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Recent Trends in Income and Poverty

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Summary

During recent years, the California economy has experienced job loss and high unemployment. Historically, such conditions have led to declines in family income along with growth in poverty and income inequality. In light of changing economic conditions, this edition of *California Counts* examines recent trends in the distribution of family income in California, including comparisons to trends in earlier decades.

Between 2000 and 2002, income declined for families at the bottom of the income distribution, but the decline was only a few percent. Thus, income inequality and poverty grew only mildly, especially when compared to trends during the recession of the early 1990s. Furthermore, the tremendous economic growth between 1993 and 2000 brought such improvements that poverty and income inequality were substantially lower in 2002 than in 1993. However, the improvements of the last decade were not large enough to fully reverse the growth in both poverty and income inequality that occurred during the 1970s and especially the 1980s. Poverty and income inequality were notably higher in 2002 than in 1969. If California were to experience an economic growth period of the same magnitude and nature as that of the 1993–2000 period, poverty would fall to the lowest levels of the last three decades. Income inequality, however, would remain fairly high, because even if poverty declines, incomes have grown substantially for high-income families. In 1969, fewer than 5 percent of California families were affluent. By 2002, the affluence rate increased to almost 16 percent. Compared to the rest of the country, California has higher affluence (15.8 versus 13.2 percent) and higher poverty (13.1 versus 11.9 percent).

Statewide income measures mask tremendous differences across demographic groups and regions. In recent years, poverty rates were especially high for children (17 percent), for

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foreign-born Hispanics (24 percent), and for Southeast Asians (24 percent). Among U.S.-born racial and ethnic groups, American Indians, blacks, and Hispanics had high poverty rates. Female-headed households had the highest poverty rates (30 percent). Poverty was especially high in the San Joaquin Valley (22 percent). In the San Francisco Bay Area, 26 percent of residents lived in affluent families.

Whereas income fluctuations tend to follow from business cycle conditions, longer-term income trends result from more profound changes in the economy and demography. During the last three decades, growth in female labor force participation and earnings has been the major source of family income growth for middle-income families. In fact, if female earnings had not grown, average income for middle-income families would have declined between 1969 and 2002. Over the same period, the growing share of people in female-headed households has increased poverty. In addition, new immigrants have increased the number of poor and the gap between rich and poor in the state. Finally, the rising value of education in the California labor market has resulted in earnings growth for those with a college degree and earnings decline for those with only a high school diploma or less.

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Introduction

During the mid and late 1990s, California experienced tremendous economic growth. Over two million jobs were added to the state economy, and the unemployment rate fell to less than 5 percent. In 2001–2002, the California economy slowed, experiencing a loss of over 250,000 jobs and an unemployment rate peaking at 6.9 percent at the end of 2002.[1] Such dramatic economic fluctuations substantially change the economic well-being of families but do not affect all families equally.

This issue of *California Counts* examines changes in the distribution of family income over the last decade and includes comparisons to trends in earlier decades. We describe income trends for low-income families relative to trends for middle- and high-income families. We investigate trends in income inequality and poverty and we explore income differences across demographic groups. We also discuss the demographic and economic factors that help explain the income trends.

We measure California income trends using household survey data collected annually by the U.S. Census Bureau for the years 1969 to 2002: Current Population Survey (CPS), March sample, 1970–2003. The CPS measures pretax money income and is the official Census Bureau source for poverty measurement.[2] The CPS includes over 60,000 families nationally and roughly 5,000 families in California.[3] Beginning with the sample for 2001, the Census Bureau increased the CPS sample size to include more families with children and recalculated the sample weights so that when weighted, the CPS would be similar to Census 2000 in terms of the number of people by age, race, and ethnicity. These changes had small but notable effects on the measurement of income and poverty in California. Therefore, we provide two measures for 2000—one that is comparable to the earlier years and one that is comparable to later years (i.e., the latter measure uses the expanded sample and Census 2000 weights).[4] Readers interested in further details on data and measurement issues are referred to the text box.

Trends in Family Income

We measure income trends for the poorest families by analyzing the 10th percentile, the level of income at which 10 percent of people live in families with lower income and 90 percent of people live in families with higher income. In 2002, the 10th percentile in California was about $15,500. This represents a 9 percent decline relative to 1969 when families at the 10th percentile earned about $17,000 (Figure 1, upper panel). The income statistics reported here are based on a different sample of families in each year. That is, Figure 1 shows that families at the 10th percentile in 2002 earned 9 percent less than families at the 10th percentile in 1969. The figure does not show that the same families who were poor in 1969 experienced a 9 percent decline in income by 2002.

Comparing income in 2002 with that of 1969 in California shows a pattern of decline for low-income families, some growth for middle-income families, and stronger growth for high-income families (Figure 1, upper panel). Low-income families at the 25th percentile earned $28,750 in 2002—a 3 percent decline from 1969. Middle-income families (at the median), earned $56,000 in 2002, which was a 22 percent gain over 1969 income. For high-income families at the 75th percentile, income in 2002 was $98,750—46 percent higher than in 1969. At the 90th percentile, income grew by 60 percent since 1969, to $143,950 in 2002.

