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Poverty in California

Moving Beyond the Federal Measure

By Deborah Reed

Summary

By official measures, poverty in recent years has been somewhat higher in California than in the rest of the nation: 13.3 percent versus 12.7 percent in 2004. California's poverty ranks 15th highest among all states and the District of Columbia. However, the official measure does not take into account California's higher cost of living. Using a conservative adjustment for costs, based on housing rents, we find that California has substantially higher poverty than the rest of the nation: 16.1 percent versus 12 percent. Once this cost adjustment is made, only Washington, D.C., and New York have higher poverty than California. Furthermore, Los Angeles, Monterey, and San Francisco Counties have poverty rates of about 20 percent—in the range of the ten highest poverty counties in the nation.

Poverty varies substantially within California, not only by region but also by other demographic characteristics. Young children have higher poverty rates (21%) than any other age group, and women have higher poverty rates than men (16% versus 14%). Poverty among Latinos and African Americans is roughly twice that of U.S.-born whites (about 20% versus 9%). The highest poverty rates are found among families where adults lack a high school diploma (41%), single-mother families (37%), and foreign-born Latinos (27%).

Poverty rates grew substantially in California during the 1980s and then fell during the 1990s. However, by the end of the 1990s, poverty in California was still higher than it was in the late 1960s and 1970s. In contrast, in the rest of the nation, poverty rates today are similar to those of the late 1960s (and may even be lower, depending on the adjustment for price inflation). Several economic and demographic trends affect California's poverty rate. On the one hand, growth in income inequality, immigration, and the share of people in single-mother families has put upward pressure on poverty rates. On the other hand, the increasing labor

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force participation of single mothers and married women has led to family income growth that reduces poverty rates. Although these factors have played similar roles in national poverty trends, the relationship between work and poverty is markedly different in California. Between 1976 and 2004, the share of poor families with a full-time worker increased from 12 percent to 31 percent in California while holding steady at about 20 percent in the rest of the nation.

This study points to several problems with the current federal measure of poverty but it does not attempt to prescribe the "right" measure of poverty for California. Measurement issues have important implications for policy and improving measures is important for implementation, targeting, and planning. Furthermore, when poverty programs do not adjust income eligibility criteria and benefits to reflect the cost of living, the programs provide very different levels of service for poor families facing different costs. Addressing these concerns will require moving beyond the federal measure of poverty.

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Introduction

Nearly nine in ten Californians say that poverty is a problem in our society (Baldassare, 2006).[1] Yet it is difficult to track the extent of the poverty problem in California because the official poverty measure does not take into account California's higher cost of living. The federal poverty threshold, at only $19,157 for a family of four in 2004, seems too low for California, where the cost of rent alone is often more than half this threshold.

In this issue of *California Counts*, we begin with an examination of the poverty rate in California, making comparisons to the rest of the nation and adjustments for regional costs of living. We then explore differences in poverty across California's regions and demographic groups. We also discuss trends in poverty since the late 1960s and the relationship between poverty, the business cycle, and income inequality. Finally, we examine major demographic trends that influence poverty and the changing relationship between poverty and work.

We measure poverty and income trends for the years 1969 to 2004, using household survey data collected annually by the U.S. Census Bureau: Current Population Survey (CPS), Annual Social and Economic Supplement, 1970–2005. The CPS measures pretax money income in the year before the survey and is the official Census Bureau source for poverty measurement. The CPS includes over 60,000 families nationally and roughly 5,000 families in California.[2] Our analysis begins with poverty in 1969, as measured in the 1970 CPS. Consistent poverty measures are available in the CPS for 1967 and 1968, but we begin with 1969 to facilitate comparisons across business cycle peaks (1969, 1979, 1989, and 2000). For further details on data and measurement issues, please see the text box.

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Measuring Poverty in California

In 2004, the most recent year for which poverty data are available, 4.8 million Californians, or 13.3 percent of the state population, had income below federal poverty thresholds (Figure 1).[3] In the rest of the nation, the poverty rate was 12.7 percent. Compared to other states, California's poverty rate was relatively high, but it was not among the very highest rates. California's poverty rate in recent years has averaged 13.2 percent and was the 15th highest among the 50 states and Washington, D.C. The highest poverty rates, above 17 percent, were in Mississippi, Arkansas, and New Mexico.[4]

Official poverty measures, such as those reported above, are calculated by comparing cash income to a federal poverty threshold that varies by family structure (mainly by the number of adults and children). The federal poverty thresholds were developed in the mid-1960s and were based on estimates of the cost of adequate food. The food budgets were multiplied by three because estimates showed that families spent about one-third of their budget on food. These poverty thresholds are adjusted annually for price inflation.[5]

The federal poverty thresholds have been the source of much criticism over the decades. In 1995, a National Academy of Sciences study (Citro and Michael, 1995) suggested that the poverty thresholds be adjusted to reflect the cost of food, clothing, shelter, utilities, and medical expenses. The study

Measuring Poverty: Technical Notes

Poverty. We use two measures of poverty. First, we compare income to official federal poverty thresholds. Second, to adjust for the higher cost of living in California, we follow the method recommended in a National Academy of Sciences study (Citro and Michael, 1995). To adjust the federal threshold, we use the ratio of the local fair market rent to the national average fair market rent (see the text for further discussion). The ratio is applied to 44 percent of the federal poverty threshold, using a national estimate that poor families spend an average of 44 percent of their budget on housing (Citro and Michael, 1995).[6]

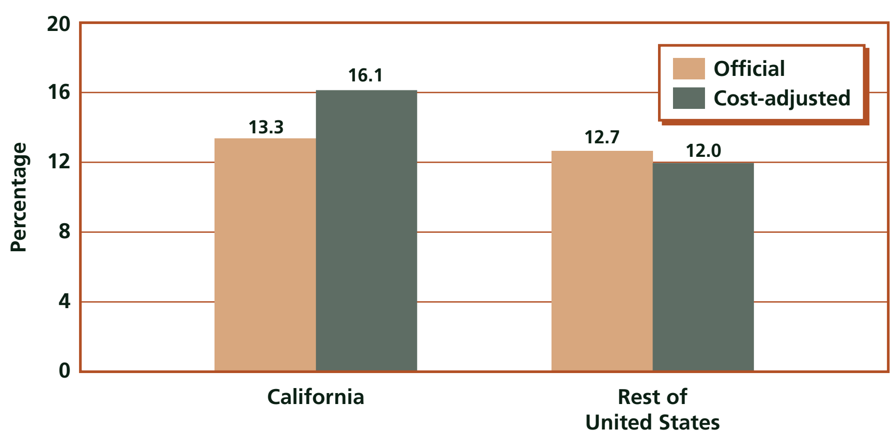
Family income. Family income is defined as the sum of all income from all sources for all related persons living in the same residence. Unmarried adults who do not live with relatives are included in the data as a "family" of one. Because larger families require more resources than smaller families to maintain the same level of individual consumption, we adjust for family income 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.[7]

Inflation adjustment. All income statistics are adjusted to 2004 dollars using consumer price indices for urban consumers calculated by the Bureau of Labor Statistics (BLS).[8] For income trends, we follow the Census Bureau and use the newer inflation series (the CPI-U-RS or research series) because it is based on consistent methods over the decades and because it matches more closely another measure of cost of living—the Personal Consumption Expenditure Deflator. For poverty trends, we follow the Census Bureau and use the older inflation series (CPI-U-X1) for most of the analysis, but we also consider poverty trends under the newer series.

also suggested changes to the measure of income to include the value of noncash benefits (e.g., food stamps) and to exclude taxes and work-related expenses (e.g., child care and transportation). The Census Bureau reports that applying these changes in 2003, when the official national poverty rate was 12.5 percent, would lead to a poverty rate of as high as 13.2 percent (Dalaker, 2005).[9] Estimates were not provided for specific states, but for the western region the official poverty rate was 12.8 percent and the adjusted poverty rate was 13.4 percent. These results suggest that although the poverty rate would be higher if adjusted to account for the above concerns, the adjustments would not substantially change poverty rates in the western states relative to national poverty (i.e., in the western region, poverty rates would remain slightly higher than national rates).

However, for comparisons of poverty rates between California and the rest of the nation, one serious concern is that the federal thresholds do not reflect regional differences in the cost of living. For example, the U.S. Department of Housing and Urban Development (HUD) estimated that the fair market rent for a two-bedroom apartment in San Francisco was $1,775 in 2004.[10] On a 12-month basis, this rent amounts to $21,300—which is higher than the federal poverty

Figure 1. Percentage of the Population in Poverty, California and the Rest of the United States, 2004



Source: Author's calculations from the CPS, 2005.
Note: See the text box for details on measurement.

