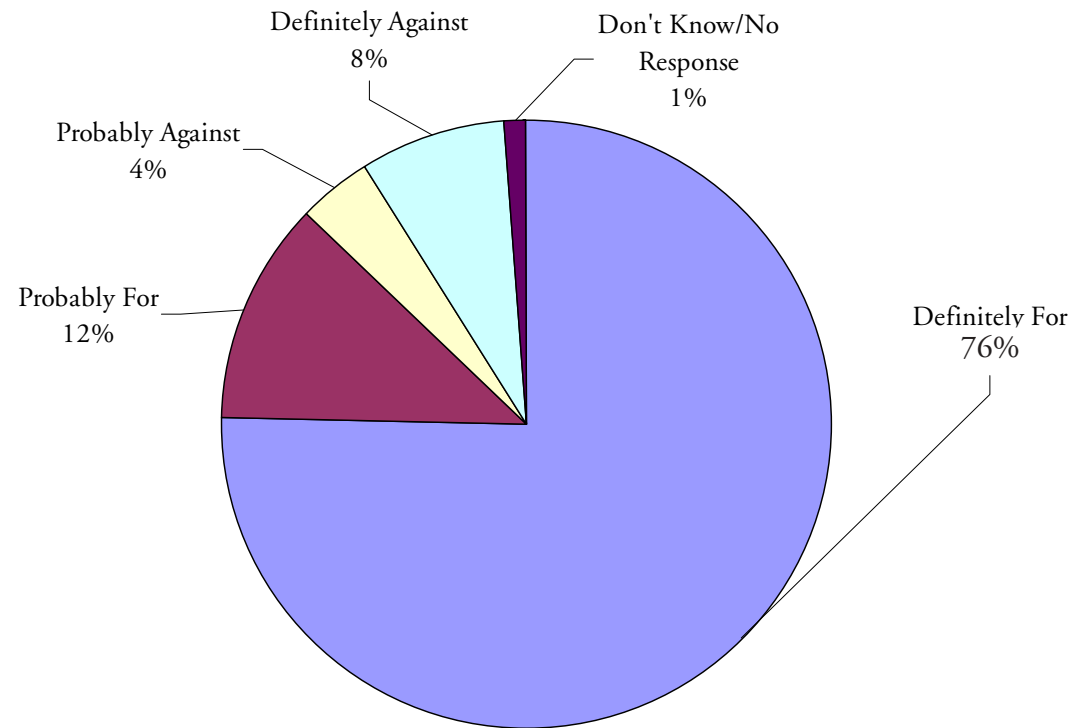
source: EPI analysis of 2004 CPS data

Arkansas Overwhelmingly Supports Raising the Minimum Wage

In a poll conducted by Opinion Research Associates, Inc. of 400 registered voters in Arkansas, 87 percent of respondents said that they would probably or definitely vote for an increase. Eighty-five percent of those polled said that “raising the minimum wage in Arkansas is just the right thing to do.” When given several arguments for and against raising the minimum wage, respondents were asked, “Now that you’ve heard arguments for and against raising the minimum wage from \$5.15 to \$6.15 an hour and adjusting it for inflation every year, if the election were held today, would you vote for or against the amendment?” the response was overwhelmingly positive. The results showed 88 percent said they would definitely or probably vote for the amendment.

These poll results show that Arkansans feel that raising the wage is the right thing to do. There is an acknowledgement that no one that works full-time should live in poverty and that a decent wage is a necessity for all working Arkansans.