By comparison, income in the rest of the United States grew throughout the distribution, although the growth was much higher for high-income families (Figure 1, lower panel). At the 10th percentile in the rest of the nation, income showed no growth until 1993 but then grew by 21 percent, from $13,300 in 1993 to

Measuring Income and Poverty: Technical Notes

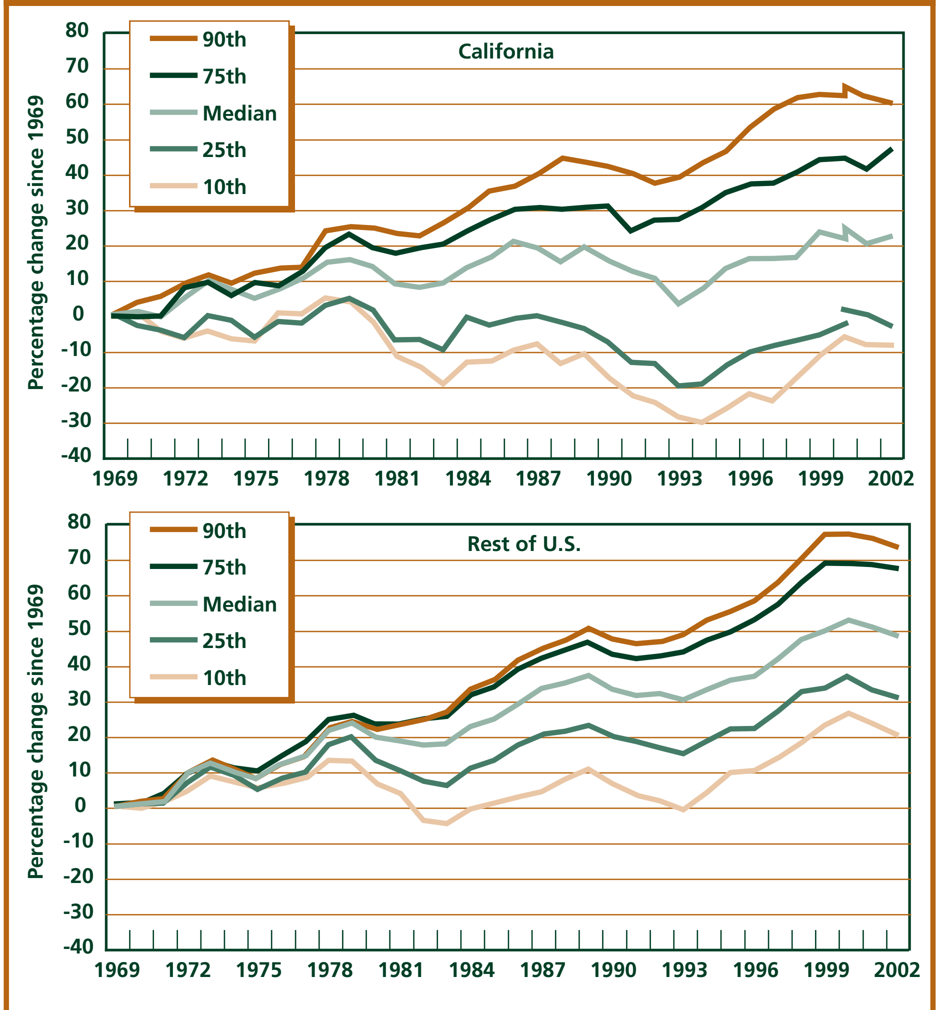
Family Income. Family income is defined as the sum of all income from all sources for all related persons living in the same residence.[5] Because larger families require more resources than smaller families to maintain the same level of individual consumption, we adjust for family size using the number and age of family members. We report income levels adjusted to represent a family with two adults and two children. We evaluate the distribution of family income across people, rather than across family units, by assigning to each person the adjusted income of his or her family.[6]

Topcode Adjustment. To ensure confidentiality of respondents, the Census Bureau did not report individual wages and salaries above $150,000 for 2002. The dollar amount of the topcode has varied over the years. To reduce the effect of changes in topcodes, we apply a consistent topcode of the highest 4 percent of earnings and the highest 4 percent of individual income in each year.[7] Because of topcodes, the CPS data cannot be used to explore income inequality that takes into account extremely high incomes.[8]

Inflation Adjustment. All income statistics are adjusted to 2002 dollars based on the consumer price index for urban consumers, research series (CPI-U-RS), calculated by the Bureau of Labor Statistics. The Census Bureau recently switched to the research series because it provides a more consistent series than was previously used (CPI-U-X1).[9] An advantage of the research series is that it matches more closely to another measure of cost of living, the Personal Consumption Expenditure Deflator. Although the research series is the preferred measure, a disadvantage of using this series is that official poverty thresholds have been inflated by the Census Bureau using the CPI-U-X1. Therefore, trends in poverty using the official thresholds will show less improvement than the income trends measured in this study.