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threshold of $19,157 for a family of four in 2004. Following the method suggested by a National Academy of Sciences study (Citro and Michael, 1995), we adjust the federal poverty threshold for local rental costs based on HUD fair market rents (see the text box for further details). We calculate rental-cost-adjusted poverty for California and the rest of the nation from 1995 through 2004.[11]

Perhaps not surprisingly, poverty in California is substantially higher by the cost-adjusted measure. In 2004, California's poverty rate was 16.1 percent by the adjusted measure and 13.3 percent by the official measure (Figure 1). In the rest of the nation, the rental-cost adjustment reduces poverty slightly, from 12.7 percent to 12.0 percent. This reduction occurs in part because, on average, rents are lower in the rest of the nation and because, in general, poor families are more likely to live in places with lower rental costs. Thus, by the adjusted measure, California poverty was substantially higher than that of the rest of the nation in 2004. A three-year average of the adjusted measure (2002–2004) shows that only Washington, D.C. (21.0%) and New York (16.3%) had higher poverty rates than California (15.7%).

The rental-cost adjustments provide a fairly conservative measure of poverty. These adjustments do not address the concern that the federal poverty thresholds are too low nationally. Instead, they assume that the federal thresholds are appropriate for the national average and simply make adjustments using the ratio of local rental costs to national rental costs. Rental-cost adjustments also ignore regional price differences for items other than housing costs (utility costs, however, are included in the fair market rents), but regional variation in the prices of other major items appears not to be as large as it is for housing costs (Citro and Michael, 1995).

Most important, the rental-cost adjustment does not assume that poor families pay the full fair market rent for their region. Poor families may spend less than the fair market rent on housing for a number of reasons; for example, they may receive public housing subsidies, live with other families,

Using the federal threshold, the San Francisco Bay Area had particularly low poverty rates of only 7 percent. Poverty was also relatively low in the Sacramento region, Orange County, and San Diego County. Poverty was much higher in the San Joaquin Valley, the Central Coast, the Inland Empire, and Los Angeles County.

crowd into small units, have a long-term lease, live in substandard housing, or own their home.[12] For example, in Los Angeles in 2003, the annual fair market rent for a one-bedroom apartment was $9,168. The adjusted poverty threshold for a family of two adults implicitly included only $6,939 for housing costs.[13] According to calculations by the Census Bureau, poor families in Los Angeles actually spent less than the fair market rent for a one-bedroom apartment but more than the housing costs in the adjusted poverty threshold—the median was $7,632 (the median household size for poor households was two people).[14] In the Inland Empire, a region with relatively low housing costs, the median poor household had three people, the fair market rent for a two-bedroom apartment was $7,872, the implicit housing cost in the adjusted poverty threshold was $5,862, and the median spent on housing was $6,804. Thus, the rental-cost adjustments are conservative even when compared to the amount spent by poor families on housing.[15]

The cost-adjusted poverty thresholds calculated in this study are not intended to cover all of the costs for "self-sufficiency" (Pearce, 2003) or "basic family budgets" (California Budget Project, 2005). These budgets measure a much higher level of income than that typically considered as the poverty level. For example, in Los Angeles the rental-cost adjustment increases the 2004 poverty threshold for a married couple with two children from the official threshold of $19,157 to $21,833. The California Budget Project (2005) estimates that such a family would need a basic budget of $63,079 if both parents work and $42,995 if only one parent works (the cost difference is for child care). For San Francisco, the cost-adjusted poverty threshold for the same family configuration is $30,033, and the California Budget Project estimates a basic budget of $70,708 if both parents work and $46,919 if only one parent works.

In sum, our cost-adjusted poverty thresholds for California are conservative in that they represent fairly low levels of income. The cost-adjusted measures are not meant to prescribe the "right" measure of poverty for California but rather to provide a more realistic comparison of poverty rates across geographic areas. In the next section, we apply cost-adjusted thresholds to examine poverty differences between regions of California.

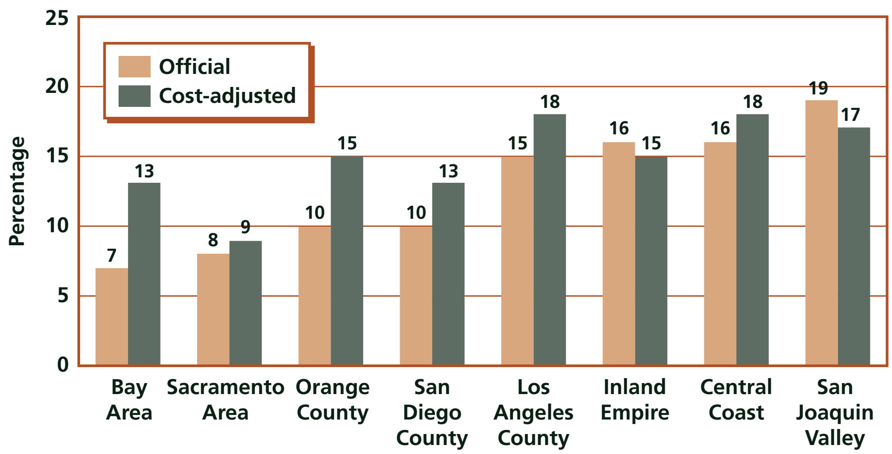
Poverty in California's Regions

Poverty has varied substantially across the regions of California in recent years. Using the federal threshold, the San Francisco Bay Area had particularly low poverty rates of only 7 percent (Figure 2).[16] Poverty was also relatively low in the Sacramento region, Orange County, and San Diego County. Poverty was much higher in the San Joaquin Valley, the Central Coast, the Inland Empire, and Los Angeles County.

The San Francisco Bay Area, Orange County, and San Diego County rank in the mid-range of regional poverty rates, after the adjustment is made for rental costs, whereas the Sacramento region remains a relatively low poverty region. Poverty in Los Angeles County increases substantially with the rental-cost adjustment: from 15 percent to 18 percent.

To some extent, poverty differences across regions reflect the

Figure 2. Percentage of the Population in Poverty, Regions of California, 2001–2003



Sources: Author's calculations from the CPS, 2002–2004.

Notes: Owing to small sample sizes, we combine data covering 2001–2003. See the text box for details on measurement.

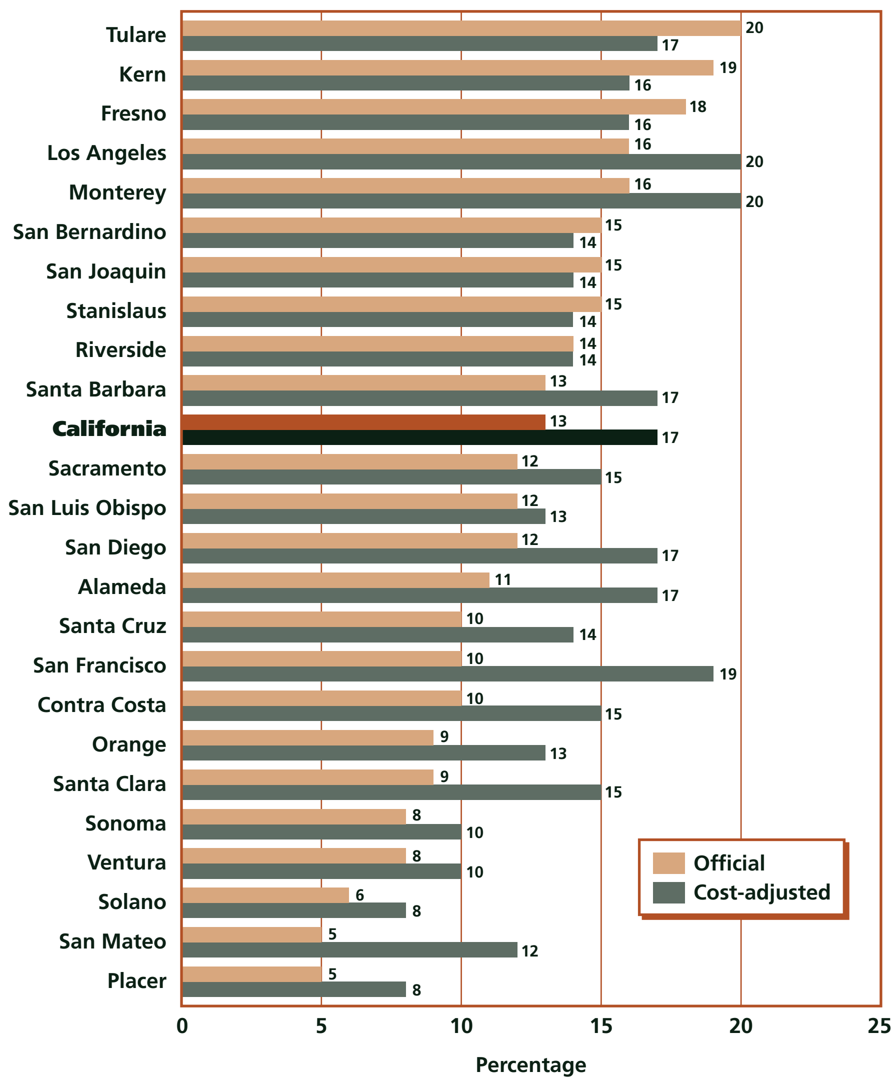
To some extent, poverty differences across regions reflect the demographic makeup of the regions.

demographic makeup of the regions. For example, regions with higher poverty rates tend to have higher proportions of foreign-born Latinos—a demographic group with one of the highest poverty rates in California. In 2001–2003, foreign-born Latinos made up 25 percent of the San Joaquin Valley population, a higher-poverty region. They made up only about 12 percent of the San Francisco Bay Area population, a lower-poverty region. However, regional differences are substantial even within racial and ethnic groups. Among foreign-born Latinos, the cost-adjusted poverty rate was 33 percent in the San Joaquin Valley and 22 percent in the Bay Area. Among U.S.-born non-Hispanic whites, the poverty rate was 6 percent in the San Joaquin Valley and 10 percent in the Bay Area. Further analysis of the racial and ethnic dimensions of poverty is provided in the following section.