Arkansans in Favor of Raising the Minimum Wage



source: Poll conducted by Opinion Research Associates, Inc., November 2005

** Numbers may not total 100 percent due to rounding*

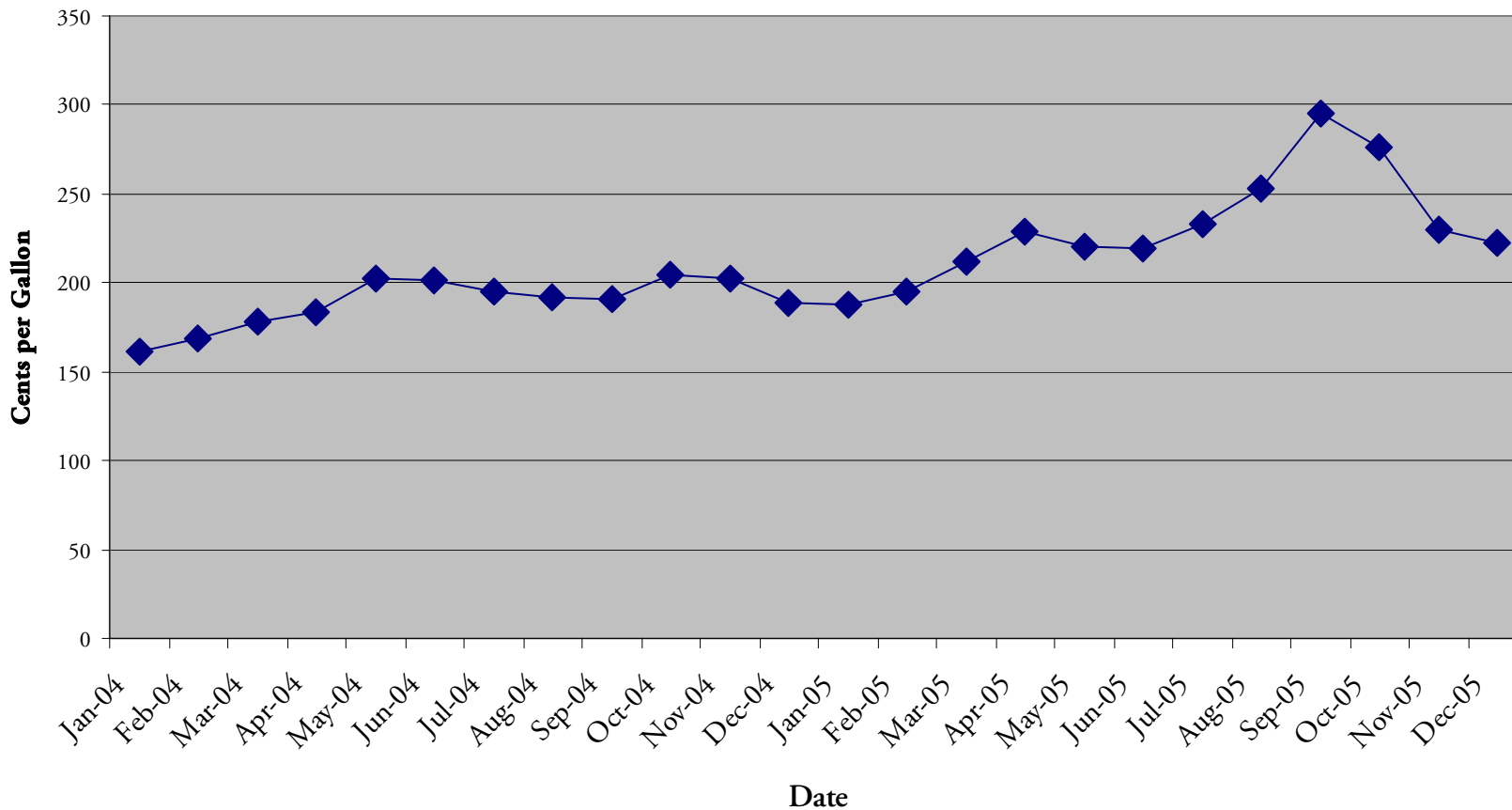
High Energy Prices Have Hurt Families

Transportation costs make up a portion of every family's budget. This past summer witnessed record high prices for crude oil that translated into record high prices at the pumps for all Arkansans. These high prices were

particularly felt by those with little or no cushion in their monthly budgets, forcing families to make tough choices. High gas prices not only drove up the amount that a family needs to earn in order to meet basic needs (such as getting to and from work), it also made goods purchased more expensive. Higher gasoline costs affect goods that are transported into Arkansas for

consumption, driving up the cost of groceries and other necessities. Winter heating costs are also expected to spike this winter making a tight budget even tighter.

Retail Gasoline Prices for 2004 and 2005



Source: U.S. Energy Information Administration, Retail Gasoline Prices for All Grades, All Formulations for 2004 and 2005.

Predatory Lending Contributes to the High Cost of Being Poor

There are many types of predatory lending that contribute to the high cost of being poor and provide yet another squeeze on the already spread-thin family budget. One of the most egregious is the payday loan. Preying on low-income Arkansans with checking accounts, payday lenders charge usurious interest rates, often causing spiraling debt. If a family takes out a payday loan for \$400 to help with monthly expenses, that family could be charged interest greater than 400% APR. The loan term is usually the length of a pay period or approximately two weeks. The family will write a postdated check for \$467.00 to the payday lender and receive \$400 in cash in return. The \$67 represents the interest (or, if you're in

Arkansas and following the language choice of the legislature, the fee) owed to borrow that \$400 for a pay period.

At the end of a two-week period, it is extremely unlikely that the family will have amassed \$467 to cover the postdated check and repay the loan in full (as required by the payday lender). Instead, the family will "roll over" the loan, paying the interest (another \$67) for another pay period in the hopes that after an additional two weeks, the family will have the whole \$400. After three months of rolling over the loan (or six pay periods), the family will have paid \$402 in interest and will still owe the original \$400.

This treadmill of debt traps many Arkansans each year. The body that governs the payday lending industry, the Arkansas Board of Collection Agencies, Division of Check Cashers,

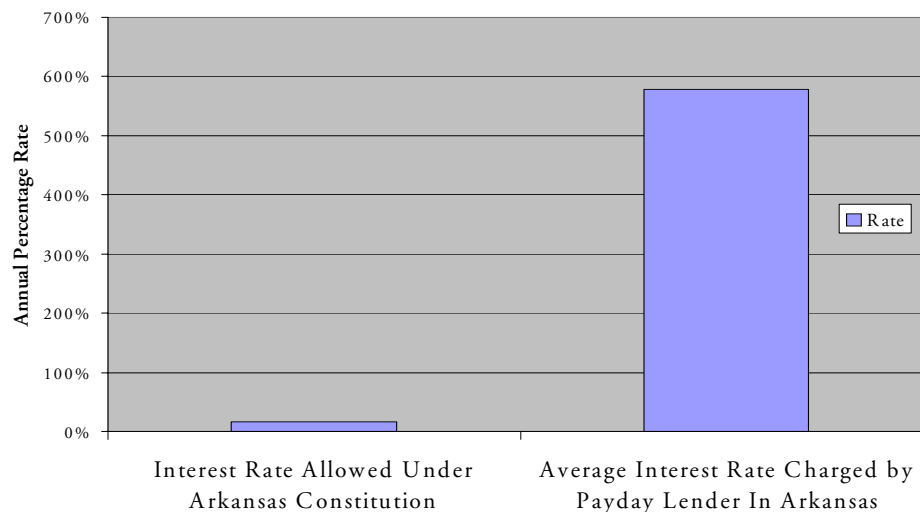
does not keep data on the number of Arkansans which use payday lenders, but it is illustrative of their success that there are more payday lenders in Arkansas than McDonald's restaurants. According to a recent study by Arkansans Against Abusive Payday Lending, there are 281 payday lenders operating in Arkansas. Arkansans neither need nor can afford to be caught on the treadmill of debt.

Low Savings – A Troubling Future?

A very real consequence of low wages and high costs of living is the inability of average Arkansans to save. Data produced by the Corporation for Enterprise Development shows Arkansas ranked 47th out of the 50 states in the number of households with savings. Only 44.7 percent of households in Arkansas save. Combined with the fact that only 41.8 percent (a three-year moving average covering 2001-03) of all private-sector employees (age 18-64 working at least 26 weeks and 20 hours a week) are included in their employers' pension plans, we have a recipe for immediate and future financial turmoil.

When families are unable to save, they are less likely to be able to deal with an unexpected expense and more likely to turn to a predatory lender. When families can't save, their long-term financial future is unclear. Will Social Security meet the needs of retirees? Will many older Arkansans find themselves forced to remain in the work force past an expected retirement date? Families that live paycheck to paycheck are busy making difficult financial choices everyday - with the result that the importance of saving is pushed aside.