Poverty and Affluence. We use the official federal poverty threshold for 2002 for measuring poverty in California. For previous years, we adjust the 2002 threshold by the CPI-U-X1. These thresholds are not adjusted for the higher cost of living in California. Cost-of-living adjustments would lead to higher measures of poverty, but similar trends to those reported in this study (see Reed and Swearingen, 2001). Poor families are defined as those earning less than $18,244, the federal poverty threshold. Low-income families are those earning less than $36,488, twice the poverty threshold. Middle-income families are those earning $36,488 to $127,708, two to seven times the poverty threshold. Affluent families are those earning more than $127,708, seven times the poverty threshold.

Figure 1. Percentage Change in Family Income Relative to 1969, by Income Percentile, 1969–2002



Source: March CPS, 1970–2003.
Note: Income is adjusted for inflation and family size (see the text box for details).

$16,100 in 2002. The median in the rest of the country increased by 48 percent, from $38,700 in 1969 to $57,300 in 2002. At the 90th percentile, income increased by 73 percent, from $76,800 to $133,050. In 1969, family income throughout the distribution was higher in California than in the rest of the nation (Table 1). By 2002, family income at the median and below was higher in the rest of the country.[10]

Over the last three decades, the gap between rich and poor has grown in California faster than in the rest of the nation. A simple way to characterize the income gap is to compare income for high-income families to that for low-income families. In California in 1969, families at the 75th percentile earned 2.3 times the income earned by families at the 25th percentile (Figure 2). By 2002, this inequality measure, known as the 75/25 ratio, grew to 3.4. In the rest of the nation, the 75/25 ratio was similar to that of California in 1969 (2.3). However, since that time, inequality has grown more rapidly in the state, so that by 2002, the 75/25 ratio in California was substantially higher than in the rest of the nation (3.4 versus 3.0). Over the same period, the ratio of income at the 90th percentile relative to that at the 10th percentile shows even more rapid growth in California (from 5.3 to 9.3) than in the rest of the nation (from 5.7 to 8.3).

Comparisons of 1969 with 2002 overlook the substantial variation in the intervening years. There is a strong relationship between business cycle conditions and family income. Family income typically declines during recessions, such as from 1989 to 1993, and grows during economic boom periods, such as from 1993 to 2000. Analyzing California income changes by business cycle conditions suggests that there has been an important shift in income trends in the last decade when compared to trends in the prior decade (Table 2). During the economic growth of the late 1980s, family income grew fastest for high-income families and barely grew at all for low-income families. Between 1982 and 1989, income grew by 17 percent at the 90th percentile and by only 4 percent at the 10th percentile. In contrast, during the economic growth period in the 1990s, income grew fastest for the poorest families. Between 1993 and 2000, income grew by 32 percent at the 10th percentile and by 17 percent at the 90th percentile. Therefore, while income inequality grew during the economic boom of the late 1980s, it fell substantially during the economic boom of the 1990s (Figure 2).

During the recession of the early 1990s, income fell the most for the poorest families. At the 10th percentile, income fell by 20 percent between 1989 and 1993; it fell only 3 percent for families at the 90th percentile. In the most recent economic downturn, income at the 10th percentile fell by the same percentage amount as income at the 90th percentile—3 percent. Thus, the 90/10 ratio increased substantially during the recession of the early 1990s but has not grown during the recent downturn. At the 75th percentile, there was some income growth between 2000 and 2002 (Table 2), and the 75/25 ratio reflects inequality growth (Figure 2) but not as much as between 1991 and 1993.

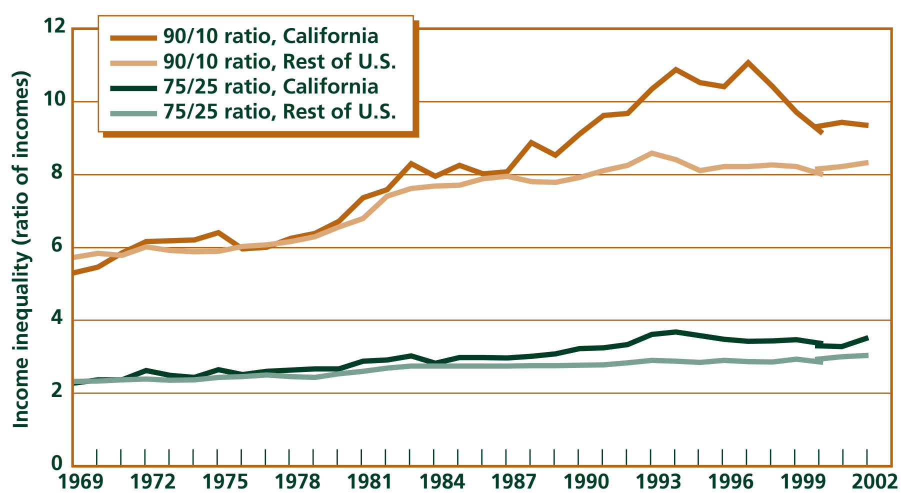
Income patterns in the past decade suggest an important shift from trends in the prior decade. From 1993 to 2000, California was "growing together" in the sense that family income grew throughout the distribution and income inequality declined. Similarly, during the most recent downturn, economic decline was experienced as much at the top of the distribution as at the bottom. Several factors contribute to the difference in income patterns between the most recent downturn and the recession of the early 1990s. The downturn of the recent period was much less severe—unemployment peaked at

Table 1. Income in California and the Rest of the United States, 1969 and 2002 (in dollars)

	1969		2002	
	California	Rest of U.S.	California	Rest of U.S.
10th percentile	17,000	13,400	15,500	16,100
25th percentile	29,650	23,950	28,750	31,300
Median	45,950	38,700	56,000	57,300
75th percentile	67,450	55,600	98,750	92,900
90th percentile	90,050	76,800	143,950	133,050

Source: March CPS, 1970 and 2003.
Notes: Income is adjusted for inflation and family size (see the text box for details). Income statistics have not been adjusted for the higher cost of living in California than in the rest of the nation.

