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TRAJECTORY OF POVERTY IN LOS ANGELES[1]

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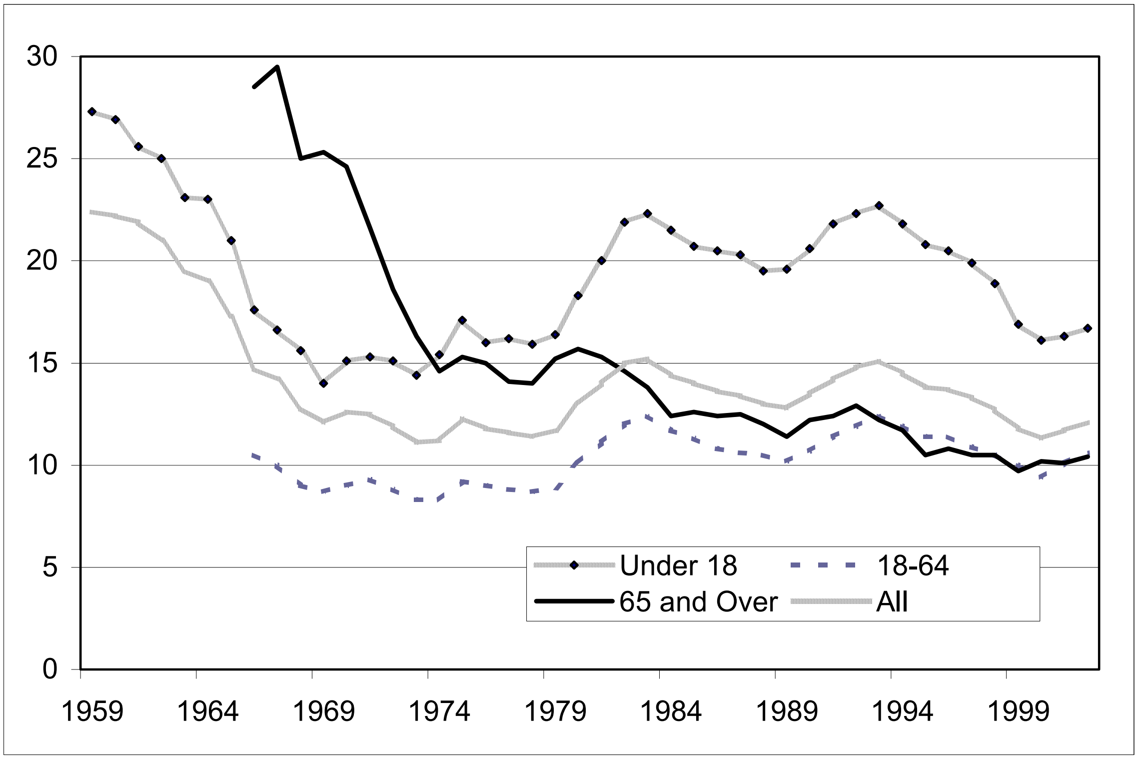
Economic inequality remains one of this nation's most pressing problems, and the large number of poor people is a glaring manifestation. While the poverty rate and income distribution fluctuate with the business cycle, the last several decades have witnessed secular increases in inequality; that is, after controlling for the business cycle, the underlying long-term trend is toward a "widening divide" between rich and poor, particularly in California.[2] Several factors contribute to this, including global competition, rapid technological change, industrial restructuring, increasing returns to education, and a demographic re-composition of the workforce. As a consequence, this nation and state have been unable to reduce the absolute and relative number of poor people over the last few decades.

The poverty rate is the official statistics used to measure the absolute and relative size of the poor population, and is a fundamental policy-oriented indicator. The index is based on the federal poverty line (FPL), which was developed in the 1960s and is set at three times the "breadbasket," a term referring to a minimum acceptable level of food for a family of a particular size. Although adjusted annually for inflation, the FPL does not take into account geographic differences in the cost of living. In a relatively expensive area such as Los Angeles, use of the FPL likely underestimates the problem posed by poverty. For 1999 (the reporting year for the 2000 census) the FPL for a family of four was an annual income of $16,700. Despite continued controversy over whether the level is too low, the federal poverty guidelines remain a useful tool for tracking changes over time and across different population groups. One of its initial uses was to guide the "War on Poverty" of the 1960s and to monitor its impacts. While that particular effort has long disappeared, the poverty index remains an important social indicator.

Although poverty is a persistent problem, its magnitude and characteristics have changed over time. The poverty level is affected by the business cycle, with a recession pushing more people below the federal line and an expansion lifting some over the poverty line. More important for policymakers are the long-term, secular changes. Poverty in the U.S. declined during the quarter century after World War II due to a combination of sustained secular economic growth and policy intervention. That progress ended in the mid-1970's, due in part to the economic disruptions caused by global competition and oil shocks. (See Figure 1.) As labor productivity, real wages and income stagnated, so did the poverty rate. The 1980s witnessed an increase, and although the recovery in the latter part of the decade brought down the poverty rate, the rate was higher than in previous peak years. The protracted economic expansion of the mid- and late-nineties finally drove the poverty rate to a nearly historical low (11.3% in 2000 versus 11.1% in 1973.)