Constitutional Interest Rate?



source: Center for Responsible Lending; Article 19, Section 13 of the Arkansas Constitution

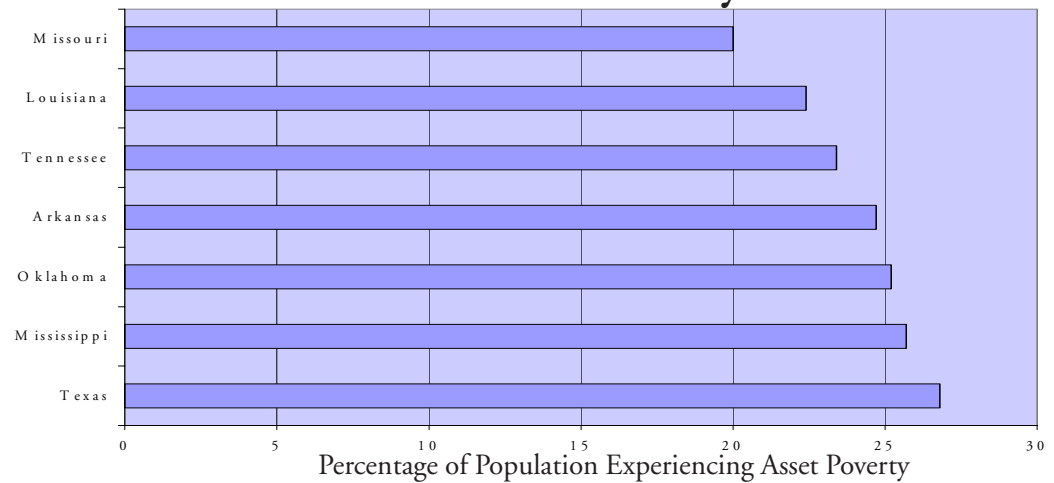
Arkansas Households Lack Financial Security

A key indicator of financial security is asset poverty. Many Arkansans are “asset poor,” meaning that they lack sufficient net worth to subsist at the poverty level for three months should their income source be eliminated – this is a bare minimum for security and mobility. Almost 25 percent of Arkansas households are asset poor, ranking Arkansas 35th in the country.*

Without a savings or asset cushion, many Arkansans facing an economic crisis and overwhelming debt find themselves with no alternative but to file for bankruptcy. Between 2000 and 2003, 8.8 per 1000 Arkansans filed for bankruptcy. This rate ranked us 45th in the nation – only 5 states had higher bankruptcy rates than Arkansas.

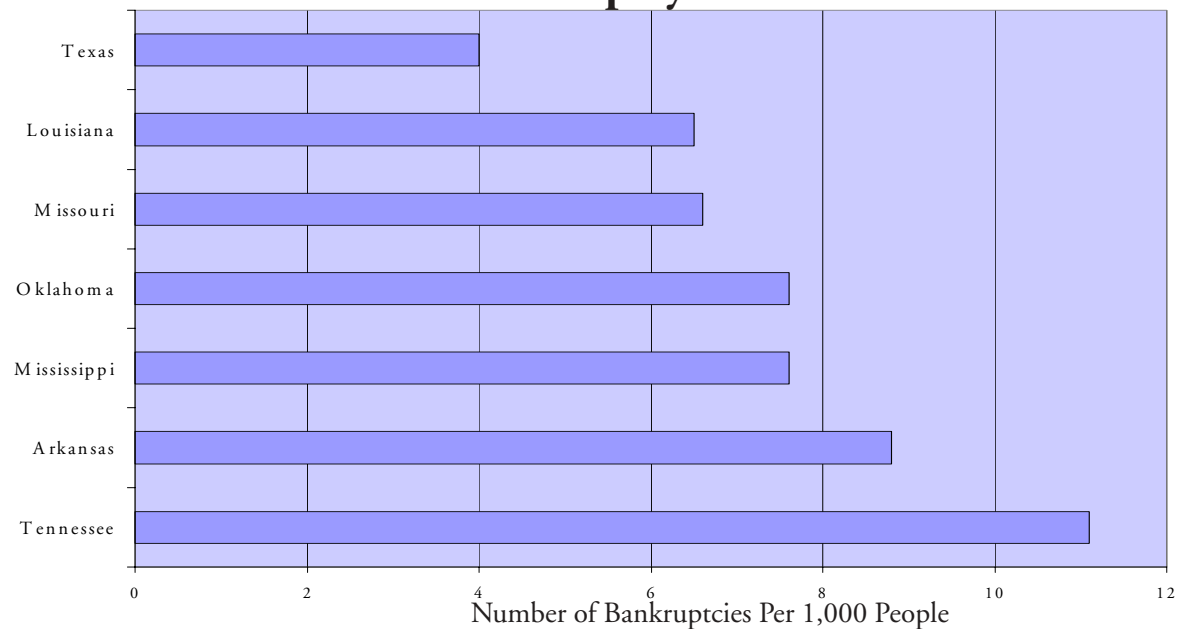
* [(The sum of the assets [stocks, bonds, mutual fund shares, real estate, own business, motor vehicles] attributable to any individual age 15 years and above in the household less any liabilities [debts secured by an asset, credit card or store bills, bank loans, and other unsecured debts])]

Asset Poverty



source: Southern Good Faith Fund, Arkansas Assets and Opportunity Scorecard 2005, US Census Bureau, survey of income program population, 2002

Bankruptcy Rate



source: Southern Good Faith Fund, Arkansas Assets and Opportunity Scorecard 2005, US Census Bureau, survey of income program population, 2002

High Tax Burden for Low-Income Working Arkansans

Adding to the high cost of being poor is the Arkansas tax system. Relying heavily on a sales tax, the Arkansas tax system imposes the highest tax burden on those least able to afford it. Arkansas has a truly regressive system – low- and middle-income families pay a higher share of their income in state and local taxes than do upper income families.

This regressivity is anchored by a reliance on the sales tax. Let's assume two families go to

the grocery store. One family earns \$100,000 a year while the other earns \$30,000 a year. For our example, let's suppose that each family decides to purchase identical items for the week. Each family will pay the same amount of tax on their groceries; each family needs these items for healthy families and each family will pay for them. The difference is that the family making \$100,000 a year can more easily afford the tax on those items than can the family earning \$30,000. The same example works for gasoline,

school supplies, and clothing. The family with fewer dollars has a larger chunk of their paycheck taken up in sales taxes than does the family with more.