Figure 2. Family Income Inequality, 1969–2002



Source: March CPS, 1970–2003.
Note: Income is adjusted for family size (see the text box for details).

Table 2. Income Changes in California During Economic Growth and Decline, 1982–2002 (percent)

	Economic Growth		Economic Decline	
	1982–1989	1993–2000	1989–1993	2000–2002
10th percentile	4	32	–20	–3
25th percentile	3	22	–17	–4
Median	11	18	–14	–2
75th percentile	10	14	–3	1
90th percentile	17	17	–3	–3

Source: March CPS, 1983–2003.
Note: Income is adjusted for inflation and family size (see the text box for details).

6.9 percent at the end of 2002; levels were 9 percent and higher during 1992 and 1993. Furthermore, the recent downturn led to substantial job losses in the professional and business services industry and in the information industry. These two higher-income industries experienced only small job declines in the early 1990s. Finally, the recent downturn was heavily concentrated in the San Francisco Bay Area, the highest income region in California.[11]

Trends in Poverty and Affluence

In this section, we describe changes in the share of families who were poor, low-income, middle-income, and affluent. Unlike the poverty level, there are no routinely used income levels that define the other groups. We use two times the poverty line, or $36,488 for a family of four, as the cutoff between middle income and low income. The cutoff for affluence is seven times the poverty line, or $127,708.[12] Many Californians who are classified as affluent likely consider themselves "middle class" when faced with California realities such as high home prices. Furthermore, affluent families by this measure are by no means a "leisure class" or "capitalist class," as over 85 percent of families in this group have at least one member working full time.

From the late 1970s until 1993, incomes of the poorest families in California fell (Figure 1) and poverty grew substantially (Figure 3). In 1977, the California poverty rate was 9.6 percent. In 1993, it peaked at 18.1 percent. After 1993, poverty fell in California, reaching a low in 2000. Between 2000 and 2002, poverty grew from 12.4 to 13.1 percent. Over the entire period 1969 to 2002, the poverty rate increased by 4.0 percentage points. In contrast, in the rest of the country, poverty was lower in 2002 at 11.9 percent than it was in 1969 at 12.5 percent (Table 3). Thus, California has a higher poverty rate than the rest of the nation (13.1 versus 11.9 percent). If we were to adjust for the higher cost of living in California than in other states, the difference would be even greater (Reed and Swearingen, 2001).

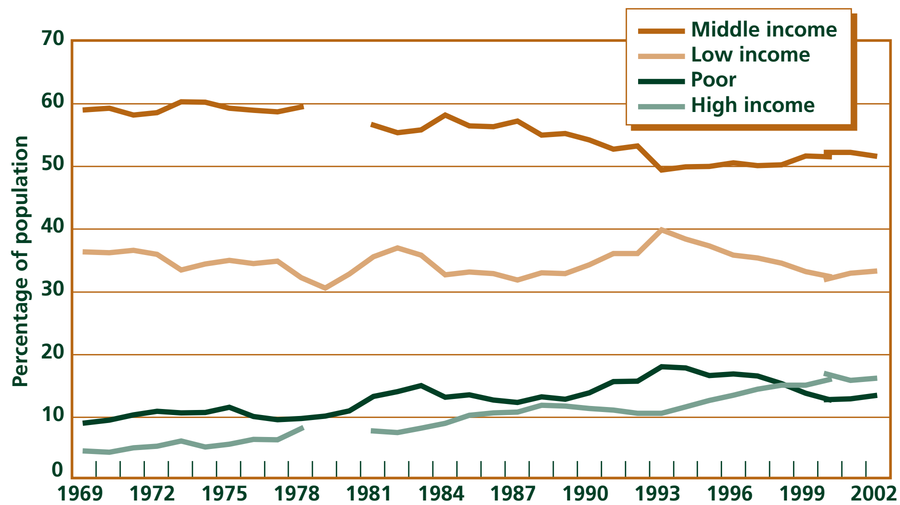
The share of Californians who lived in families with incomes of less than twice the poverty threshold shows a pattern similar to that of the share who were poor. The low-income share increased during the recessions of the early 1980s and early 1990s, peaking at 39.9 percent in 1993. It reached a low point in 2000 and grew from 31.6 to 32.9 percent between 2000 and 2002. By 2002, the low-income share was 3.5 percentage points lower than in 1969. In 2002, the low-income share in California was similar to that of the rest of the country (32.9 versus 30.1 percent).

