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The Distribution of Wealth in California, 2000

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Rosa Maria Moller, Ph.D.*

*Prepared at the Request of Assembly
Majority Floor Leader, Marco Antonio Firebaugh
and Assembly Member Manny Diaz*

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CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION.....	3
DEFINITIONS	5
Components of Household Wealth	7
Methodological Remarks	8
HOUSING UNIT ANALYSIS	9
Distribution of Household Wealth	11
Unsecured Debt and Net Wealth.....	13
INDIVIDUAL LEVEL ANALYSIS	15
All Californians	17
Average Household Wealth	17
Household Wealth by Quartiles	18
Wealth by Asset Type.....	19
Average Household Wealth by Home Ownership.....	20
Asset Allocation by Homeownership and Ethnicity	21
Children and Household Wealth	23
Children’s Average Household Wealth by Homeownership and Ethnicity	25
Distribution of Children’s Household Wealth by Ethnicity.....	26
Children’s Household Wealth by Family Type	28
Working Californians and Household Wealth.....	29
Wealth Distribution.....	31
Business Ownership Rates by Ethnicity	32
Average Household Wealth by Type of Worker by Ethnicity.....	33
Distribution of Household Wealth Held by Type of Worker.....	34
Homeownership and Average Household Wealth of Working Californians.....	35
Educational Attainment and Household Wealth by Type of Worker	36
The Elderly and Household Wealth	37
Wealth Distribution of the Elderly	39
Asset Holdings of Elderly by Home Ownership.....	41
Senior’s Average Household Wealth by Homeownership	41
CONCLUSION	43

EXECUTIVE SUMMARY

At the request of Assembly Members Marco Antonio Firebaugh and Manny Diaz, this paper focuses on the household wealth of Californians. We specifically analyze the associated level of wealth for all Californians, children, workers (jobholders and business owners), and the elderly, by ethnic group. Household wealth is defined as the value of the assets owned by households less any debts on those assets. Our analysis is based on data from the Survey of Income and Program Participation (SIPP) of the U.S. Census Bureau (1996-2000).

The main findings of our study are:

- In California, Whites* are richer than other ethnic groups. While Whites comprise half of the California population, they hold more than 80 percent of the total household wealth in the state. For Asians, the distribution of wealth is more equitable since their share of wealth is comparable to their share in California population. Latinos and African Americans are relatively the poorest ethnic groups.
- Over 38 percent of Latinos and 45 percent of African Americans live in households where the combined wealth of all the household members is under \$3,925.
- Most household wealth is held as home equity. This is true for all ethnic groups, but is even more significant for Latinos and African Americans. Compared to other groups, Whites and Asians invest more of their wealth in stocks and mutual funds.
- Californians living in owned homes have significantly higher levels of household wealth than persons living in rented homes. Persons living in an owned home have eight times more household wealth than persons in rented homes.
- Children, regardless of ethnic group, tend to live in households with lower levels of wealth. These differences are most significant when we compare California children who live in rented homes to those living in a house owned by the family. In California, there are 3.5 million children living in the poorest households, with wealth of \$3,925 or less. Among these, 58 percent are Latino, 22 percent are White, 11 percent African American, and eight percent Asian. However, the propensity to be in the poorest category is the highest for African Americans; 60 percent of African American children live in poor households. Latinos follow at 44 percent, Asians at 30 percent, and Whites at 19 percent.

* Throughout this report, Whites, African Americans, Asians, and African Americans refer to persons that marked the respective racial box on the Census form and who at the same time indicated that they were not Latino or Hispanic. Latinos or Hispanics are of any race. Our ethnic categories are mutually exclusive.

- On average, business owners have significantly more wealth than jobholders. This difference is higher within the Latino and African American ethnic groups. Educational attainment is associated with higher household wealth for both business owners and jobholders, but differences in wealth by educational attainment are more important for jobholders. When comparing wealth differences among business owners, the importance of educational attainment diminishes.
- Wealth is generally higher in households with elderly people, with the exception of those who live in rented homes. Asian, African American, and Latino elderly who live in rented houses are among the poorest in California.

Our analysis indicates that most of the wealth of average households in California is held as home equity. This is particularly true for Latinos and African Americans. Therefore, public and private programs that are designed to increase homeownership (for example, providing low interest rate loans, or encouraging the construction of more affordable housing) are important to increasing the standard of living of these groups. In addition, programs that encourage business ownership, entrepreneurial skills, and that target the education and income of the poorest groups, may also be important to increasing the standard of living of Californians and to diminishing wealth differences among them.

INTRODUCTION

This report describes the wealth distribution and asset holdings of California households and individuals by ethnic groups, as it stood in the year 2000. Our classification of ethnic groups includes Latinos (persons of Hispanic origin, singled out from any race), Whites, Asians, and African Americans, as defined by the Census. The sample size that we analyzed was too small to perform a comparable analysis for other ethnic groups (such as Native Americans).

We used data from the 1996-2000 Survey of Income and Program Participation (SIPP). This survey is conducted by the U.S. Bureau of Census and collects wealth and asset data as a supplement to questions on labor force participation, income, demographic characteristics, and program participation.*

The analysis of the distribution of wealth in California is important because although much has been written about the distribution of income, very few studies have focused on the perhaps more important measure, distribution of wealth. A look at the distribution of wealth provides a better understanding of the economic conditions of California households than the analysis of the distribution of income, since it also accounts for household debt. Wealth and income are highly correlated. However, because the economic well being of households depends upon both income and wealth, income by itself is an imperfect measure. For example, a household may be in the top 10 percent of the income distribution, but burdened with a large amount of debt.