The result of this regressivity is that the poorest 20 percent of families, those earning less than \$12,000 a year, pay 12.6 cents out of every dollar earned in taxes. The richest one percent of Arkansas families, those earning above \$242,000 a year, pay just 6.1 cents out of every dollar in taxes.

| Arkansas State and Local Taxes As Shares of Family Income for Non-Elderly Taxpayers | | | | | | | |
|---|------------------|---------------------|--------------------|--------------------|---------------------|----------------------|-------------------|
| Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% |
| Income Range | Less Than 12,000 | \$12,000 - \$20,000 | \$20,000- \$33,000 | \$33,000- \$55,000 | \$55,000- \$100,000 | \$100,000- \$242,000 | \$242,000 or more |
| Average Income in Group | \$7,000 | \$16,200 | \$26,800 | \$43,400 | \$71,700 | \$137,900 | \$498,100 |
| Sales and Excise Taxes | 10.2% | 9.1% | 8.0% | 6.1% | 4.8% | 3.1% | 1.6% |
| Property Taxes | 1.9% | 1.6% | 1.2% | 1.5% | 1.4% | 1.5% | 1.1% |
| Income Taxes | 0.2% | 1.6% | 2.6% | 3.0% | 4.0% | 4.7% | 5.5% |
| TOTAL TAXES | 12.4% | 12.3% | 11.8% | 10.6% | 10.2% | 9.3% | 8.2% |
| Federal Deduction Offset | ----- | - 0.1% | - 0.0% | - 0.2% | - 0.8% | -1.5% | -2.0% |
| Burden After Offset | 12.4% | 12.2% | 11.8% | 10.3% | 9.5% | 7.9% | 6.1% |
| Note: Tax burden includes the impact of Arkansas tax changes enacted during 2003-04; data primarily reflect household data and not corporate tax filings, although some incidental business income is reported on personal tax returns. Source: Institute on Taxation and Economic Policy, August 2004 | | | | | | | |

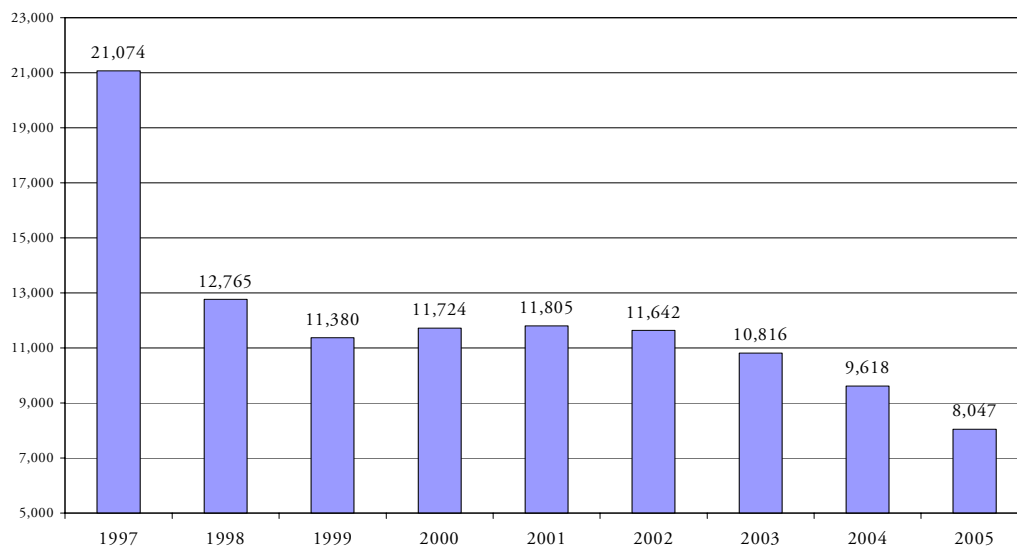
The Road Off Welfare Remains Bumpy for Many Families

Arkansas implemented its welfare reform program, known as Transitional Employment Assistance (TEA), in July of 1997. As in most states, the Arkansas' TEA caseload has declined dramatically, from 21,074 in July of 1997 to just 8,047 in July of 2005 (a decline of nearly 62 percent.)

While the caseload has declined, many families have been unsuccessful in making the transition from welfare to work. The percent of Arkansas TEA cases that closes because of employment was only 50 percent in 2003, down from 63 percent in 1999. One out of every two cases is closed for reasons other than employment.

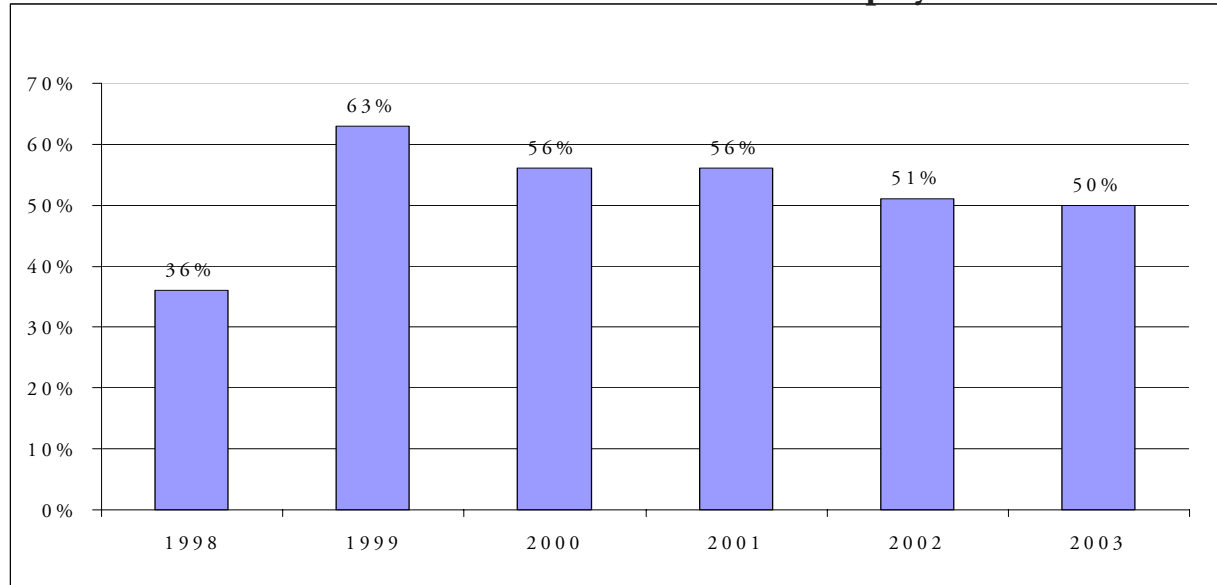
These families continue to experience economic hardship and have difficulty earning enough to meet their basic needs as reflected in the earnings data for families leaving the TEA program. In 2003 (the latest year of available data), the median quarterly income for families the first quarter after leaving the TEA program was just \$1,526, roughly \$508 a month. Many fare worse during the second quarter after leaving the TEA program, with median earnings of just \$1,398, roughly \$466 a month.