Over the last three decades, the share of affluent families grew substantially. In 1969, only 4.6 percent of Californians lived in affluent families. This share increased steadily beginning in the mid 1970s and reached 11.9 percent by 1988. The only major period of decline in the affluence rate was from 1988 to 1993, but the decline was only 1.3 percentage points. The affluence rate then increased from

1993 to 2000. During recent years, it fell from 16.5 in 2000 to 15.5 in 2001 and then grew to 15.8 in 2002. Over the period 1969 to 2002, the share who were affluent increased by 11.2 percentage points—a larger change in share than for any other income group. The growth in affluence in California was similar to that in the rest of the nation, where affluence increased from 2.3 percent to 13.3 percent.

With growth in both poverty and affluence, the share of Californians in middle-income families fell substantially from roughly 60 percent in the 1970s to a low of 49.5 percent in 1993. The middle-income share increased after 1993 and in recent years has hovered around 52 percent. In 2000, the middle-income share was less than 8 percentage points below its 1969 level. In the rest of the country, the middle-income share grew from about 52 percent to about 57 percent between 1969 and 2002.

Figure 3. Poverty, Middle Income and Affluence, 1969-2002



Source: March CPS, 1970–2003.
Notes: Trends in the figure are for California only. The categories are not mutually exclusive in that the definition of low income (income less than $36,488) includes poor families (income less than $18,244). For 1979 and 1980, the data do not distinguish between middle income and affluent because earnings were topcoded at less than $127,708 (in 2002 dollars).

Sources of Family Income

For low-income families as well as middle-income families, the main source of income is labor earnings. The salaries and wages of male family members provide about half of income for low-income families (on average) and nearly 60 percent of income for middle-income families (Figure 4).[13] The earnings of female family members provide roughly 30 percent of family income for low- and middle-income families.[14] Because income and earnings data are topcoded, the CPS cannot be used to study income sources for the affluent.

For low-income families, income from government transfers contributes 13 percent of family income. The largest sources of government transfers are social security (5 percent of average income for low-income families), supplemental security income (3 percent),[15] public assistance (3 percent), and unemployment compensation (2 percent). The average contribution of these government sources is relatively low because most families receive no income from any of these government sources. For families with income from a government source, the source tends to contribute a substantial share of income. Income from "other" sources makes up 6 percent of income for low-income families. The largest component of this is private financial assistance from friends, families, and charities (2 percent).[16]

For middle-income families, government transfers provide only 4 percent of income. The largest

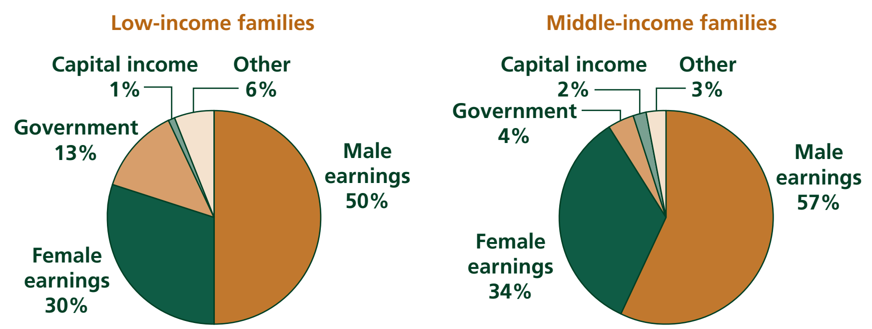
Table 3. Poverty and Affluence in California and the Rest of the Nation, 1969–2002 (in percent)

	California		Rest of U.S.	
	1969	2002	1969	2002
Poor	9.1	13.1	12.5	11.9
Low income	36.4	32.9	45.6	30.1
Middle income	59.0	51.3	51.7	56.7
Affluent	4.6	15.8	2.3	13.3

Source: March CPS, 1970–2003.
Note: The categories are not mutually exclusive in that the definition of low income (income less than $36,488) includes poor families (income less than $18,244).

Over the decades since 1969, female earnings have been the main engine of income growth for families.

Figure 4. Income Sources, 2002



Source: March CPS, 1970–2003.
Notes: Includes families with family heads between the ages of 18 and 64. Capital income is from interest, rent, dividends, royalties, estates, and trusts. The CPS does not measure capital gains.

single source of government transfers is social security (less than 2 percent of average income). Capital income contributes 2 percent of family income. "Other" sources make up 3 percent of average income.

Over the decades since 1969, female earnings have been the main engine of income growth for families. For middle-income families, average income grew by 13 percent from $65,500 to $72,900 between 1969 and 2002. Over the same period, female earnings more than doubled from $12,100 to $24,550. Without the growth in female earnings, the average income of middle-income families would actually have declined by 6 percent between 1969 and 2002.[17] For low-income families, average female earnings grew by 52 percent over the same period. Without that growth, average family income for these families would have declined by 22 percent. Instead, it declined by 13 percent.

The growth in female earnings stems from growth in the labor force participation of women during the last three decades. Women today are more likely than women in 1969 to work full-time and less likely to take substantial time away from careers to raise children. Growth in income for middle-income families, then, largely reflects higher work effort. At the same time, higher work effort tends to create additional family expenses, particularly for child care. In light of these considerations, the 13 percent average income growth for middle-income families in all likelihood has not made today's families substantially better off than their middle-income counterparts in 1969.