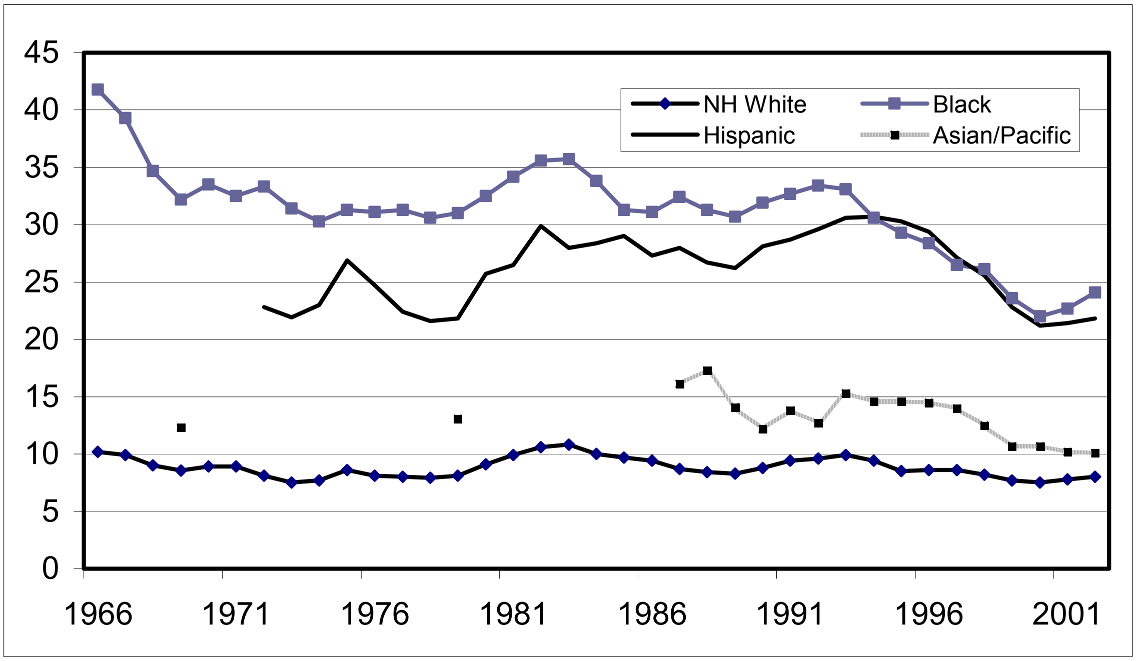
Figure 1: Annual Poverty Rates by Age Group, U.S. 1959 - 2002



The temporal changes have not been evenly distributed among people and places. One noticeable divergence is by age group. The poverty rate for older Americans decreased dramatically from about 39% in 1959 to around 15% in the mid-1970s as programs such as Social Security benefits and pensions became more common. The elderly poverty rate continued to decline in subsequent years, although at a much slower rate. By the end of the century, seniors were no more likely to fall below the poverty line than working-age adults. The trend for children, however, is troubling. Children benefited from the robust economic growth of the 1960s, which lifted significant numbers of parents and children above the FPL. The 1970s was the start of a reversal of economic fortune for children. By the end of the decade, one in six lived in poverty. The situation grew worse in the next decade and half. By 1993, nearly 23% of the nation's children lived in poverty. The economic boom lowered the poverty rate dramatically, but the rate during the last peak year was higher than the historical low (14% in 1969 versus 16% in 2000).

The poverty rate also differs dramatically by race and ethnicity. Historically, the poverty rate for African Americans was the highest among the major racial groups. In 1959, over half of all African Americans (55%) lived in poverty, about three times the level of whites (18%). Economic growth and increasing opportunities created by the civil rights movement dramatically reduced the African American poverty rates during the 1960s, falling by about 14 percentage points; nonetheless, the racial gap remained enormous. (See Figure 2 for available statistics since 1966.[3]) African Americans made no additional gains until the 1990s. Latinos also have experienced higher than average poverty rates. The poverty rate for Latinos was lower than that of African Americans throughout the 1970s and 1980s, but the two rates converged during the 1990s. Asian Americans and Pacific Islanders (AAPIs) have the lowest rates among the minority groups, but the AAPI rates have been roughly one and a half times higher than for non-Hispanic whites (NH whites).