Arkansas TEA Caseload, July 1997-2005



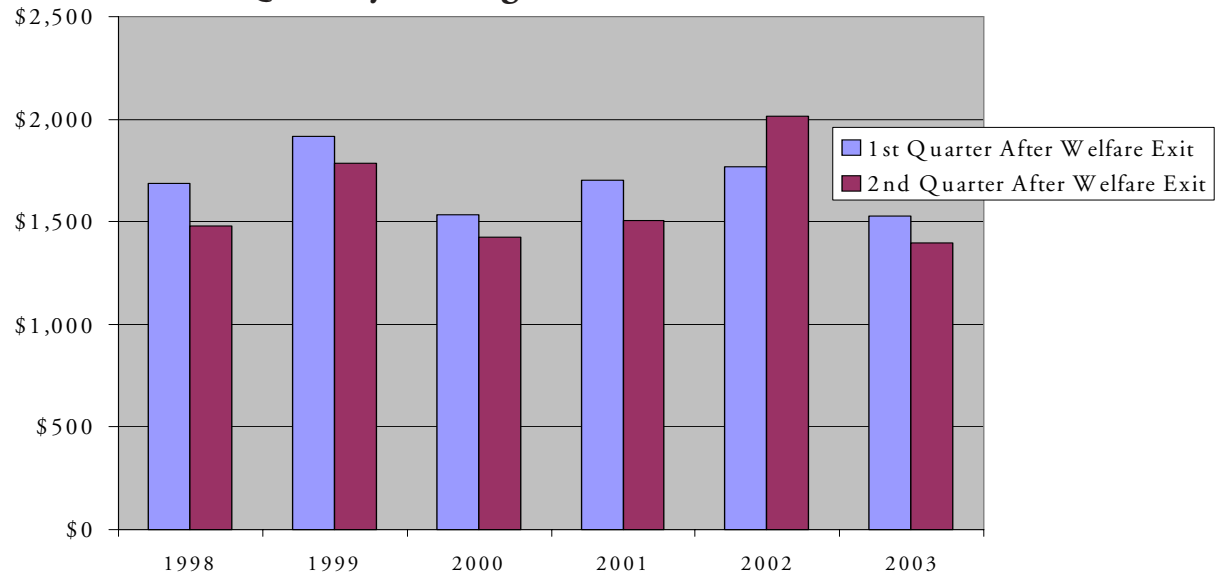
source: DHS Monthly Reports, 1997-2005

Percent of Welfare Cases Closed Because of Employment



source: "Evaluation of Arkansas Transitional Employment Program," June 2005, Kaiser Group

Median Quarterly Earnings of Leavers After Welfare Exit



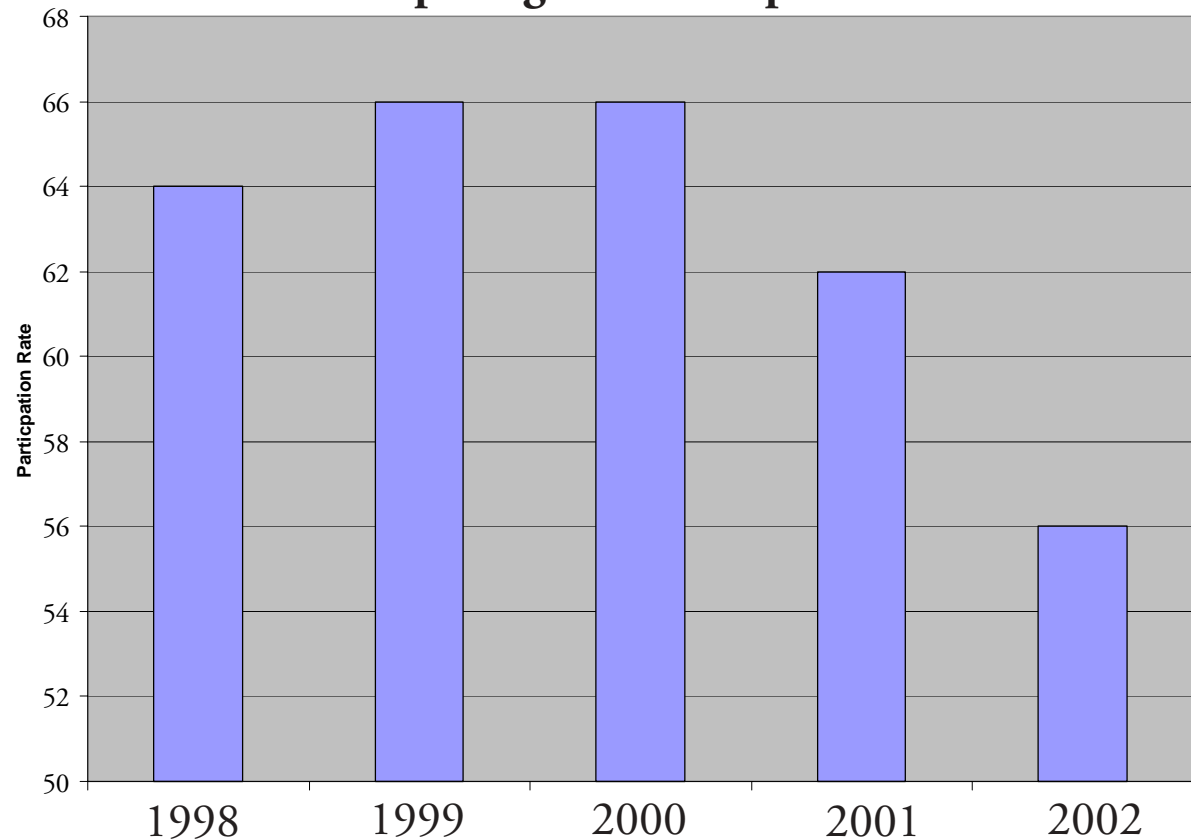
source: "Evaluation of Arkansas Transitional Employment Program," June 2005, Kaiser Group