For 24 of California's 58 counties, the American Community Survey (ACS) provides county-level poverty information for 2004.[17] Figure 3 shows these counties, starting with those with the highest poverty rates (Tulare and Kern) according to the federal threshold and ending with those with the lowest poverty rates (Placer and San Mateo). The green bars show the cost-adjusted poverty rates. For the state as a whole, the poverty rate was 13 percent (as measured by the federal threshold using the ACS data), but with cost adjustments it was 17 percent. The adjustment has a particularly strong effect on the poverty rate in the San Francisco Bay Area because of the high rental costs in that region. For San Francisco County, the poverty rate using the federal threshold was 10 percent—but the adjusted poverty rate was 19 percent. Thus, San Francisco is a relatively low poverty county according to the federal threshold but a relatively high poverty county after adjusting for rental costs. The adjustment also suggests substantially higher poverty rates for San Mateo and Santa Clara Counties.

For some counties, all of them in inland areas, the adjusted pov-

Figure 3. Percentage of the Population in Poverty, by County, 2004



Source: Author's calculations from the ACS, 2004.

erty rate is lower than the official rate. This occurs in places where the HUD rental rates are lower than the national average of $775 per month. The adjustment suggests substantially lower poverty rates in the three highest-poverty counties where rents tend to be particularly low.

Once the adjustment is made for rental costs, most of the 24 California counties studied have higher poverty than in the rest of the nation, where poverty is about 12 percent when adjusted for rental costs. Table 1 shows the ten highest poverty counties or similar jurisdictions in the nation.[18] According to the federal poverty thresholds, none of the 24 California counties ranks in the top ten—Tulare County at 20 percent has lower poverty than the city of St. Louis at 22 percent. However, once the adjustment is made for rental costs, Los Angeles (20%), Monterey (20%), and San Francisco (19%) Counties all have poverty rates that fall within the range of the highest-poverty counties in the nation (albeit, at the lower end of the range). Other high-cost places outside California also have adjusted poverty rates in this high range, including Manhattan (with poverty rates of 19.3% by the official measure and 22.5% by the adjusted measure) and Washington, D.C. (with poverty rates of 18.9% by the official measure and 23.2% by the adjusted measure).[19]

Table 1. Poverty Rates for the Ten Highest-Poverty Counties, 2004

	Official	Cost-Adjusted
1. Hidalgo County, Texas	44	40
2. Cameron County, Texas	36	32
3. El Paso County, Texas	32	27
4. Bronx County, New York	31	35
5. Philadelphia County, Pennsylvania	25	27
6. Baltimore City, Maryland	24	25
7. Orleans Parish, Louisiana	23	21
8. Kings County, New York	23	26
9. Caddo Parish, Louisiana	22	19
10. St. Louis City, Missouri	22	21

Source: Author's calculations from the ACS, 2004.
Note: The counties were identified as high poverty and ranked according to the official poverty measure.

Among the major racial and ethnic groups in California, U.S.-born whites have the lowest poverty rates (9%). African Americans have poverty rates more than twice as high (20%), but they make up only 8 percent of the poor in California. . . .

Demographic Dimensions of Poverty

Within California, poverty rates vary along many demographic dimensions (Table 2). Poverty rates are highest among young children under age ten (21% by the cost-adjusted measure).[20] Poverty rates are also high among older children and young adults. Among people ages 65 and older, the adjustment for rental costs leads to a larger increase in poverty than it does for other age groups (9% to 14%) because older adults are more likely to live in high-cost areas.

Poverty is somewhat higher among women than men in California (16% versus 14%). This difference is particularly pronounced for those between ages 18 and 29 (20% versus 16%, not shown in Table 2), in part because young women are more likely to be single parents and more likely to be in school. It is also pronounced among older adults (16% versus 11%) in part because older women are more likely than older men to be among the very old and to be unmarried. Older women also tend to have lower retirement and social security benefits than older men. In the rest of the nation, the patterns by gender are similar to those reported here for California.

Among the major racial and ethnic groups in California, U.S.-born whites have the lowest poverty rates (9%). African Americans have poverty rates more than twice as high (20%), but they make up only 8 percent of the poor in California because they are only a small share of the state's population. Latinos have poverty rates similar to African Americans (23% and 20%, not shown in Table 2), but poverty among U.S.-born Latinos is substantially lower than among foreign-born Latinos (14% versus 27%), reflecting the strong progress of Latinos across immigrant generations (see Reed et al., 2005).[21] Among U.S.-born Latinos, the adjustment for rental costs has very little effect on the poverty measure because they are more likely than other groups to live in low-cost areas of the state, particularly the San Joaquin Valley.

For Asians, poverty tends to be relatively low but the overall rates mask variation among Asian subgroups. In particular, Southeast Asians from the refugee-sending countries of Vietnam, Laos, and Cambodia (about 20% of Asians in California) had poverty rates

Table 2. Poverty Rates by Demographic Group, 2001–2003

Demographic Group	California			Rest of the United States		
	Official Poverty (%)	Cost-Adjusted Poverty (%)	Share of Poor (%)	Official Poverty (%)	Cost-Adjusted Poverty (%)	Share of Poor (%)
All	13	15	100	12	11	100
Younger than age 10	19	21	20	18	18	21
Ages 10 to 17	17	19	16	15	14	14
Ages 18 to 29	16	18	20	15	14	20
Ages 30 to 64	10	12	34	9	8	34
Ages 65 and older	9	14	9	10	9	10
Female	13	16	53	13	13	57
Male	12	14	47	11	10	43
White						
U.S.-born	7	9	23	8	7	43
Foreign-born	11	14	5	10	11	3
Latino						
U.S.-born	13	14	10	20	18	7
Foreign-born	24	27	40	25	26	14
Asian						
U.S.-born	9	12	2	8	9	1
Foreign-born	11	15	9	12	13	3
African American	17	20	8	24	23	26
Less than high school diploma	36	41	34	38	36	29
High school diploma	17	20	25	17	16	37
Some college	10	12	27	9	9	23
Bachelor's degree	5	7	10	4	4	7
Graduate degree	3	4	3	2	2	3
Single, not living with relatives	19	23	25	20	19	28
Married						
No children	4	5	7	4	3	7
With children	10	12	35	7	6	22
Single mother, with children	33	37	22	38	37	30

Source: Author's calculations from the CPS, 2002–2004 (combined).
Notes: The "share of poor" is based on the cost-adjusted poverty measure. All rows are based on a minimum of 200 families. Racial and ethnic groups do not include multiracial respondents (less than 2% of Californians) and persons not part of the four main groups (less than 2%). The Asian group includes Pacific Islanders. Foreign-born status is determined by that of the family head. Level of education is that of the adult with the highest education.

averaging about 19 percent between 1997 and 2004—roughly equivalent to the average for African Americans over the same period (using the federal threshold).[22]

Poverty rates are also high among Native Americans. Although the CPS data sample is not large enough to measure poverty among Native Americans in California (who make up less than 1 percent of the state population), other Census Bureau data show poverty rates of 16 percent in 2004 (using the federal threshold).[23]

By official poverty rates (i.e., the federal threshold), none of the racial/ethnic groups noted in Table 2 has a substantially higher poverty rate in California than in the rest of the United States. In fact, U.S.-born Latinos and African Americans in California have lower poverty than their counterparts in the rest of the United States.[24] The estimates suggest that the higher official poverty rate for California than for the rest of the nation (13% versus 12%) is mainly due to California's greater proportion of Latinos, particularly foreign-born Latinos. Cost-adjusted poverty shows substantially higher poverty rates in California than in the rest of the nation (15% versus 11%), however, because California's low-income families tend to face much higher housing costs than do low-income families in other states.

Other demographic characteristics show that poverty is particularly high among people in families where the adult with the highest level of education has not finished high school (41%) or has finished high school but not gone on to college (20%). One reason that poverty is high among Latinos, especially foreign-born Latinos, is their low level of educational attainment: Over half of foreign-born Latino adults have not finished high school.