Figure 2: Annual Poverty Rates by Race/Ethnicity, U.S. 1966 - 2002



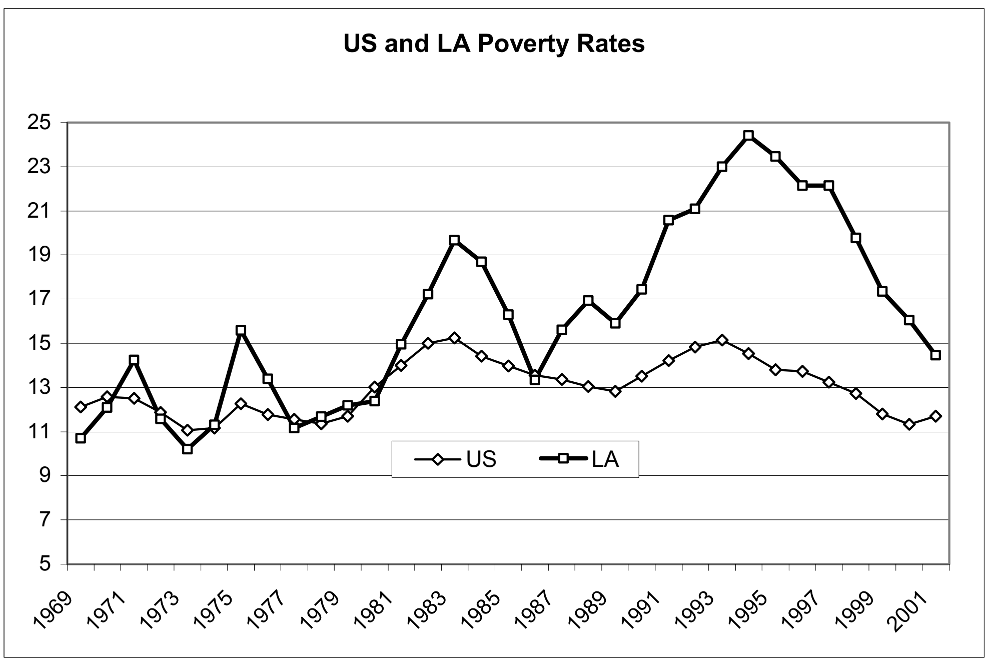
The prevalence of poverty also varies widely by geographic location. For example, the 2001 rate by regions ranged from a high of 13.5% in the South to a low in the Midwest of 9.4%; corresponding poverty rates for the West and Northeast are 12.1 percent and 10.7 percent, respectively. The state with the lowest poverty rate according to the 2000 Census is Connecticut (7.9%), and the state with the highest rate is Louisiana (19.6%), although the poverty rate in the District of Columbia's was higher at 20.2%. Variation by county is even greater, ranging from 56.9% in Buffalo County, South Dakota to 2.1% in Douglas County, Colorado. Within metropolitan areas, poverty rates also vary widely, and one of the more troubling developments has been the emergence of what have been termed "underclass neighborhoods," which have few jobs and economic activities, few community institutions, and weak social networks.[4] Operationally, these neighborhoods are defined as areas where the poverty rate is 40 percent. The number of underclass neighborhoods and the percent of the poor population residing in them grew considerably in the eighties, but then declined in the 1990s[5]

Poverty Trends in Los Angeles County

Since 1969 Los Angeles has experienced a secular increase in the proportion of its population living in poverty. According to the decennial census, the national poverty rate remained relatively steady between 12 percent and 14 percent over the past thirty years, the poverty rate in Los Angeles rose from about 11 percent in 1969 to nearly 18 percent in 1999. In absolute numbers, the poverty population increased from about three-quarters of a million people in 1969 to over 1.6 million in 1999.

The decennial census gives only a partial view of the changes in poverty. For the most part, data from the census conducted once every ten years captures the poverty rates during good economic times. What is missing is the impact of economic downturns on the poverty rate. Figure 2 provides insights into this phenomenon by displaying annual poverty rates for the United States and the Los Angeles metropolitan area from 1969 through 2001 calculated from the Current Population Survey, Annual Demographics file.[6] The patterns are somewhat similar; however, the cyclical swings in the Los Angeles poverty rate are much more dramatic. The mid-70s, 80s and 90s all experienced spikes in the poverty rate with each decade ushering in a 5 percent increase in the regional poverty rate. In the mid-1990s, the poverty rate in Los Angeles climbed to nearly 25 percent.

Figure 3: Annual Poverty Rates, U.S. and Los Angeles County, 1969 - 2001



SOURCE: Current Population Survey, March/Demographic Supplement

Additional insight can be gained by decomposing the temporal changes in the poverty rate into two factors: 1) a shift in the composition of the population by demographic groups, and 2) a change in the poverty rate within most groups. Table 1 summarizes these factors for 1980 and 2000.[7] Changes in the composition by age groups (children, young adults, older adults, and elderly) did not contribute to higher poverty holding the group-specific poverty rates constant. In fact, the only segment that increased its share of the total population (older adults) had the lowest poverty rate in 1980. What did happen during the two decades, however, was a marked increase in the poverty rate within non-elderly age groups, a jump of about five percentage points. Both a shift in composition by family type and changes in group-specific poverty rates contributed to the overall increase in the poverty rate. Single-parent households increased their share of all households, while the poverty rates of all household types rose.

Table 1: LA County Population Composition and Poverty Rate, 1980 and 2000

	Percent of Total Population		Poverty Rate	
	1980	2000	1980	2000
All	100.0%	100.0%	13.4%	17.9%
By Age				
Children (0-17)	27.7%	28.0%	19.5%	24.3%
Young Adults (18-34)	31.2%	26.6%	14.3%	19.6%
Older Adults (35-64)	31.7%	35.9%	8.7%	13.0%
Elderly (65+)	9.4%	9.5%	9.2%	10.3%
By Race/Ethnicity				
Non-Hispanic White	52.9%	31.0%	7.4%	8.2%
Black	12.7%	9.6%	23.5%	23.0%
AAPI	6.1%	12.2%	12.7%	14.0%
Latinos	27.2%	41.1%	20.4%	24.2%
Others	1.0%	6.1%	19.6%	20.3%
By Household Type				
In Two Parent Households	66.3%	61.6%	8.6%	12.0%
In Single Parent Households	18.3%	24.5%	27.3%	29.9%
In Other Household Types	15.4%	13.9%	17.8%	20.9%
By Immigration Status				
U.S. Born	77.8%	62.9%	11.7%	15.7%
Settled Immigrants	9.5%	24.1%	11.1%	16.5%
New Immigrants	12.7%	13.1%	25.9%	29.1%