Access to a Healthy Diet is Not Always a Given

Yet another sign of economic distress is the number of Arkansans at risk of going hungry. Over 15 percent of all Arkansas households, the highest percentage of households in the nation, are food “insecure.” Food insecurity results when the availability of nutritionally adequate and safe food, or the ability to acquire it, is limited or uncertain. Even more troubling is that 4.7 percent of all households are not only food insecure, but have also experienced hunger during the year. (see *Household Food Security in the United States*, 2003/FANRR-42, Economic Research Service, Mark Nord, Margaret Andrews, and Steven Carlson: <http://www.ers.usda.gov/publications/fanrr42/>)

Some help to our hungry families is provided by the federal food stamps program. This vital program helps families avoid hunger and provides much-needed assistance in times of need, but in 2002, the Arkansas food stamps program served only 56 percent of those eligible for this food assistance. Arkansas can do better than serving just over half of those eligible for this vital program.

Food Stamp Program Participation Rates



source: <http://www.fns.usda.gov/oane/MENU/Published/FSP/Participation.htm#State>

Do All Arkansans have the Opportunity to Own Their Homes?

Owning one's own home is often synonymous with achieving the American dream. Indeed, one of the last tax shelters available to individuals is the home mortgage interest deduction. While Arkansas benefits from having the 6th cheapest average home value in the nation, only 69.6 percent of Arkansans own their own homes, ranking the state 34th in percentage of home ownership.

In Arkansas, higher-income earners are more likely to own their own homes than those with fewer resources by a ratio of 2:1. This large disparity ranks Arkansas 42nd out of 50 states. Arkansas ranks 30th in the percentage of foreclosures, with 1.12 percent; even though relatively few low-income earners own their own homes, Arkansas has a high foreclosure rate.

| State | Wealthiest One-Fifth | Poorest One-Fifth | Ratio | National Rank |
|-------------|----------------------|-------------------|-------|---------------|
| Mississippi | 88% | 62% | 1.42 | 2 |
| Missouri | 91% | 58% | 1.57 | 8 |
| Lousiana | 90% | 56% | 1.6 | 9 |
| Tennessee | 89% | 52% | 1.73 | 17 |
| Texas | 84% | 49% | 1.73 | 18 |
| Oklahoma | 89% | 44% | 2.04 | 42 |

source: Southern Good Faith Fund, Arkansas Assets and Opportunity Scorecard 2005, CPS data, (200-2002) actual state ranks are based on more than two decimal places, explaining the ranking differences of TN and TX in this chart.

Capital Gains & Dividends Add to Income & Wealth Disparities

Families vary not only in the wages they earn from their jobs, but also in the income they receive from other sources, such as the money they make in the stock market or by selling real estate. One source of data on these other forms of income is tax data on capital gains. A realized capital gain is the new income from the sale of assets, such as the sale of stocks and bonds or

the appreciation in the value of a home when it is sold. Higher-income households typically have more capital gains income because they are more likely to have assets, such as stocks, that increase in value over time. Capital gains represent not only non-salary forms of income, but also a good measure of the extent to which families own assets that contribute to their ability to accumulate wealth over time.

According to federal data from the Internal Revenue Service, only 8.2 percent of taxpayers with incomes less than \$30,000 had

any realized capital gains income. Despite comprising nearly 60 percent of all returns filed, this group generated only 4.5 percent of all capital gains income reported to the IRS (with an average capital gain was \$105 per return). In contrast, 74 percent of taxpayers with incomes over \$200,000 reported capital gains income. This group, despite representing only 1 percent of Arkansas taxpayers, generated 70 percent of all capital gains income.

Arkansas Net Capital Gains 2003

| Income Level | Returns Filed | % of All Returns Filed | Returns With Capital Gain | % of Income Level with Capital Gain | \$ Amount of Total Capital Gain in Millions | % of All Capital Gains Income |
|-----------------------|---------------|------------------------|---------------------------|-------------------------------------|---|-------------------------------|
| < \$30,000 | 671,209 | 59.8% | 54,802 | 8.2% | 70.8 | 4.5% |
| \$30,000 - \$49,999 | 202,000 | 18.0% | 27,560 | 13.6% | 46.3 | 3.0% |
| \$50,000 - \$74,999 | 132,933 | 11.9% | 27,330 | 20.6% | 77.1 | 4.9% |
| \$75,000 - \$99,999 | 58,559 | 5.2% | 17,113 | 29.2% | 78.7 | 5.0% |
| \$100,000 - \$199,999 | 44,258 | 3.9% | 20,416 | 46.1% | 203.2 | 13.0% |
| \$200,000 or more | 12,359 | 1.1% | 9,196 | 74.4% | 1,088.5 | 69.6% |
| Total | 1,121,518 | 100% | 156,417 | 13.9% | 1,564.6 | 100.0% |

source: ACF calculations of IRS data for Tax Year 2003

Another indication of wealth is dividend income. A dividend is a payment made, usually out of a company's post-tax income, to shareholders or owners of a company's stock. As with capital gains, dividends are an indication of stock ownership and ability to accumulate wealth. Not unexpectedly, the distribution of

dividend income is closely related to stock ownership which is closely related to income.

Again, taxpayers with incomes under \$30,000 are less likely to receive stock dividends. While they file 60 percent of all tax returns, they receive only 8 percent of all dividend income. In contrast, taxpayers with incomes

over \$200,000 receive 67 percent of all dividend income. Low-income taxpayers have less disposable income with which to buy stocks and therefore have less access to the dividend income stocks generate. On average, taxpayers with incomes under \$30,000 receive dividends of \$124 per year, compared to \$54,477 per year for taxpayers with income over \$200,000.