Poverty is also very high among people living in single-mother families (37%).[25] Using the official measure, poverty among people in single-mother families is lower in California than in the rest of the nation in part because African Americans, a high-poverty group, make up only 14 percent of single-mother families in the state, whereas in the rest of the nation they make up 35 percent.[26] After adjusting for rental costs, the poverty rate in these families is similar to that of the rest of the nation. However, for other family types, adjusted poverty rates tend to be higher in California than in the rest of the United States.

In the rest of the nation, single-mother families make up 30 percent of the poor—more than any other family type. In contrast, California's single-mother families make up a lesser share, 22 percent of the poor, and married-couple families with children make up 35 percent. These differences occur in part because married-couple families with children in California have higher poverty rates than they do in the rest of the country (12% versus 6%) and in part because, regardless of poverty status, Californians are more likely than other Americans to live in such families (44% versus 39%).

Other demographic characteristics show that poverty is particularly high among people in families where the adult with the highest level of education has not finished high school (41%) or has finished high school but not gone on to college (20%).

The discussion in this section has highlighted the interrelationships of demographic factors. For example, Latinos have higher poverty than other groups in part because they have lower levels of education. Using a statistical model of poverty in California, we can investigate the relationship between poverty and demographic factors, accounting for multiple related factors (Table 3).[27] For example, among U.S.-born Latinos, their relatively high poverty rate compared to U.S.-born whites

Table 3. Demographic Components of Racial and Ethnic Differences in Cost-Adjusted Poverty Rates, California, 2001–2003

	Rental-Cost-Adjusted Poverty (%)	Adjust for Age Differences (%)	Add Adjustment for Education (%)	Add Adjustment for Family Structure (%)	Add Adjustment for Regional Differences (%)
White					
U.S.-born	9	8	8	8	8
Foreign-born	14	14	15	16	16
Latino					
U.S.-born	15	13	10	8	8
Foreign-born	27	27	17	16	15
Asian					
U.S.-born	12	10	12	10	9
Foreign-born	15	15	17	17	17
African American	19	19	18	13	13

Source: Author's calculations from the CPS, 2002–2004 (combined).
Notes: Adjustments are based on a single logistic model (see note 27). Values in column 1 differ slightly from those in Table 2 because race and ethnicity here are determined by the family head.

occurs partly because they are younger (adjusting for age reduces their poverty from 15 percent to 13 percent), partly because they tend to have lower education levels, and, to a lesser extent, because they are more likely to live in families with children. After taking into account all of the demographic factors in Table 2, poverty is not higher among U.S.-born Latinos than it is among U.S.-born whites. For foreign-born Latinos, low education levels explain about half of the gap with U.S.-born whites, but even adjusting for all factors their poverty rates remain relatively high. For African Americans, their higher propensity to be in single-mother families is an important factor in their higher poverty rates, but even adjusting for all factors, their poverty rates remain higher than that of U.S.-born whites.

Trends in Poverty and Income

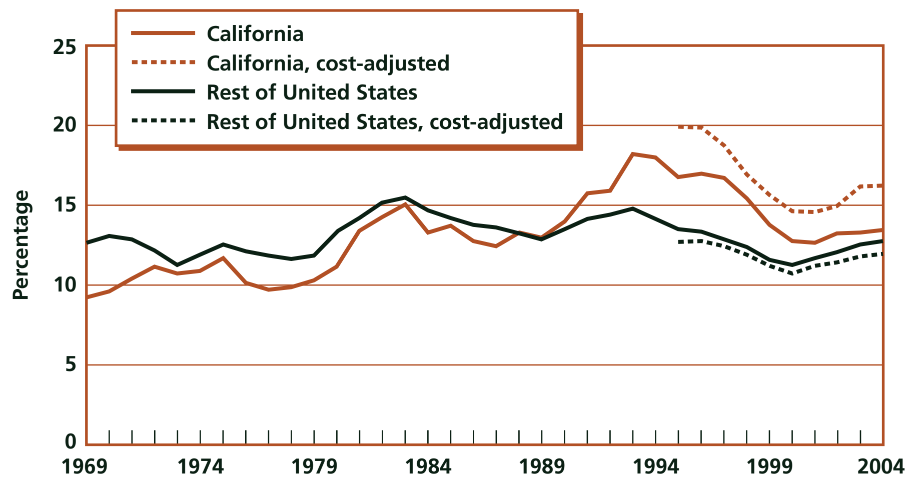
California poverty has been markedly lower in recent years than it was during most of the 1990s. The official poverty rate for the state fell from a high of 18.2 percent in 1993 to a low of 12.6 percent in 2001. Although poverty is low in California relative to that ten years ago, the tremendous improvements in poverty rates during the late 1990s did not fully compensate for the previous rise in poverty rates during the 1970s and 1980s (Figure 4).

Short-term fluctuations in poverty follow the business cycle. Poverty increased most rapidly during the recessions of the early 1980s and early 1990s and declined most substantially during the growth period in the late 1990s. Following the 2001 recession, poverty in California increased from 12.6 percent in 2001 to 13.1 percent in 2002. The relatively small increase reflects the less severe and shorter nature of this recession than those of the early 1980s and early 1990s. The unemployment rate in California peaked at 10 percent in 1982, at 9.5 percent in 1993, and at only 6.8 percent in 2003.

To gauge long-term poverty trends, we compare poverty rates at different business cycle peaks. At the economic peak in 1969, the California poverty rate was 9.1 percent. It grew during the 1970s to reach 10.2 percent by the next peak in 1979 and then grew at a faster rate to reach 12.9 percent in 1989. By the business cycle peak in 2000, the poverty rate actually fell slightly, to 12.7 percent.

During the 1970s and much of the 1980s, California had lower poverty rates than the rest of the nation. Beginning in the late 1980s, and especially during the deep recession in the state during the early 1990s, poverty grew faster in California than it did nationally, and the state had markedly higher

Figure 4. Percentage of the Population in Poverty, California and the Rest of the United States, 1969–2004



Sources: Authors' calculations from the CPS, 1970–2005.

Although California's poverty rate has been relatively high since 2000, poverty has grown faster in the rest of the United States. In 2004, poverty in the rest of the nation, at 12.7 percent, was closer to that of California (13.3%) than any time since 1990.

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The cost-adjusted poverty rate, available only for the recent period, also shows a substantial decline in California during the late 1990s.[28] However, the cost-adjusted rate shows more rapid growth in California poverty since 2000, so much so that by this measure poverty in California has grown faster since 2001 than it has in the rest of the nation.

Concerns with the official poverty measure are important for interpreting the trends shown in Figure 4. Since the late 1960s, there have been important changes in taxes and tax credits (e.g., the Earned Income Tax Credit). There have been changes in noncash subsidies such as food stamps and housing; changes in the provision of health insurance by employers and by public programs, with resulting changes in the cost of medical care for low-income families; and changes in the share of low-income families who work and thus need to pay for child care and transportation. There may also have been changes in the regional cost of living (e.g., rental costs). A full measure of trends in family economic well-being would take into account these changes. However, given the nature of the available data, it is difficult to create such a measure that goes back to the late 1960s.[29]

Price inflation is particularly important to take into account in analyzing poverty trends. The federal poverty thresholds have been adjusted each year to account for inflation, but the method underlying the adjustment has changed. During the late 1990s, the BLS developed a new method of inflation adjustment using improved measures of quality adjustments (e.g., adjusting for the quality of electronic items), consumer flex-

Higher poverty in California in 2004, relative to 1969 and 1979, is strongly linked to growth in income inequality.

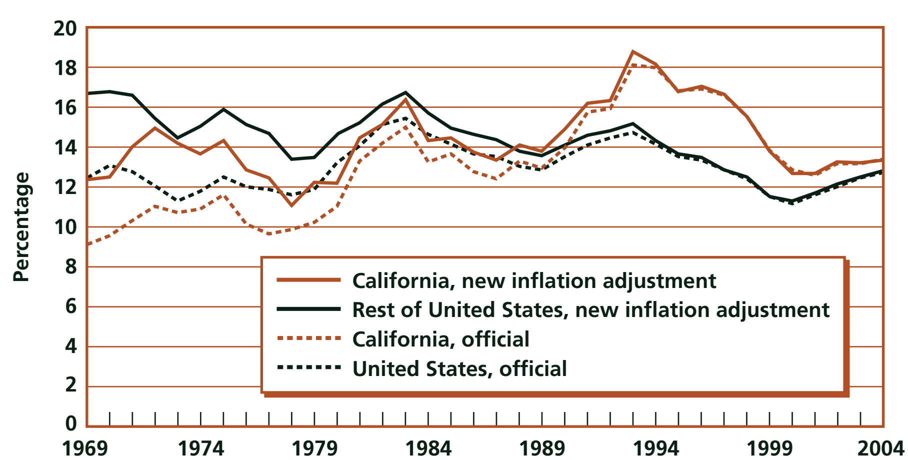
ibility (e.g., switching to pasta when potatoes are expensive), and homeownership costs, among other changes. The new inflation series (the research series or CPI-U-RS) has been calculated for earlier decades. The BLS and Census Bureau recommend this series for income trends.