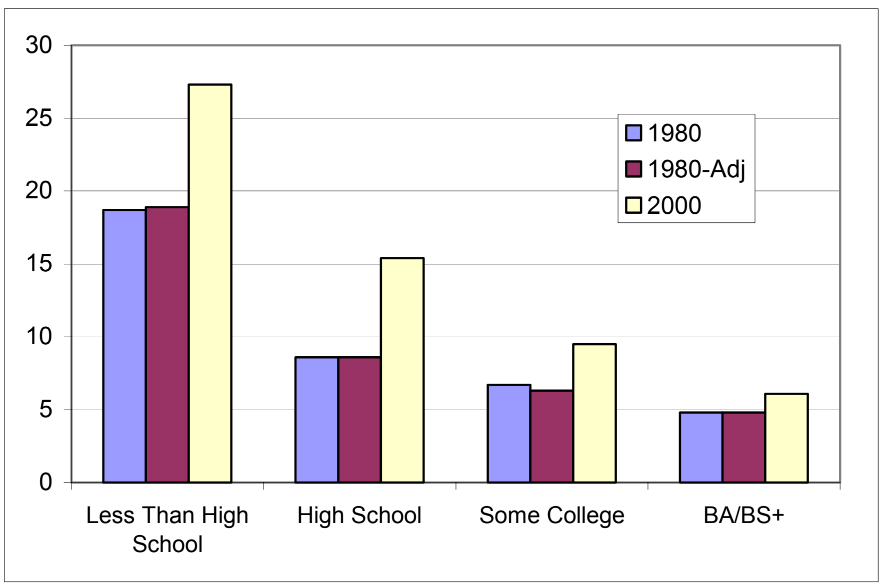
SOURCE: Census Public Use Microdata Sample (PUMS), 1980 and 2000

The secular change in the poverty rate is also tied to dramatic demographic shifts by race and ethnicity. Immigration, particularly from Latin America, has redefined Los Angeles, transforming it into the "Ellis Island" of the twentieth century. Between 1980 and 2000, the share of the foreign born population in Los Angeles increased from about 22% to 37%, or by more than 1.8 million people. As a result of immigration, Latinos increased their share of the regional population nearly threefold, from 27 percent in 1980 to 41 percent in 2000. During this same period, the proportion of Asian Americans and Pacific Islanders (AAPIs) doubled, from 6 percent to 12 percent.

Immigration also had an impact on the poverty rate. Latinos and AAPIs comprised less than half of the poor population in Los Angeles in 1980 and two-thirds by the end of the century. The impact of immigrants is complex because of offsetting effects. Many immigrants came with limited educational attainment, English language abilities, and marketable skills; consequently, the poverty rate for newer immigrants is high. As immigrants gained more skills and experience, their poverty rate decreased with additional years in the U.S. Unfortunately, this is partially offset by an increase in the poverty rate of established immigrants from 1980 to 2000.

Clearly, educational attainment affects the odds of falling below poverty. Figure 4 reports the poverty rates by educational level for adults 25 to 64 years old. There are two sets of statistics for 1980, the observed levels and levels adjusting for 1980-2000 differences in the composition of the population. The results show two things: poverty is inversely related to education, and the poverty rate has increased for every group, but especially for the less educated.

Figure 4: Poverty Rate by Educational Attainment



Poor Neighborhoods

Poverty is not evenly distributed across neighborhoods in Los Angeles, and has become more concentrated over time. Neighborhoods are an important geographic unit of analysis because they represent tangible physical entities that can be targeted for various forms of assistance and independently influence economic and social outcomes. Recent studies have demonstrated the adverse impact of living in poor neighborhoods on employment, health and educational outcomes.[8] As the previous section demonstrates, the temporal movement of the poverty rate has a cyclical and secular component.

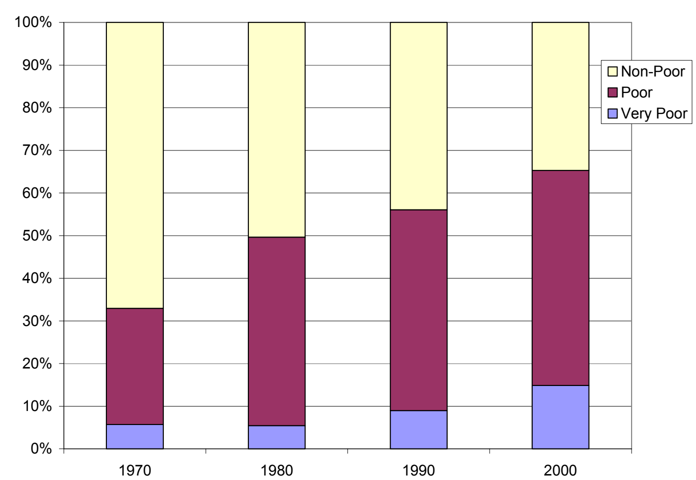
Decennial census data provide insights into the patterns and secular trends in the spatial distribution of neighborhood poverty during peak or near-peak economic years. Census tracts are used to define neighborhoods. A tract is an area with about 4,000 to 5,000 persons that is relatively homogenous with respect to population characteristics, economic status and living conditions. While tracts do not exactly replicate neighborhood boundaries, they serve as a good proxy.[9] In this chapter, neighborhoods are classified into three categories by the poverty level.[10] The U.S. Census Bureau uses poverty rates below 20 percent to designate 'non-poverty areas.' We use two additional categories: poor neighborhoods have poverty rates between 20 and 39 percent, and very poor neighborhoods have poverty rates of 40 percent and higher. Using these classifications, the data show that the number of neighborhoods with concentrated poverty expanded dramatically throughout Los Angeles County between 1970 and 2000. (See Table 2.)