Family Income by Demographic Group and by Region

Statewide income and poverty levels mask the tremendous diversity of income across regions and demographic groups in California. The median income, poverty, and affluence of each demographic group are measured by the family income of individuals in the group. For example, the poverty rate of children is based on the share of children who live in poor families.

In recent years, the median family income in California was $56,000. Roughly 13 percent of Californians were poor and 16 percent were affluent (Table 4). The poverty rate for children was substantially higher at 17 percent. For people age 65 and older, the poverty rate was relatively low, 8 percent. Only 14 percent of people of retirement age were affluent as measured by income, although this may underestimate true affluence, since many retired people rely on wealth rather than income. Although children were less likely to be affluent than were people of retirement age (10 percent versus 14 percent), there are substantially more children in the population and thus the affluent population was 17 percent children and only 8 percent people of retirement age (Table 4, final column).

The diversity of economic well-being across racial and ethnic groups was substantial. Foreign-born Hispanics had a very high poverty rate (24 percent). U.S.-born Hispanics and blacks had about twice the poverty of U.S.-born whites. Among Asian groups, poverty tends to be low for those born in the United States (6 percent) and for immigrants (8 percent). However, a substantial share of immigrants from some Southeast Asian countries arrived as refugees.[18] Among Asians from these countries, poverty is quite high (24 percent). U.S.-born whites are the largest population group in California at 42 percent and they constitute 65 percent of the affluent population. Among the poor, foreign-born Hispanics are the largest group at 41 percent. Although the sample size was too small to measure income and poverty for American Indians, the 2000 Census found a poverty rate of 22 percent compared to a poverty rate of 14.2 percent for the entire state population.

Female-headed households with children had the lowest income levels of any demographic group studied and the highest poverty rate—30 percent. Although female-headed households were only 11 percent of the population, they made up one-quarter of the poor population. The relationship between family type and income helps to explain why U.S.-born Hispanic families and black families have high poverty rates. Eighteen percent of U.S.-born Hispanics and 21 percent of blacks lived in a female-headed household compared to 11 percent of all Californians.

The San Joaquin Valley had a much higher poverty rate than any other region (22 percent). Several regions had relatively low poverty rates of under 9 percent: the San Francisco Bay Area , the Sacramento region, and Orange County. The San Francisco Bay Area had the highest affluence rate of any region (26 percent), and about one-third of affluent families live in the Bay Area. These regional measures do not adjust for the higher cost of living in certain regions, especially San Francisco.[19]

Demographic and Economic Determinants of Income Trends

As noted above, the business cycle is an important determinant of fluctuations in income and poverty. Periods of sustained economic growth, such as that from 1993 to 2000 in California, tend to bring income growth, increasing affluence, falling poverty rates, and declining income inequality. Recessions and economic stagnation, such as that in the early 1990s in California, bring income

Table 4. Income, Poverty, and Affluence by Demographic Group, 2000–2002

Demographic Group	Median Family Income ($)	Poverty Rate (%)	Affluence Rate (%)	Population Share (%)	Share of Poor Population (%)	Share of Affluent Population (%)
All	56,000	13	16	100	100	100
Younger than age 18	44,000	17	10	28	38	17
Ages 18 to 64	63,000	11	19	63	56	75
Age 65 and older	49,000	8	14	10	6	8
White						
U.S.-born	77,000	7	24	42	24	65
Foreign-born	67,000	11	21	5	5	7
Hispanic						
U.S.-born	50,000	13	9	11	12	6
Foreign-born	31,000	24	2	22	41	3
Asian						
U.S.-born	77,000	6	27	2	1	4
Born in Southeast Asia	49,000	24	9	2	4	1
Other foreign-born	67,000	8	20	8	5	10
Black	50,000	15	9	6	7	4
Single, living alone	49,000	19	15	17	25	15
Married						
No children	90,000	3	32	19	5	39
With children	57,000	10	14	45	36	38
Unmarried woman, with children	29,000	30	2	11	25	1
Sacramento region	65,000	8	18	5	3	6
San Francisco Bay Area	77,000	7	26	20	11	33
Central Coast	42,000	15	13	3	4	3
San Joaquin Valley	41,000	22	8	11	19	5
Los Angeles County	48,000	14	13	28	33	24
Orange County	65,000	8	21	8	6	11
Inland Empire	53,000	13	10	10	10	6
San Diego County	62,000	11	16	8	7	8

Source: March CPS, 2001–2003 (combined).
Notes: The information in all rows is based on a minimum of 200 families. Racial and ethnic groups do not include “mixed race” respondents in 2003 (1.4 percent) and persons not part of the four main groups (1.1 percent in 2003). Foreign-born status is that of the family head. Regional statistics are not adjusted for cost-of-living differences between the regions. Several regions are not included because of small sample sizes.

decline, increasing poverty, and rising income inequality.