Applying the improved inflation series to the 2004 poverty thresholds provides alternative historical thresholds because this series shows lower inflation than the old series. Thus, the poverty thresholds used today are higher in real terms than the poverty thresholds used in the 1970s. If we apply to the 1970s a poverty threshold equivalent to the 2004 threshold, we find poverty rates substantially higher than the official rates for the 1970s (Figure 5).

By this inflation measure, the growth in poverty in California since the late 1960s appears less pronounced. At the economic peak in 1969, California poverty was 12.3 percent. Between the business cycle peak in 1969 and that in 1979, poverty did not grow (it was 12.0% in 1979). By the peak in 1989, poverty was substantially higher at 13.8 percent. By the peak in 2000, poverty fell to 12.7 percent. However, even using the lower inflation series to measure poverty, it appears that the tremendous improvements of the late 1990s were not enough to compensate for the growth in poverty during the 1980s. Poverty at the peak in 2000 and in the most recent year (2004 at 13.3%) remained higher than it was in 1969 and 1979.

The analysis in Figure 5 is important because it calls into question the accepted notion that poverty has not declined substantially in the rest of the nation since the 1960s. For the rest of the nation, the improved inflation measure shows lower poverty rates in 2000 and in 2004 than in 1969, 1979, or 1989. By this measure, the poverty rate for 2004, at 12.7 percent, is substantially lower than the poverty rate for 1969, at 16.6 percent. By the official measure, the 12.7 percent poverty rate in 2004 was about the same as the 12.5 percent poverty rate in 1969. However, the improved inflation measure

Figure 5. Poverty Trends, Alternative Inflation Adjustment, California and the Rest of the United States, 1969–2004



Sources: Author's calculations from the CPS, 1970–2005.

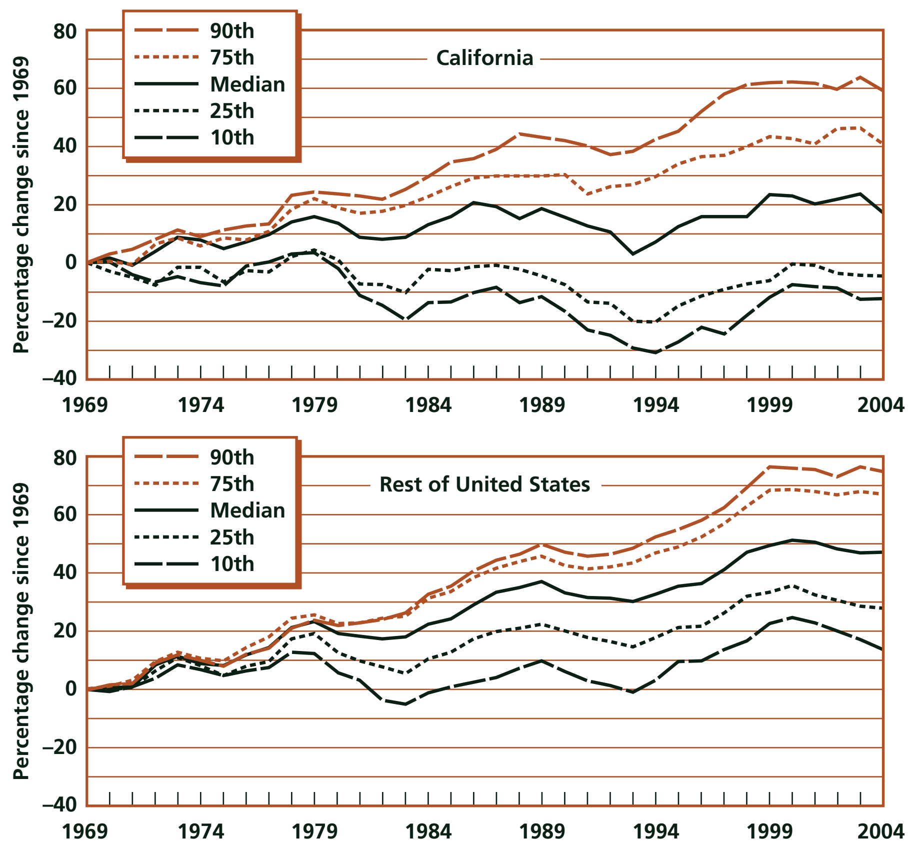
may be problematic for measuring poverty trends because it may not reflect the spending patterns of poor families. For example, poor families tend to spend a much higher proportion of their income on housing, and housing prices have increased faster than other prices (this concern is not addressed in either the older or newer inflation series).[30] For this reason, and to be comparable with the approach used by the Census Bureau, in the remaining analysis of long-term trends, we use the official poverty measure.

Higher poverty in California in 2004, relative to 1969 and 1979, is strongly linked to growth in income inequality. 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. We include single people living alone as families of one person and adjust income to reflect family size (see the text box). In 2004, income for the 10th percentile in California was about $15,600. This represents a 12 percent decline relative to 1969, when families at the 10th percentile earned about $17,750 (inflation-adjusted to 2004 dollars using the new method, CPI-U-RS; see Figure 6, upper panel). It is important to note that the income statistics reported here are based on a different sample of families in each year, and so the figure does not show that the same families who were poor in 1969 experienced a 12 percent decline in income by 2004. Instead, Figure 6 shows that families at the 10th percentile in 2004 earned 12 percent less than families at the 10th percentile in 1969.

Comparing California incomes in 2004 with those of 1969 shows a pattern of decline for low-income

Comparing California incomes in 2004 with those of 1969 shows a pattern of decline for low-income families, growth for middle-income families, and stronger growth for high-income families.

Figure 6. Percentage Change in Family Income Relative to 1969, by Income Percentile, 1969–2004



Sources: Author's calculations from the CPS, 1970–2005.

Note: Income-adjusted for family size and for inflation (using CPI-U-RS).

Over the last three decades, the gap between rich and poor has grown in California faster than in the rest of the nation.

families, growth for middle-income families, and stronger growth for high-income families. Low-income families at the 25th percentile earned $29,750 in 2004—a 4 percent decline compared to 1969. Middle-income families (those at the median) earned $56,000 in 2004, which was a 16 percent gain over 1969 income. For high-income families at the 75th percentile, income in 2004 was $99,550—41 percent higher than in 1969. At the 90th percentile, income in 2004 had grown by 59 percent since 1969, to $150,100.[31]

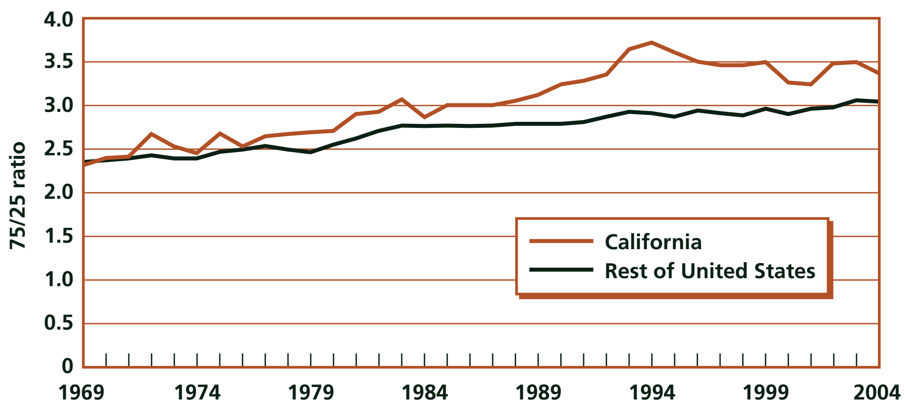
In the rest of the nation, income growth was greater than it was in California throughout the income distribution. Notably, family income grew for low-income families in the rest of the nation: Family income at the 10th percentile was 14 percent higher in 2004 than in 1969. At the 20th percentile, family income grew 28 percent between 1969 and 2004. Growth was so much faster in the rest of the nation that income levels at the 10th and 25th percentiles went from being about 20 percent lower than in California to being a few percentage points higher (these numbers are not adjusted for California's higher cost of living). At the median, income was about 15 percent lower in the rest of the nation than it was in California in 1969 and about 6 percent higher in 2004. Among higher-income families, income in California currently remains higher than in the rest of the nation by only a few percentage points, but in 1969 it was 15 to 20 percent higher than in the rest of the nation.

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 gap is to compare the incomes of high- and 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 7). By 2004, this inequality measure, known as the 75/25 ratio, grew to 3.3. 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 2004, the 75/25 ratio in California was substantially higher than it was in the rest of the nation (3.3 versus 3.0).

To analyze the relationship between rising income inequality and poverty, we consider what would have happened if family income in the bottom of the distribution experienced the same growth as average family income—that is, if family income growth had been evenly distributed.[32] In 1969, average income was $11,650 (not inflation-adjusted) and in 2004, average income was $71,900. If income throughout the distribution had increased by the same percentage, the poverty rate would have fallen to 7 percent in 2004. In this sense, the unequal growth in income has contributed to the rise in poverty.