Table 2: Distribution of Census Tracts by Neighborhood Poverty Level

	1970		1980		1990		2000	
Neighborhood Poverty	**N**	**Percent**	**N**	**Percent**	**N**	**Percent**	**N**	**Percent**
Very Poor	36	2.3%	39	2.4%	56	3.4%	137	6.7%
Poor	205	13.1%	323	20.0%	367	22.3%	634	31.1%
Non-Poor	1329	84.6%	1262	77.6%	1220	74.3%	1270	62.2%

Accompanying the growing number of impoverished neighborhoods is a significant increase in the proportion of the poor population that resides in Poor and Very Poor neighborhoods. (See Figure 5.) In 1970 and 1980, about 5 percent of the County's poor population lived in Very Poor neighborhoods. By 2000, the proportion had tripled with 15 percent of the poor population residing in Very Poor neighborhoods. Similar growth occurred in poverty concentration of Poor neighborhoods during the period. The proportion of poor people residing in Poor neighborhoods nearly doubled from about 27 percent in 1970 to 50 percent in 2000. The concentration of the poor is due to several factors, including residential and economic segregation.

Figure 5: Distribution of Poor Population by Neighborhood Poverty Level



Understanding the spatial patterns and trends in poverty concentrations is also important in order to identify communities in need. In 1980, high poverty neighborhoods were largely confined to inner-city Los Angeles County—primarily the downtown and Compton/Watts area. (Figure 6) The eighties and nineties ushered in significant increases in the suburbanization of poverty.[11] By 2000, Poor and Very Poor neighborhoods had developed and expanded throughout the San Fernando Valley, San Gabriel Valley, and the Long Beach-San Pedro area. (Figure 7)

Figure 6: Neighborhood Poverty Concentrations, Los Angeles County, 1980

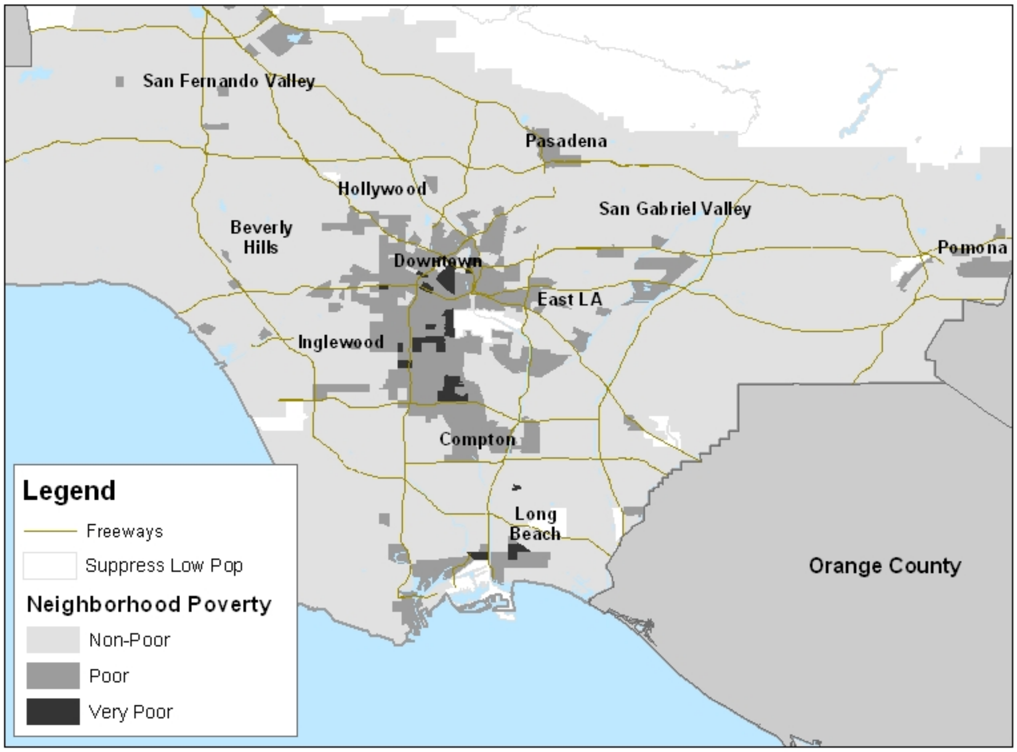
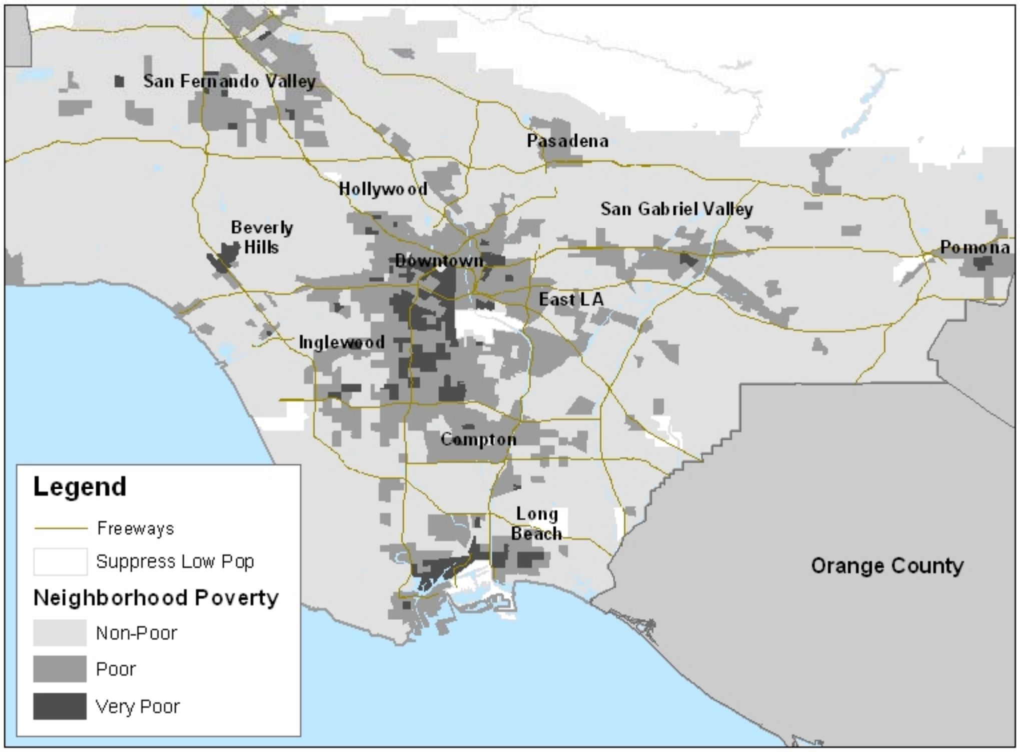