Whereas business cycle conditions help explain short-term fluctuations, major economic and demographic changes contribute to the long-run trends. Four major changes have been important for family income trends over the last three decades. First, as discussed in the section above on income sources, growth in female employment and earnings has been the most important source of income growth for middle-income families. Without the growth in earnings from female family members, the income of middle-income families would have declined between 1969 and 2002. Second, there has been substantial growth in the share of the population living in female-headed families with children. In 1969, only 6 percent of Californians were in such families. By 2002, the share in female-headed families grew to almost 11 percent. Because female-headed households tend to have low incomes and high poverty rates (Table 4), the growth in the number of female-headed households has led to increased poverty.[20]

Third, immigration has played a major role in changing the shape of the California income distribution. Although many immigrants have high incomes, the bulk of immigrants, especially Hispanic immigrants, have low incomes and high poverty rates (Table 4). Even with income growth for immigrants who were in California during the 1990s, the flow of new arrivals continued to bring poor families to the state (Hill and Hayes, 2003). By increasing the number of poor and low-income families, immigration has increased income inequality in California (Reed, 1999; Daly, Reed, Royer, 2001).[21] However, the empirical evidence suggests that the effect of immigration on the wages of U.S.-born workers is small or zero (National Research Council, 1997).

Finally, major changes in the economy have brought about different earnings trends by education levels. For workers with a high school diploma or less education, earnings were lower in 1999 than in 1969 (Figure 5). For workers with a bachelor's degree, earnings were much higher in 1999 than in 1969. Thus, the labor market value of a college education relative to a high school education increased substantially after 1969. The changes shown in Figure 5 for California were also experienced in the rest of the nation. However, earnings growth for college-educated workers during the 1990s was lower in the rest of the nation than in California.

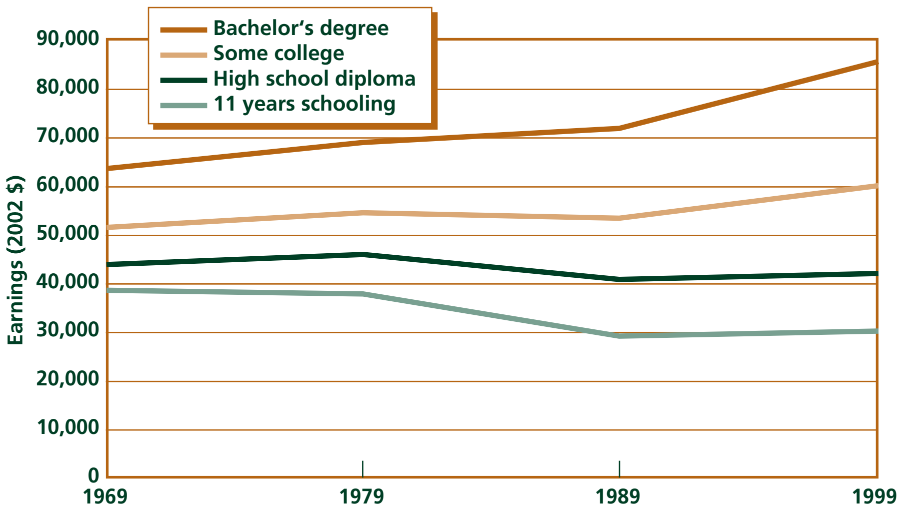
The growing value of education in the California labor market has been a major factor in explaining the growth in income inequality (Reed, 1999).[22] Several changes in the economy have contributed to the value of education. Labor-saving technological changes have simultaneously increased the demand for educated workers who can operate sophisticated equipment and reduced the demand for less-educated workers, many of whom have been displaced by automation. Growth in international trade has opened international markets for goods and services produced in the United States by educated workers in high-tech industries and financial services. Less-educated workers in production increasingly are displaced by low-paid production workers in other countries. Immigration has increased the size of the low-wage workforce and competition for jobs among workers with low education. Moreover, institutional changes, such as the decline in the real value of the minimum wage and shrinking unionization rates, have also moved the economy toward lower wages for workers with low education.[23]

In 1999, PPIC published a report on the causes of growth in income inequality in California between 1967 and 1997 (Reed, 1999). The report found that growth in family income inequality largely reflects growth in the inequality of labor market earnings. Taken together, immigration and the rising value of education can explain close to half the increase in earnings inequality in California. After accounting for these factors, changes in education levels, age structure, racial and ethnic representation, and industrial composition had a relatively small effect—combined they explain less than 10 percent of the growth in earnings inequality. Put differently, earnings inequality increased substantially within population groups defined by education, age, race and ethnicity, and industry of work. Even after accounting for all of these economic and demographic factors, almost half of the rise in earnings inequality cannot be explained.

Conclusion

The sustained economic growth period from 1993 to 2000 brought about substantial income growth for families at all levels of

Figure 5. Male Earnings Trends, by Education Level, 1969–1999



Source: Decennial Censuses 1970, 1980, 1990, and 2000.
Notes: The information in the figure is for U.S.-born Californians only. Income is adjusted for inflation to 2002 dollars. The figure shows expected annual earnings evaluated using a model of earnings determination for men ages 25 to 54. The model controls for age, race, and ethnicity. Reported statistics are for an average man with 15 years of work experience.