The income trends in Figure 7 reflect major changes in the economy. In particular, forces such as technological change and international trade, as well as institutional changes such as the decline in the real value of the minimum wage and shrinking unionization rates, have resulted in declining average earnings among workers with a high school diploma or less and growth in average earnings among workers with a bachelor's degree or more. Reed (1999) discusses the importance of the growing labor market value of education for income trends.

Figure 7. Family Income Inequality, 1969–2004



Sources: Author's calculations from the CPS, 1970–2005.
Note: Income-adjusted for family size.

In addition to economic changes, two demographic trends have also put upward pressure on poverty in California: The rising share of immigrants and the rising share of single-mother families.

Demographic Determinants of Poverty Trends

In addition to economic changes, two demographic trends have also put upward pressure on poverty in California: The rising share of immigrants and the rising share of single-mother families. At the same time, a third demographic trend, the rising share of women working in the labor market, has limited the increase in poverty.

Although California is home to many high-income immigrants, the bulk of immigrants tend to have relatively low incomes and, thus, immigration increases the number of low-income Californians.[34] Between 1969 and 2004, the share of Californians who were born outside the United States grew from 10 to 28 percent.[35] The share who lived in a family with a foreign-born head was even higher—nearly 40 percent in 2004. Among these families, poverty is substantially higher than among families of U.S. natives (Figure 8). Poverty is particularly high among families of recent immigrants and tends to decline with years spent in the United States.

Poverty rates improved faster for immigrant families than for U.S. natives between 1993 and 2001. Thus, the integration of immigrants into the state economy and the resulting reduction of immigrant poverty were important in the decline of poverty in California.[36] Indeed, the poverty rate among families headed by a U.S. native fell from 12 percent to 9 percent between 1993 and 2001, whereas the poverty rate overall fell from 18 percent to 13 percent.

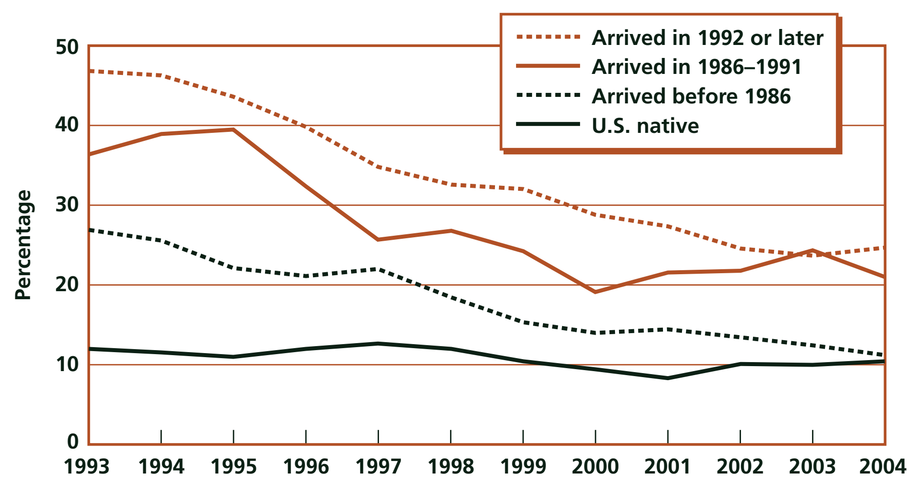
Nonetheless, immigration puts upward pressure on poverty rates because of the relatively high poverty rates in immigrant families. However, it should be noted that the poverty rate of U.S.-native families is not an estimate of California poverty in the absence of immigration. Were it not for immigration, California might have attracted (or retained) more low-income U.S. natives or the state's industrial structure might have developed substantially differently (e.g., lower employment in some labor-intensive agricultural production).[37]

Children in families headed by a single mother have much higher poverty rates than do children in other families: 41 percent versus 13 percent in 2004.

Growth in the share of single-mother families is another demographic factor that has contributed to the rise in poverty in California, especially during the 1970s. Children in families headed by a single mother have much higher poverty rates than do children in other families: 41 percent versus 13 percent in 2004. Owing to the high poverty rates in these families, the growing share of single-mother families has pushed poverty upward in California and in the rest of the United States. During the 1970s, the share of children in single-mother families increased from about 11 percent to about 20 percent (Figure 9). Since 1980, the share has fluctuated around 20 percent (21% in 2004).[38]

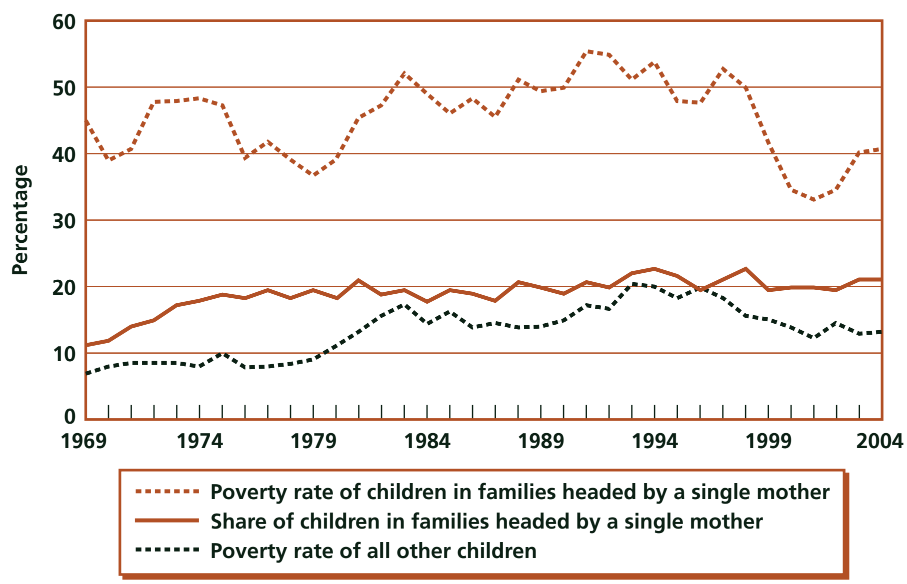
The more dominant recent trend in California has been the decline in poverty among children in single-mother families, from about 53 percent in 1997 to about 33 percent in 2001—although this decline was followed by poverty growth to 41 percent in 2004.[39] With the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, federal welfare policy led the way to state programs that facilitate and promote work (CalWORKs). This policy, in conjunction with expansions of federal tax credits for workers in low-income families (the Earned Income Tax Credit) and a rapidly growing economy, brought about increased labor force participation and labor market earnings, especially for single mothers.[40] Between the mid-1990s (1994–1996) and the early 2000s (2000–2002), the share of single mothers working in the labor market increased from 69 percent, roughly the same as in the early 1970s, to 80 percent. Average annual earnings among single mothers increased from $17,100 to $22,500.[41] The increase in earnings helps explain the decline in poverty among children in female-headed families in California (as shown in Figure 9). Analysis for the rest of the United States leads to similar

Figure 8. Percentage of the Population in Poverty, by Immigrant Status, California, 1993–2004



Sources: Author's calculations from the CPS, 1994–2005.

Figure 9. Poverty Trends for Children, by Family Structure, California, 1969–2004



Sources: Author's calculations from the CPS, 1970–2005.

The share of working single mothers increased substantially during the 1990s, and this contributed to a decline in poverty among children living in single-mother families.

findings: The share of working single mothers increased substantially during the 1990s, and this contributed to a decline in poverty among children living in single-mother families.

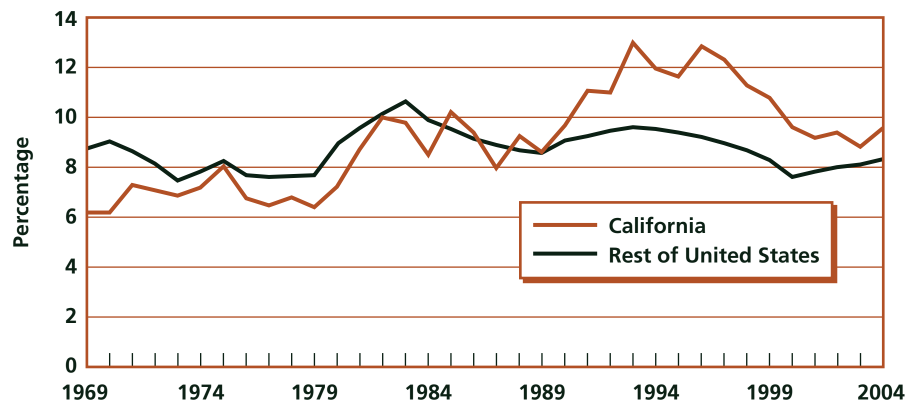
Growth in work participation and the earnings of married women also helped to reduce poverty. Among married women, work participation increased substantially, especially during the 1970s and 1980s. The share of married women working in the labor market increased from just over half in 1969 to about 65 percent in recent years. Average earnings grew over the same period from $8,500 to $20,800. If we assess poverty among married-couple families, accounting for all income sources less the earnings of women, the poverty rate would have grown from 9 percent in 1969 to 17 percent in 2004. However, when we include women's earnings, the actual growth in poverty for these families went from 5 percent to only 9 percent. Although simply removing women's earnings from family income does not provide an accurate picture of family income had women's earnings not increased,[42] these calculations do suggest that growth in women's earnings have been an important factor in limiting poverty growth. Similar analysis for the rest of the nation leads to the same conclusion: The rising earnings of married women helped to limit poverty growth.