Figure 7: Neighborhood Poverty Concentrations, Los Angeles County, 2000



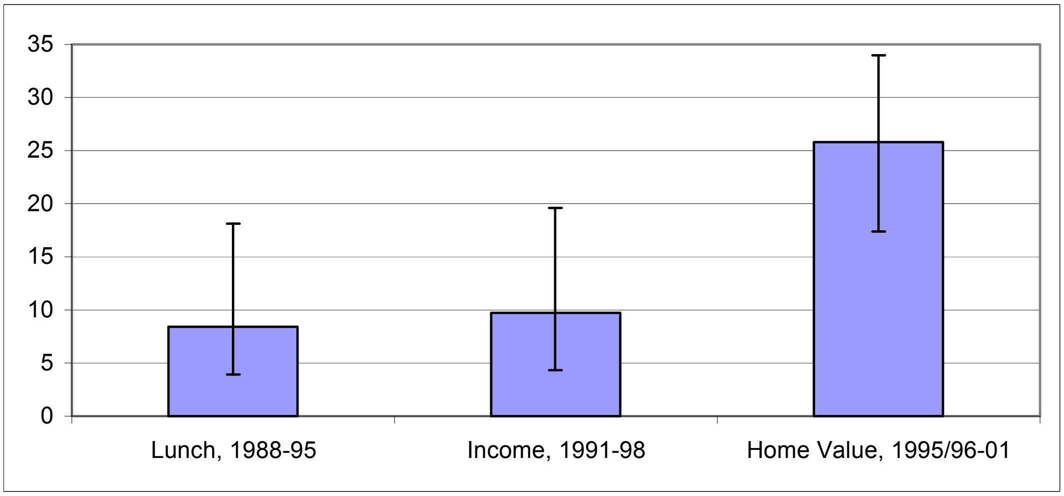
One interesting phenomenon is the relationship between Very Poor neighborhoods and the characteristics attributed to the urban underclass, that is, pervasive joblessness and high welfare rates. Without a question, participation in the labor market is lower and the relative number on public assistance is higher in the economically disadvantage neighborhoods than other neighborhoods. What is equally important to note is that the trajectory indicates a waning of the underclass phenomenon. During the 1980s, the labor force participation (LFP) rate in Very Poor neighborhoods increased while welfare usage decreased. There was some regression in the LFP rate during the 1990s, but the level remained considerably higher than in 1980. At the same time, the welfare rate remained unchanged. (See Table 3.)

Table 3: Labor Force Participation and Welfare Usage by Neighborhood Poverty Level

Neighborhood Poverty	Labor Force Participation	Welfare Households
1980		
Non-Poor	67%	8%
Poor	59%	20%
Very Poor	44%	37%
1990		
Non-Poor	68%	7%
Poor	63%	18%
Very Poor	57%	27%
2000		
Non-Poor	64%	7%
Poor	56%	18%
Very Poor	51%	26%

Given the large swing in Los Angeles' poverty rate from economic peak to trough, examining short-term trends within decades is an important component of understanding the nature of poverty within neighborhoods. Unfortunately, there is a paucity of data measuring the business cycle at the neighborhood level. There are, however, a few indicators that roughly measure the impact of the business cycle for small geography units.[12] They include data on the usage rate of free and reduced lunch programs, taxable income from IRS data, and home values from real estate transactions. Analysis of these measures provides some insight on the impact of the business cycle on neighborhood wellbeing. Figure 8 summarizes the range in the severity of short-run changes across 53 neighborhoods in Los Angeles. For each neighborhood, the magnitude of the cyclical fluctuation is measured as the percentage change from the value during the base year (1988 for the lunch program, 1991 for income, and 1995-96 for home values). The median percent change is represented by the height of the solid bar, and the 75th and 25th percentiles are represented by the I-bar.