Arkansas Stock Dividend Income for Tax Year 2003

| Income Level | Returns Filed | Returns with Dividends | % at income Level with Dividend | Total \$ Amount of Dividend in Millions | % of All Dividend Income | Avg. Dividend Per Return |
|-----------------------|---------------|------------------------|---------------------------------|---|--------------------------|--------------------------|
| < \$30,000 | 671,209 | 67,823 | 10.1 | 83.1 | 8.3 | \$124 |
| \$30,000 - \$49,999 | 202,000 | 35,704 | 17.7 | 49.8 | 5.0 | \$246 |
| \$50,000 - \$74,999 | 132,933 | 36,179 | 27.2 | 59.4 | 5.9 | \$447 |
| \$75,000 - \$99,999 | 58,559 | 22,405 | 38.3 | 45.8 | 4.6 | \$782 |
| \$100,000 - \$199,999 | 44,258 | 24,472 | 55.3 | 88.2 | 8.8 | \$1,992 |
| \$200,000 or more | 12,359 | 9,594 | 77.6 | 673.3 | 67.4 | \$54,477 |
| Total | 1,121,518 | 196,177 | 17.5 | 999.4 | 100.0 | \$891 |

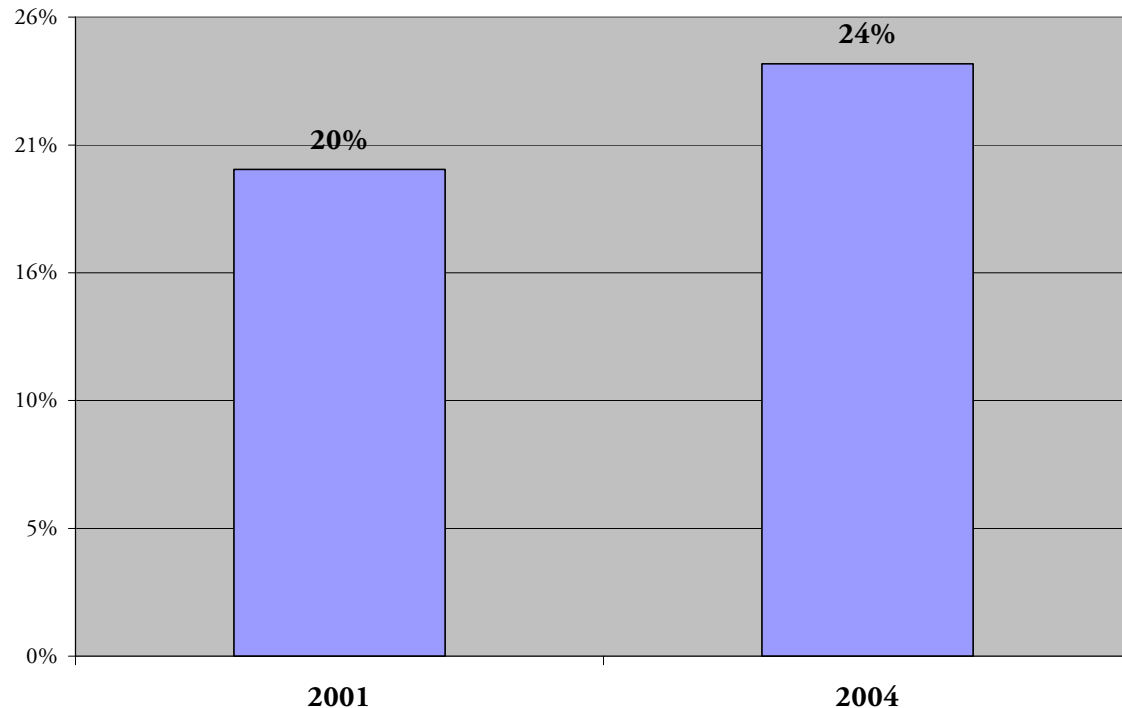
source: ACF calculations of IRS data for Tax Year 2003

Access to Health Care is problematic for Many Arkansas Adults ...

Employer sponsored health insurance is the basis of the American health care industry. For many years holding a job meant you also held access to health insurance. This reality has changed substantially over the past 10 years. As health care costs have increased, employers have been forced to re-evaluate their benefit structures and premiums. According to a recent report by the State Health Access Data Assistance Center at the University of Minnesota, 19.7 percent of working adults in Arkansas are uninsured. Arkansas ranks 8th in the nation for the percent of uninsured working adults.

Recent focus groups with uninsured adults show that adults are concerned about their ability to receive needed health care but feel there are few options available to them. Additionally, research from the Arkansas Center for Health Improvement shows the percent of adults who lack health insurance has increased from 2001 to 2004, causing Arkansas' overall uninsured rates to increase.

Percent of Uninsured Adults in Arkansas 2001-2004



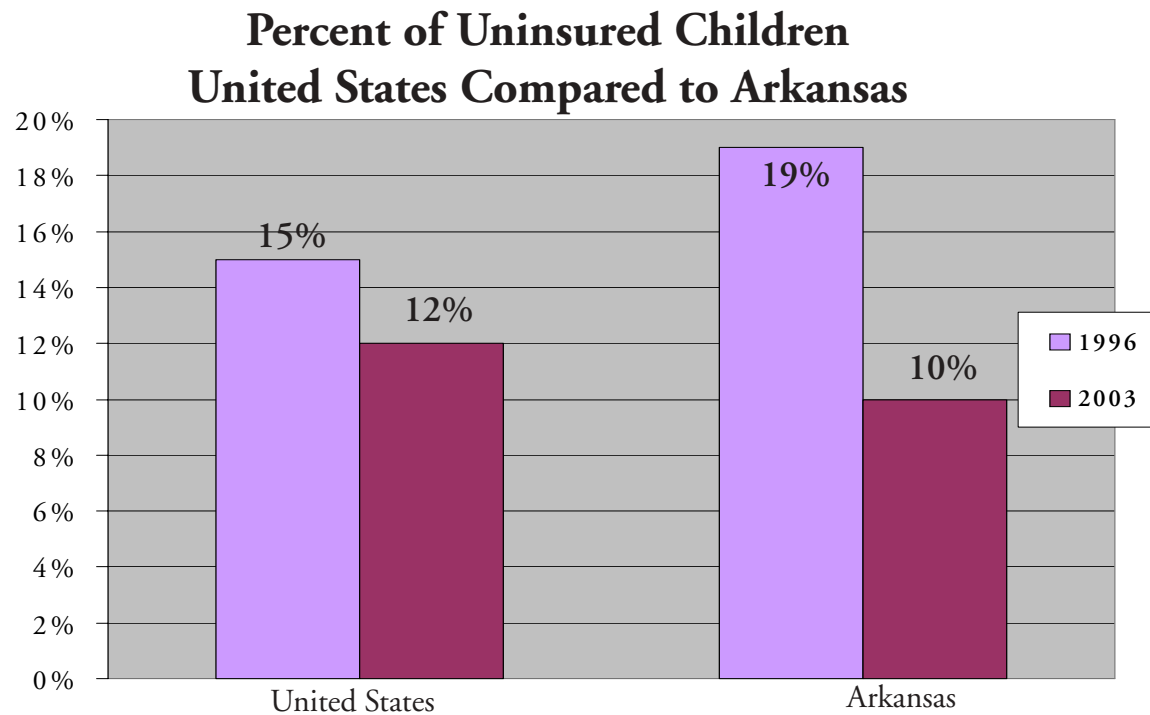
source: Arkansas Center for Health Improvement, special data