Poverty and Work

Although women's labor market earnings move many families above the poverty threshold, poverty has increasingly become a reality for working families. In 1969, the poverty rate was only 6 percent among California families with a working member. In 2004, the poverty rate among these families was substantially higher, at almost 10 percent (Figure 10). In the

Over the past three decades, roughly 60 percent of poor families in California and in the rest of the nation included a worker. However, in California the share of poor families with a full-time worker increased substantially.

Figure 10. Poverty Trends Among Working Families, California and the Rest of the United States, 1969–2004



Sources: Author's calculations from the CPS, 1970–2005.

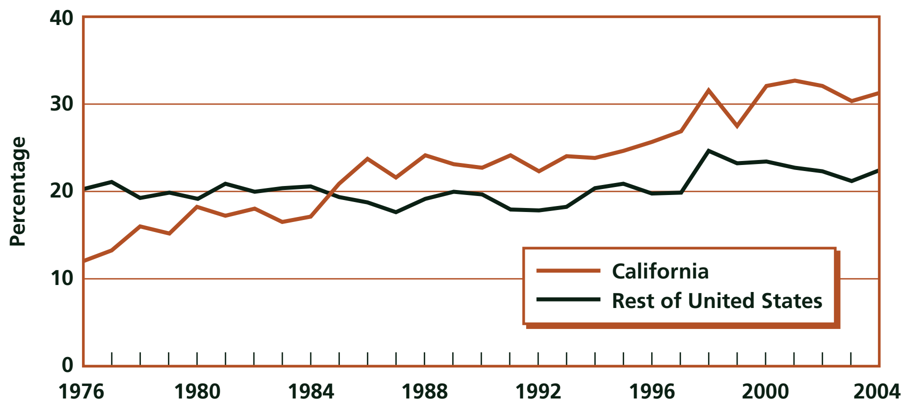
Note: The figure includes families where at least one member had labor earnings during the year. Poverty measurement is based on the official measure.

rest of the nation, poverty among working families did not increase over this period (about 8% in both 1969 and 2004). An important factor explaining the difference between California and the rest of the nation is the decline in earnings of low-earning men in California. For example, the annual earnings of low-earning men (at the 25th percentile of annual earnings among working men) fell by 20 percent in California, from $22,200 in 1969 to $17,850 in 2004, whereas earnings over the same period remained fairly stagnant in the rest of the nation (about $19,000 in both 1969 and 2004).

The relationship between work and poverty is often measured as the share of the poor who work. Over the past three decades, roughly 60 percent of poor families in California and in the rest of the nation included a worker. However, in California the share of poor families with a full-time worker increased substantially.[43] In 1969, only 12 percent of poor families had a member who worked full-time. In 2004, over 30 percent of poor families had such a worker. The trends in California stand in stark contrast to trends in the rest of the nation, in which the share of the poor who were working full-time changed very little (Figure 11).

The growing share of poor families who are working highlights an additional concern with poverty measurement. The official poverty measure does not take into account costs for working, such as child care and transportation. However, with the rising share of mothers who are working in the labor market, family budgets have needed to expand to cover these costs, especially child care costs. In California, the average annual cost for full-time, center-based child care for one child age two to five was $7,485.[44] This cost represents almost 40 percent of the federal poverty threshold for a family of four and more than half of the income of a full-time worker earning California's minimum wage of $6.75 per hour.[45]

Figure 11. Percentage of Poor with a Full-Time Working Family Member, California and the Rest of the United States, 1976–2004



Sources: Author's calculations from the CPS, 1977–2005.

Note: The figure shows the share of poor people who live in a family where at least one member works at least 1,900 hours during the year. Because of changes in the wording of the CPS questions on work hours, data on trends before 1976 are not available.

Despite substantial improvements during the late 1990s, California continues to have a high poverty rate. Poverty is high in California relative to the state's poverty rates in the 1960s and 1970s and relative to the rest of the nation.

Conclusions

Despite substantial improvements during the late 1990s, California continues to have a high poverty rate. Poverty is high in California relative to the state's poverty rates in the 1960s and 1970s and relative to the rest of the nation. When adjustments are made for the high cost of housing, only New York and Washington, D.C., have higher poverty rates than California. Furthermore, by the cost-adjusted measure, poverty in California is growing even faster than it is in the rest of the nation.

The findings of this study raise at least two important questions. First, how should we measure poverty in the state? This study has pointed to several problems with the current federal measure and provided some perspective on the importance of cost-of-living adjustments for comparing poverty in California to that of the rest of the nation. However, the poverty measures here are not meant to prescribe the "right" measure of poverty. As suggested by the National Academy of Sciences study (Citro and Michael, 1995), the federal poverty threshold should take into account the budget for food, clothing, and shelter and should be adjusted to reflect geographic differences in housing costs. Family income resources should be calculated to include adjustments for child-support payments, medical costs, work-related costs, taxes, and noncash benefits such as food stamps.

Second, what can public policy do to address high poverty in California? There are three broad classes of policy approaches. The first class of policies seeks to improve the living conditions of the poor through programs such as food stamps, health clinics, and housing subsidies. The second class of policies seeks to reduce poverty by raising family income levels. Examples include promoting work through programs such as job training, transportation, and child care; promoting earnings through minimum wages and other work standards; and promoting marriage through programs such as couples counseling and family planning. The third class of policies seeks to reduce future poverty by expanding opportunity, for example, by investing in quality public education, especially for children from low-resource families and neighborhoods.

The measurement issues described in this study have important implications for these policy approaches. First, improving the measure of poverty will provide a better sense of the number of poor and the degree of need—measurement issues important to policy implementation, targeting, and planning. Second, poverty programs often use income thresholds to determine eligibility and, in some cases, benefit levels. For example, poverty guidelines, calculated by the U.S. Department of Health and Human Services and based on the federal poverty thresholds, are used to determine eligibility for several federal programs including the Food Stamp Program, the State Children's Health Insurance Program, and Head Start.[46] When poverty programs do not adjust income thresholds for local cost of living or for costs related to work and medical care, the programs inadvertently provide very different levels of service for families facing different costs. Addressing these concerns will require moving beyond the current federal measure of poverty. ◆

Notes

[1] Fifty-seven percent said that poverty is a "big problem" and 30 percent said it is "somewhat of a problem" in January 2006. An October 2005 survey reported similar findings nationwide (Kaiser Family Foundation, 2005).

[2] The CPS includes the civilian population not living in institutions. The size of the sample varies over the years. Income measurement in 1988 is not comparable to other years because the sample in that year was reduced, particularly in Los Angeles. CPS coverage was expanded substantially in 2002. The Census Bureau made changes to the CPS that affected poverty measurements in 1987, 1993, and 2000.

[3] The number of people in poverty is based on California Department of Finance population estimate of almost 36.4 million. The Census Bureau population estimate of 35.1 million implies 4.7 million poor.

[4] State rankings are based on three-year averages for 2002–2004. For the period 1999–2001, California had the 12th highest poverty rate (Reed and Van Swearingen, 2001). State rankings are subject to mismeasurement because of survey sampling errors.

[5] Several minor changes were made to the poverty thresholds in 1981, including the removal of distinctions between farm or nonfarm households and male-headed or female-headed households. The maximum threshold was changed from "7 or more" to "9 or more" family members (Fisher, 1997). These changes appear to have little effect on poverty measurement in California, perhaps lowering poverty by 0.2 percentage points.

[6] The adjustment multiplies 44 percent of the federal poverty threshold by a ratio that is calculated as the local fair market rent divided by the national average fair market rent and then adds 56 percent of the federal poverty threshold. We use rents for a two-bedroom apartment to calculate this ratio but, because this calculation is applied to families with federal poverty thresholds that vary by family size, we are not implicitly assuming that all families need a two-bedroom apartment. In places with high housing costs, the calculation results in more than 44 percent of the poverty threshold implicitly allocated to housing costs (e.g., 64% in San Francisco in 2004). The cost-adjusted measure is developed for each metropolitan area. For nonmetropolitan areas, we use a population-weighted average of county rental costs for each state.

[7] We divide family income by the official 2004 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 ($19,157). This evaluation of family income at the person level is equivalent to the official procedure used to measure poverty.

[8] For California income trends, we begin with the state CPI-U-X1 calculated by the California Department of Finance (DoF) as the weighted average of inflation in the San Francisco and Los Angeles metropolitan areas (and, in some years, San Diego). For the years before 1983, when the DoF reports a state CPI-U, we convert to a state CPI-U-X1 by applying the ratio of the CPI-U-X1 to the CPI-U at the national level. We then use the same ratio-based method to calculate a CPI-U-RS series for California from the national CPI-U-RS series. The Census Bureau uses this ratio-based method to calculate a national CPI-U-RS for the years before 1978 (from the CPI-U-X1 series). See Daly, Reed, and Royer (2001) for a further discussion.