Figure 8: Cyclical Volatility Across Neighborhoods



If there is little difference in how the business cycle affected all neighborhoods, then the range between the 75th and 25th percentiles would be small. The data show the opposite, that is, substantial variations in the severity of the business cycle across neighborhoods. The short-run changes experienced by those with the greatest volatility are two to three times greater than the changes experienced at the other end of the range. An analysis of the variation reveals that economically disadvantaged communities are more affected by the business cycle. Fluctuations in income and home values are more pronounced for poor neighborhoods than non-poor neighborhoods. In other words, economically marginal neighborhoods bear a greater burden from downturns in the business cycle. The exact mechanism is not known, but it is likely that residents in these communities are more subjected to layoffs and reduced earnings because they are concentrated in precarious jobs.

Despite the disproportionate impact of the business cycle on poor neighborhoods, the safety net is not very responsive to the increased needs of disadvantaged neighborhoods. During a recession, poor neighborhoods appear to receive less than a proportionate share of the increase in resources. For example, the usage of the free/reduced lunch program increased less in very poor neighborhoods than in other neighborhoods. Of course, residents of poor neighborhoods start from a high utilization level; consequently, relatively few people become qualified because of a downturn. Nonetheless, the safety net appears to be more effective in serving the neighborhoods with fewer people in poverty because a downturn increases the number of residents eligible for participation.

Future Prospects and Policy Options

Addressing the persistency of poverty and its spatial concentration should be of major concern to this region and its people. The simplest assumption is that the poverty rate by the end of this decade will remain unchanged from the rate observed in the 2000 Census, roughly around 18%. This should be taken as a low estimate because it does not square with historical trends. Without intervention, this region will likely continue along the upward path of the last two to three decades. The question is how far we will go over the next few years. If we use a linear extrapolation of the poverty rates from 1970 to 2000, then the poverty rate in 2010 will be about 20%.

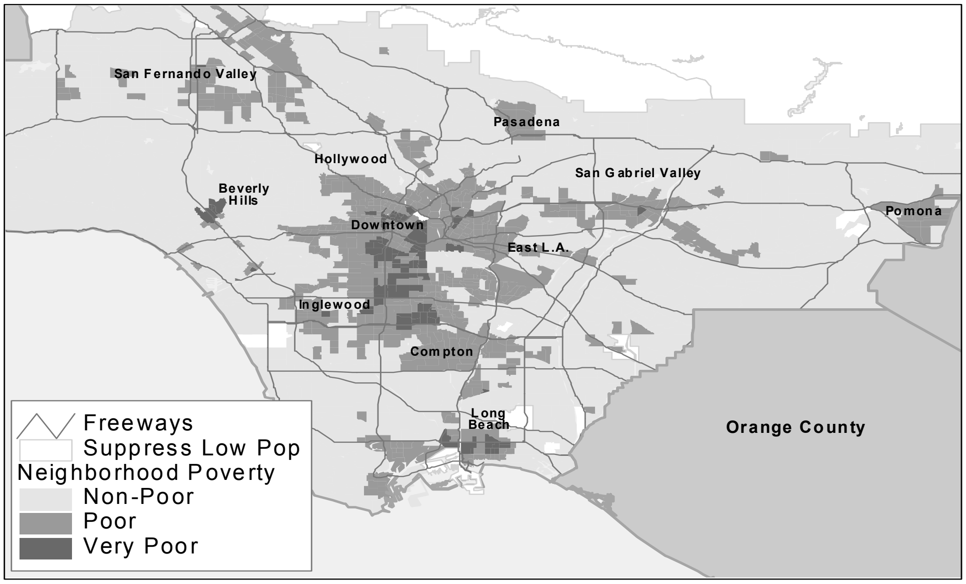
Simple extrapolation, however, may generate a high estimate because it does not take into account demographic and socioeconomic changes taking place. Based on population projections from the California Department of Finance, the racial/ethnic shift that has been strongly associated with the rise in poverty will continue but at a slower rate. An increasing share of the growth of the Latino and Asian population will come from births rather than immigration. More important for the near future is that an increasing share of the new entrants into the labor market will come from the second generation, who tend to have relatively higher educational attainment and better English-language skills than new immigrants. Among the immigrants who came in the 1990s, economic acculturation will enable them to fare better in the job market. All of these factors will moderate the growth in the poverty rate; consequently, the trajectory may push the rate up only a single percentage point.

An equally important issue is the spatial distribution of poverty in 2010. Projecting poverty at the neighborhood-level is considerably more problematic than for the region, but historical trends provide a clue. We use 1980 and 1990 data to model the spatial pattern of poverty in 2000. There are several alternative specifications for the model, and the preferred model produces results that closely matches the observed poverty rates. We then use the models to estimate the spatial distribution of poverty based on the moderate regional projection (19%) for 2010. Table 4 and Figure 9 report and map the results.

Table 4: Projection of 2010 Poverty Rate by Neighborhood Poverty Levels

Neighborhood Poverty	2000 Distribution	Preferred 2010	Alternative 2010	Extrapolated 2010
Very Poor	7%	8%	8%	12%
Poor	31%	34%	34%	32%
Non-Poor	62%	58%	59%	56%
All	100%	100%	100%	100%

Figure 9: Neighborhood Poverty Concentrations, Los Angeles County, 2010



Projections are useful, but they do not necessarily foretell our future. Many other factors can intervene to lower the poverty rate (e.g., a decrease in immigration, new technologies that increase labor productivity) or raise the poverty rate (e.g., increase global competition, flight of middle-class industries). Future public policy, particularly those related to welfare and the working-poor, will have an impact. While this region and its numerous local jurisdictions do not have the power to greatly influence or alter these factors, there is still room for regional action, and for its people and elected representative to speak out on state and national policy.