The sustained economic growth period from 1993 to 2000 brought about substantial income growth for families at all levels of income, but growth was faster at the bottom of the distribution.

income, but growth was faster at the bottom of the distribution. Even in the recent downturn, the poorest families experienced only small income losses. As a result, poverty in California was much lower in 2002 than it was ten years ago. Moreover, the income levels of low-income families show more growth in the last decade than do income levels of high income families, and income inequality was substantially lower in 2002 than in 1993.

In a longer-run perspective, the improvement of the last decade follows 25 years of growth in poverty and income inequality in California: Poverty and income inequality remained higher in 2002 than in 1969. On the other hand, one positive income trend of the last 30 years has been the continued growth of affluence. In 1969, less than 5 percent of Californians were in affluent families. The share grew in each of the last three decades, and in 2002, almost 16 percent of Californians were affluent.

Expectations for the near term depend on economic conditions. If the economic downturn continues, poverty and inequality will likely rise, as they have in every recession of the past three decades. However, if the economy grows out of the slump, poverty and inequality may indeed fall, as was the case during the recent economic growth period in the mid and late 1990s. A repeat of the income changes experienced in the 1993–2000 period would bring poverty to the lowest levels of the last three decades. Inequality, however, would remain well above 1969 levels. Thus, income inequality is likely to remain high. One major factor explaining high income inequality is the substantial differential in the labor market value of education. In today's economy, it is more important than in past decades to promote opportunities for Californians to further their education and develop their job skills. ◆

Notes

[1] See "Unemployment and Job Loss in California" (2003).

[2] The Census Bureau has recently introduced alternative measures of income to adjust for such benefits as health insurance, taxes, and such programs as Food Stamps and the Earned Income Tax Credit. Because we are interested in measuring a longer-term consistent time trend, we use pretax money income. Our measure is the same as the income measure used for official poverty trends.

[3] The size of the sample varies over the years. Income measurement in 1988 is not comparable to that of other years because the sample in that year was reduced, particularly in Los Angeles. CPS coverage was expanded substantially in 2002. In 2003, the CPS included 67,924 families nationally and 4,879 families in California.

[4] The Census Bureau also made changes to the CPS that affected income measurement starting in 1987 and in 1993.

[5] Unmarried adults who do not live with relatives are included as a family of one person.

[6] We divide family income by the official 2002 U.S. poverty threshold for a family of the same size and age structure. We then multiply by the poverty threshold for a family of four ($18,244). The evaluation of family income at the person level is equivalent to the procedure for official measures of poverty.

[7] Because some families at the 90th percentile and lower have an individual with topcoded income, this solution is not perfect.

[8] See Piketty and Saez (2001) for a national study of income and wage shares for the highest earners based on tax return data.

[9] We calculate a research series index for California by multiplying the national research series by the ratio of the state index from the Department of Finance to the national CPI-U-X1. See Daly, Reed, and Royer (2001) and Reed, Glenn Haber, and Mameesh (1996) for discussions of consistent index calculation for California.

[10] See Daly and Royer (2000) for a further exploration of trends in income levels in California and in the rest of the nation.

[11] See "Unemployment and Job Loss in California" (2003).

[12] This measure was also used by Danziger and Gottschalk (1995). We calculate population shares using income and earnings data that have not been consistently topcoded at 4 percent to limit the number of years in which the real value of the topcode for individual earnings is less than $127,708.

[13] The average contribution of each income source is calculated as the average income from that source relative to the average of total income.

[14] The CPS measures earnings in the underground economy only if people include this type of income in their responses. Although the survey is confidential and such reporting would not have legal or tax consequences, underground economic activity is likely to be unreported. For information on California's underground economy, see the California Employment Development Department website at http://www.edd.ca.gov/taxrep/txueoindtx.htm.

[15] Supplemental security income (SSI) is a federal program of income assistance for the aged, blind, and disabled.

[16] The information in Figure 4 is based on families with family heads between the ages of 18 and 64. For this group, "other income" includes a small amount of retirement income.

[17] Calculations are based on counterfactual income in 2002 equal to the observed 2002 average of income less female earnings and the 1969 average of female earnings (as in Danziger and Gottschalk, 1995).

[18] The "Southeast Asian" category in Table 4 includes only those countries from which many refugee-status immigrants have come to the United States: Laos, Vietnam, and Cambodia.

[19] Regions are made up of counties identified in the CPS, including those identified as parts of metropolitan areas. The Sacramento region includes El Dorado, Placer, Sacramento, and Yolo Counties. The Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, and Solano Counties. The Central Coast includes Monterey, San Luis Obispo, and Santa Barbara Counties. The San Joaquin Valley includes Fresno, Kern, Madera, Merced, San Joaquin, Stanislaus, and Tulare Counties. The Inland Empire is Riverside and San Bernardino Counties.

[20] See Cancian and Reed (2002) for analysis of the relationship between female employment, family structure, and poverty rates. See Johnson and Tafoya (2000) for analysis of family structure and poverty in California.

[21] Domestic out-migration from California has not substantially changed the distribution of income in California (Daly, Reed, Royer, 2001).

[22] See Betts (2000) for analysis of the relationship between education and labor market earnings in California.

[23] For a further explanation of these causes see Reed (1999) and Danziger and Gottschalk (1995).

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