[9] Adjusted poverty would be lower if the imputed value of the return on home equity were included (Dalaker, 2005). For further analysis of alternative poverty measures, see U.S. Census Bureau (2006).

[10] HUD fair market rents determine the eligibility of housing units for the Section 8 Housing Assistance Payments program. These rents include the costs of shelter and utilities. They are based on the 40th percentile of available housing in most areas and the 50th percentile in a few metropolitan areas (with a minimum standard by state for nonmetropolitan counties).

[11] Before 1995, the metropolitan areas defined by HUD are not consistent with those in the CPS. The definition of metropolitan areas in the CPS changed in 2004, resulting in a less precise match between

CPS and HUD data for 2004. However, the 2004 cost-adjusted poverty rates appear credible because they are quite similar to those for 2003 (see Figure 4).

12 See California Budget Project (2004) for a discussion of crowded and substandard living conditions as well as the availability of affordable housing. Johnson and Bailey (2005) find that over 10 percent of recently purchased homes and almost 20 percent of homes owned at least ten years are owned by Californians with incomes under $25,000. Because poverty status is based on current income, a retired family, for example, might fully own a valuable home but be considered poor because of low income.

13 The housing costs implicit in the adjusted poverty threshold is the ratio of Los Angeles fair market rent to the national average (1.28) times 44 percent of the poverty threshold (0.44 × $12,321 for two adults).

14 Housing cost statistics for Los Angeles (in 2003) and the Inland Empire (in 2002) are from the American Housing Survey (U.S. Census Bureau, 2003 and 2004).

15 It is appropriate to adjust the poverty thresholds for the rental cost rather than the amount actually spent on housing so that the thresholds reflect similar circumstances across locations. For example, if poor families in high-cost regions live in more crowded conditions to save money, then an adjustment based on spending would not reflect the same housing conditions (i.e., degree of crowding) in every location.

16 Data for 2004 were not used because of inconsistencies in the definition of metropolitan areas between the CPS and HUD fair market rent data. 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.

17 Tabulated data from the Census Bureau provide the share of the population in each of several income categories, for example: 0.75 to 0.99 times the federal poverty line (FPL), 1.00-1.24 times FPL, 1.25-1.49 times FPL, and so forth. We use HUD rents to calculate the ratio of the adjusted poverty line to the FPL for each county. We use the ACS tables and linear interpolation to calculate the share of the population with income below that ratio. The calculation is subject to error if rental costs vary substantially across counties within the same metropolitan area.

18 The ACS does not tabulate data for all counties. The poverty ranking tables for counties include 236 counties, or similar places, and is intended to represent most counties with over 250,000 in population. The Census Bureau includes some cities in the county rankings because they are independent jurisdictions considered to be "county equivalents."

19 We did not calculate the cost-adjusted poverty rate for all 236 counties in the ACS poverty ranking table. Therefore, we did not determine the ten highest poverty counties using the adjusted poverty measure.

20 Unless otherwise noted, the discussion in the rest of this section focuses on the cost-adjusted measure of poverty.

21 "Foreign-born" is defined here as any person born outside the 50 states, except those born abroad of American parents.

22 Southeast Asians are defined as people born in Vietnam, Laos, or Cambodia, plus anyone whose mother or father was born in one of those three countries. Between 1994 and 1997, poverty rates for Southeast Asians fell from over 50 percent to 31 percent. Since 1997, annual poverty rates as measured in the CPS have fluctuated between 10 and 27 percent, suggesting the appropriateness of a longer-term average when using CPS data to compare Southeast Asians with other groups.

23 Poverty rates for Native Americans are based on Census Bureau tabulations from the ACS for 2004 (for those reporting only one race). For Latinos, the ACS poverty rate was 20 percent and for African Americans it was 21 percent.

24 The ACS for 2003 and 2004 also finds lower poverty in California than in the United States as a whole for African Americans (21% versus 26% in 2004) and for Latinos (20% versus 22% in 2004).

25 The family categories in Table 2 do not include some family configurations, such as single-father families, unmarried adults living with unmarried adult relatives, and families headed by an unmarried adult who is not the parent of children in the household. These families make up about 11 percent of the poor. Cohabitating domestic partners are treated as unmarried.

26 The difference between California and the rest of the nation in the share of people in African American female-headed families is mainly due to the higher share of African Americans in the rest of the nation (13% versus 6%) and, to a lesser extent, to the higher rate of female headship among African Americans in the rest of the nation (25% versus 20%).

27 Table 3 results are based on a logistic regression of the sample of family heads (weighted to reflect family size). The model includes a quadratic in age and indicator variables for the racial/ethnic, education, and family structure categories in Table 2. The model also includes indicator variables for the regions in Figure 2 plus the northern region and "balance of state." Adjustments are made by assigning to each family the mean value of the characteristic (e.g., the mean value of the head's age) and calculating the predicted probability of poverty.

28 Cost adjustments before 1996 are more difficult to make because of inconsistencies in the definition of metropolitan area in the fair market rent data and the CPS.

29 See Dalaker (2005) for assessments of national poverty trends from 1987 to 2003 under alternative poverty measures.

30 Between 1995 and 2004, the average fair market rent increased 35 percent nationally. The CPI-U-RS shows 23 percent inflation over this period. See Gavin (1999) for a description of the relationship between housing price inflation and consumer price indices.

[31] To ensure the confidentiality of respondents, the Census Bureau did not report individual wages and salaries above $150,000 for 2004. 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. Because of topcodes, the CPS data cannot be used to explore extremely high incomes. See Piketty and Saez (2001) for an analysis of income inequality in tax return data, including extremely high incomes.

[32] Danziger and Gottschalk (1995) developed this approach. The calculation is performed with the microdata from the 1970 CPS. Family income is multiplied by the ratio of average income in 2004 to the average income in 1969 (not inflation-adjusted); this income level is compared with 2004 poverty thresholds. Income statistics are adjusted for family size.

[33] Between 1994 and 2000, income grew faster among low-income families than among higher-income families and income inequality declined. This was also a period of poverty decline in California (shown in Figure 4).

[34] Additionally, immigration has increased the supply of workers with low education and thus is another factor that contributes to the growing value of education in the labor market. A study by the National Academy of Sciences (Smith, 1997) concluded that estimates of the effect of immigration on native wages "cluster around zero" (p. 221). In more recent research, Borjas (2003) finds a small negative effect of immigration on the wages of low-skilled natives. See Reed (1999) for a discussion in the California context.

[35] Data for 1969 come from the 1970 Census.

[36] Poverty declines with years spent in the United States as immigrants become more integrated into the economy and their economic status improves. Furthermore, immigrants who are doing poorly may leave the United States—causing the measured trend over time to improve. In addition, the poverty trend for immigrants arriving after 1992 reflects the conditions of new cohorts arriving each year. Over the period 1993 to 2004, the share of people in families headed by a U.S. native declined from 66 percent to 61 percent.

[37] See Reed (1999) for further discussion of the effect of immigration on the California labor market.

[38] In the rest of the nation, the patterns are similar to those described here for California. However, in the rest of the nation, the share of children in single-mother families continued to grow from about 19 percent in 1980 to 24 percent in 2004.

[39] In the rest of the nation, child poverty in single-mother families peaked in 1991 at 56 percent, fell to 40 percent in 2001, and then increased to 42 percent in 2004.

[40] See Looney (2005) and studies cited therein for examinations of the causes of employment changes among single mothers.

[41] For single mothers and married women, the work statistics include only adults ages 18 to 64. Average annual earnings include those who did not work (i.e., earnings of zero). Growth in earnings is due to working more and to higher earnings per hour worked. See Reed (2004) for analysis of trends in women's earnings and work participation in California.

[42] For example, if married women had not increased their labor force participation, their husbands might have chosen to work more or to seek higher-paid positions. See Cancian and Reed (2002) for further analysis of female-headed families, women's earnings, and poverty.

[43] Full-time work is measured as 1,900 hours or more, which is equivalent to 47.5 weeks at 40 hours per week or 52 weeks at about 37 hours per week.

[44] Child care cost statistics are from the California Child Care Resource and Referral Network (2006). These statistics are based on a 2002 survey, adjusted upward 11 percent for inflation.

[45] Not all working families pay for child care. Almost half of California children up to age five who regularly receive some nonparental care are cared for by a relative at least part of the time, sometimes with pay and sometimes without pay. Care by a relative is slightly more common in the rest of the nation (O'Brien-Strain, Moyé, and Sonenstein, 2003). See Acs and Loprest (2005) for a description of low-income working families in the United States and Acs and Nichols (2005) for a description of budgets for these families.

[46] See http://aspe.hhs.gov/poverty/ for a complete list of federal programs using poverty guidelines for eligibility criteria.

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