The basis for action must be rooted in a strong normative belief. Poverty should be unacceptable because it is to our collective shame that so many are trapped in such a low standard of living in our affluent society. Poverty exists despite people's active engagement in employment. This society can and should do better for those most disadvantaged.

The analysis in this chapter points to a need for short-term and long-term policies. It may be difficult to attenuate the recession-induced job losses and accompany decline in income in impoverished neighborhoods, but it is possible to modify the safety net so that the benefits are at least proportionate to high burden experienced by these communities. This will require altering eligibility requirements and benefit rates for programs such as unemployment insurance to cover those who had low wages unstable employment. At the same time, public agencies and foundations should act counter cyclically by channeling additional support and funds during bad economic times. While these short-run solutions are needed, the long-run vitality of the region requires addressing some fundamental issues and problems.

One of the most heated policy debates revolves around immigration and immigrants. Immigration policy is determined nationally, but this region has a stake in the policy because of the enormous impact on Los Angeles. There is no ideal solution to regulating the international flow of people because the country must weigh its commitment to remain a nation of immigrants against concerns about the potential adverse impacts of immigration. It would be a mistake, however, to confuse short-run problems for long-term benefits. Previous waves of immigrants were met with hostility, although history ultimately showed that they and their children contributed to the nation's vitality. Regardless of the position one takes on immigration, it is important to think long-term when considering the tradeoffs. It is also critical to differentiate immigrant policy from immigration policy. Immigrant policy covers the people who are already here and should not be mistaken for the regulation of the international movement of people. For this region, it is also important to insist that Los Angeles is not disproportionately burden with the financial cost of helping immigrants to become productive citizens.

Despite the focus on immigration and immigrants, there is a need to focus on the increasing numbers of second-generation children and adults. While there has been some educational mobility experienced by second-generation immigrants relative to their parents, many continue to have lower education attainment than native-born Whites. The educational gap is due in large part to the failure of public schools. The second generation, who are U.S. citizens and educated in our public school system, are not experiencing the gains in human capital that will allow them to be competitive in an economy that is encountering more global competition and is increasingly more dependent on advanced technology to generate well-paid jobs. Los Angeles needs to improve its public school system in order to increase human capital among future generations of immigrants and facilitate the process of intergenerational economic mobility.

Finally, concentrations of poverty should be attacked directly through housing policy and economic development. Dispersing affordable housing throughout the region will provide more residential options for low-income families. Greater residential mobility will allow the poor and near-poor to move into neighborhoods that provide better educational and employment opportunities. At the same time, the region needs to focus economic development efforts to rebuild labor demand for a middle class within and nearby impoverished neighborhoods. The increases in employment levels and labor force participation rates in impoverished neighborhoods is promising, but must be accompanied by increases in real wages among the bottom end of the labor market or opportunities for middle-class jobs and economic mobility.

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Endnotes

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[2] For national studies see: Ilg and Haugen, 2000; Primus and Greenstein, 2000. For California studies see: LAO, 2000; Ong and Zonta, 2001; Daly, Reed, and Royer, 2001. For Southern California studies see: Ong 1989, Ong and Zonta, 2001.

[3] The 1966 to 1972 rates for non-Hispanic whites are estimated by multiplying the white rate by 0.9, which is the approximate ratio for two rates 1973 to 1983. The 1969 rate for Asians and the 1979 rate for Asians and Pacific Islanders are from the decennial census.

[4] Wilson, 1987.

[5] Jargowsky, 2003.

[6] The CPS data from 1969 through 1972 included Orange County in the Los Angeles Metropolitan area. The poverty rates presented are estimated only for Los Angeles County in these three years by allocating the total population and poor population according to the 1970 Census for the two counties. The 1969 rate is based on the decennial census, and the CPS based rates for 1970-1971 are adjusted using this initial rate.

[7] The statistics are based on the Census Public Use Microdata Sample (PUMS), which contains 1 percent and 5 percent samples of the total population and provides information on individuals. The 1970 estimates use the 5 percent sample. The 2000 estimates are from the PUMS version of the American Community Survey's, Census 2000 Supplementary Survey (C2SS).

[8] Ong and Miller, 2003;Pearl, et al, 2002; Ross & Mirowsky, 2001; Barr, et al, 2001; Ross, 2000; Boardman, et al, 2001; Zeiler, et al, 2000; Ainsworth, 2002; Gorman, et al, 2001.

[9] Small & Newman, 2001; Kasarda, 1993

[10] Poverty status is not determined for people in military barracks, institutional group quarters, or for unrelated individuals under age 15 (such as foster children). These groups are considered neither 'poor' nor 'nonpoor' and thus are not included in this analysis of poverty. For 1970, the total number of persons in poverty was calculated by combining aggregate persons in families below poverty and unrelated individuals below poverty and the population for whom poverty status was determined was calculated by subtracting the institutionalized population from the total population. In all other years, the total number of persons in poverty divided by the poverty universe were used to calculate the poverty rates.

[11] McConville & Ong, 2003.

[12] Ong, et al., 2003.