... But ARKids has Increased Coverage for Kids

Employers are dropping family coverage options due to the high cost of insurance. In March 2005 the Department of Health and Human Services counted the number of employees of large businesses that are receiving public assistance. This count revealed 9,698 employees of large employers in the state are on

public assistance; the vast majority of these were utilizing Medicaid. This trend is indicative of methods employers and employees have used to deal with the loss of coverage options for families. The ARKids First program has served as a safety net for families that are losing health insurance coverage for their children. According to the Department of Human Services, 50 percent of the children on Medicaid come from homes with working parents. Even with the shift in employer

sponsored health insurance, the percent of uninsured children in Arkansas has continued to decline. According to data compiled by the Annie E. Casey Foundation, the rate of uninsured children in Arkansas has dropped from 19.4 percent in 1996 to 10.0 percent in 2003. This is a drop of 47.4 percent in a seven year time period and is significantly better than the national rate of change.

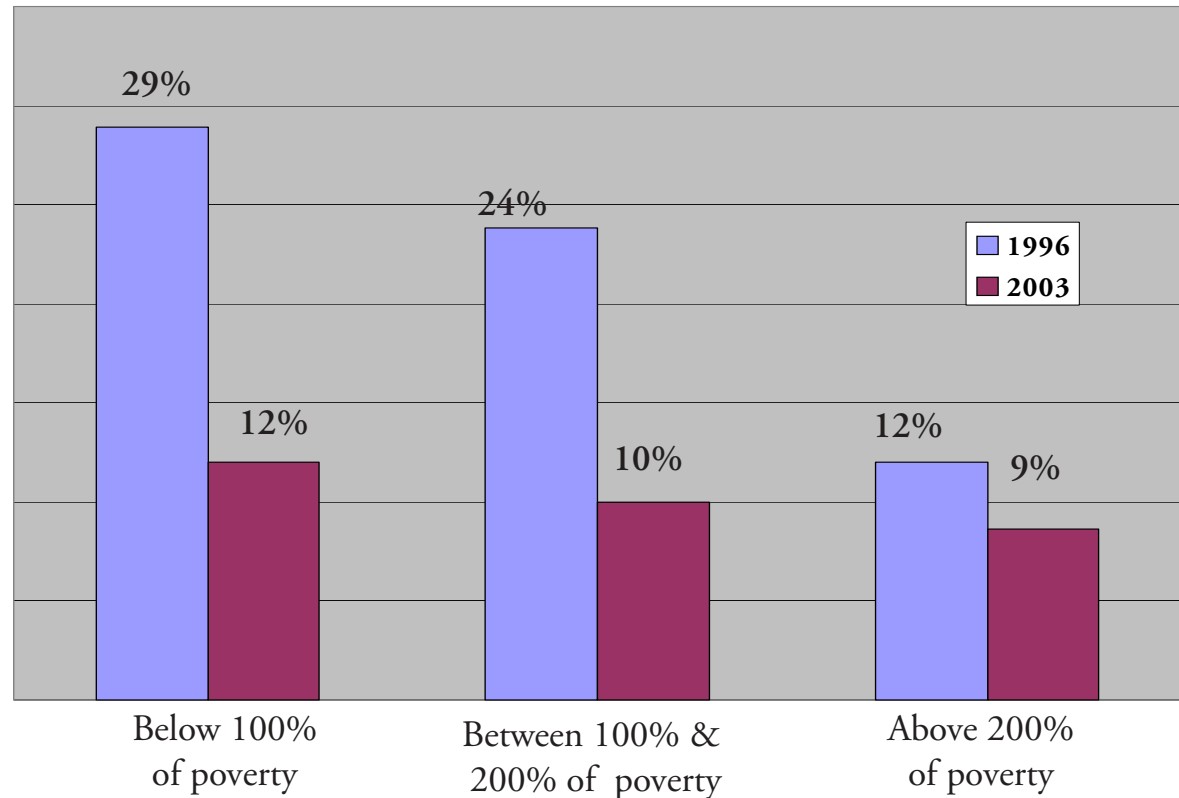


source: Special census data run by Annie E. Casey Foundation for Arkansas

Uninsured Gap Narrows Across Income Groups

For many years the children least likely to have health insurance coverage have been those living in low-income households. Even prior to the expansion of Medicaid to higher income families, children living in households under 100 percent of poverty had the ability to apply for Medicaid but often didn't for a variety of reasons. The data actually shows that in 1996 children living in families below 100 percent had the highest percentage of uninsured children (28.9 percent) compared to children living in families with higher incomes (12 percent). Since 1996, Arkansas has closed the gap on the number of lower income children who are uninsured. The data shows that in 2003 only 12 percent of children under 100 percent of poverty were uninsured.

Percent of Arkansas Children Uninsured by Poverty Level, 1996 vs 2003



Source: Analysis of CPS data by the Annie E. Casey Foundation, 1996 estimates were compiled using CPS data from 1995-97, while 2003 estimates are based on 2002 - 04 data

Conclusion

We hope that this third installment of the State of Working Arkansas has provided you with insight into the current economic conditions for Arkansas families. The economic roller coaster is showing no signs of slowing down. It is difficult to access a high-paying job, poverty rates remain high, family assets remain low, and access to health care and non-predatory credit options are difficult to come by – what the data and statistics show us is that we have a responsibility now to engage in public discussions and to implement sound policies to ensure that the State of Working Arkansas 2007 shows a leisurely train ride and not a roller coaster.



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