Literature on income distribution in California and the United States shows that the distribution of income has become more regressive over time, with the highest income groups gaining share relative to the lowest income groups. The basic trend is one of increased income growth at the top percentiles of the income distribution, stagnation in the middle percentiles, and deterioration in the lowest percentiles. When factors such as education and occupation are controlled, ethnic differences are still striking, with Whites and Asians having relatively more income than Latinos and African Americans. When immigration status is taken into account, these differences narrow but still persist.¹

Wealth and income distribution are important policy issues because sustained development requires an equitable and adequate standard of living of the population. Poverty is associated with a variety of social problems (malnutrition, health problems, and higher crime, for example), which are costly for families, government, and local communities. Higher income levels increase tax revenue collections to provide the resources needed to fund schools, public infrastructure, and social service programs. Furthermore, the existence of a strong middle class provides the basis for strong economic markets and growth.²

* The questionnaire asks for data on wealth for the previous year of the survey.

Our analysis is presented in five main sections. First, we look at wealth differences among California households according to the ethnicity of the householder. In the four following sections, we examine the distribution of household wealth available to California's general population, children, workers (both business owners and jobholders), and the elderly. In all cases we distinguish household-wealth differences by home tenure, since home equity is the single most important asset for California households.

Definitions

DEFINITIONS AND METHODOLOGY

Components of Household Wealth

Figure 1

Definitions	
Equity:	Value of asset less any debt still owed on it.
Total Household Wealth: Total of	
<ul style="list-style-type: none"> • Home Equity • Equity in Other Real Estate • Equity in Vehicles • Retirement Accounts <ul style="list-style-type: none"> • Market value of IRA accounts • Market value of KEOGH accounts • Market value of 401K accounts • Interest Earning Assets Held in Banks • Interest Earning Assets Held in Other Institutions (like bonds or securities) • Equity in Stocks and Mutual Funds • Business Equity • Equity in Other Assets <ul style="list-style-type: none"> • Face value of Savings Bonds • Amount in non-interest checking accounts • Amount owed to you for sale • Amount on mortgages owed to you • Equity in other investments 	
Unsecured Debt:	Total of debt not secured by any asset. Examples are:
<ul style="list-style-type: none"> • Amount owed in credit cards • Amount owed in other loans or debt • Amount owed for store bills 	
Net Worth:	Total household wealth less unsecured debt.

The cornerstone for understanding wealth is the term “equity,” which for a given asset is the value of the asset minus any debt owed on that asset. A car, for instance, may be valued at \$10,000, but if \$3,000 were still owed for the car, then the owner would receive only \$7,000 after selling the car. In this case, the equity is \$7,000.

Household wealth is the equity on all assets owned by all members in the household.* Figure 1 lists the assets used to estimate household wealth. Wealth is the sum of the equity from a house, other real estate, vehicles, retirement accounts, interest-earning assets, stocks, mutual funds, and other types of assets.

* A household consists of all people who occupy a housing unit. A housing unit in turn can be a house, an apartment, or a mobile home.

Our concept of household wealth does not deduct unsecured debt, or loans that are not secured by any asset, such as credit card debt.[†] We preferred to analyze household wealth rather than net worth (household wealth minus unsecured debt) because unsecured debt is very volatile (i.e. it can change significantly from month-to-month) and is small relative to household wealth.

Methodological Remarks

The household wealth figures presented in this report are based on a survey and are subject to sampling variability and potential error. The best way to minimize sampling error is to have a large sample size. In the case of Whites and Latinos, the sampling size is large enough to obtain reliable information. For Asians and African Americans, due to the smaller sample size, the estimates are less robust. This is especially the case for the section on seniors.

[†] To cover the risk of lending money to someone else, most loan agents secure their debt to a specific asset. In the case of the car mentioned above, the car itself would secure the \$3,000 loan. If the buyer fails to make payments on the loan, the loan company has the right to repossess the car.

Housing Unit Analysis

HOUSING UNITS

In this section we describe the distribution of California household wealth, by ethnic groups. Household wealth accounts for the wealth of all individuals living in each housing unit.* A more detailed analysis on the levels of household wealth available to some subgroups of the population (children, workers, and elderly) is presented in the subsequent sections.

Distribution of Household Wealth

The distribution of household wealth in California varies considerably by ethnic group. Figure 2 shows the distribution of \$2.4 trillion in wealth held by California households. Figure 3 shows the ethnic composition of California's 12.2 million housing units, which includes owned and rented units.† We see that Whites are relatively richer than other ethnic groups. While Whites head 58 percent of California households, they hold about 80 percent of the total household wealth in the state. Latinos and African Americans are relatively the poorest. Latinos head 26 percent of California households, but hold only 9 percent of household wealth. Households headed by African Americans represent 6 percent of the state households, but hold less than 2 percent of household wealth.‡

Since some ethnic groups have larger households than others, it is important to compare the distribution of the population to the household wealth available to that population. The distribution of household wealth becomes more skewed when compared to the ethnic proportions of the total population, because some ethnic groups, like Latinos, tend to have more persons living in each household. In California, 48 percent of the population is White, 34 percent Latino, 11 percent Asian, and six percent African American.

* Housing units includes all homes, apartment units, and mobile homes.

† About 45 percent of the housing units are rentals. The SIPP is formulated to include individuals living in certain types of group quarters such as non-transient motels or hotels, and college dormitories. This is a small group, however, and makes up less than one percent of the cases. The ethnic composition of a household is defined by the ethnicity of the household head.

‡ We are using data from the 1996-2000 Survey of Income and Program Participation (SIPP). Thus, some of the totals do not match exactly with the 2000 Census data.

Figure 2

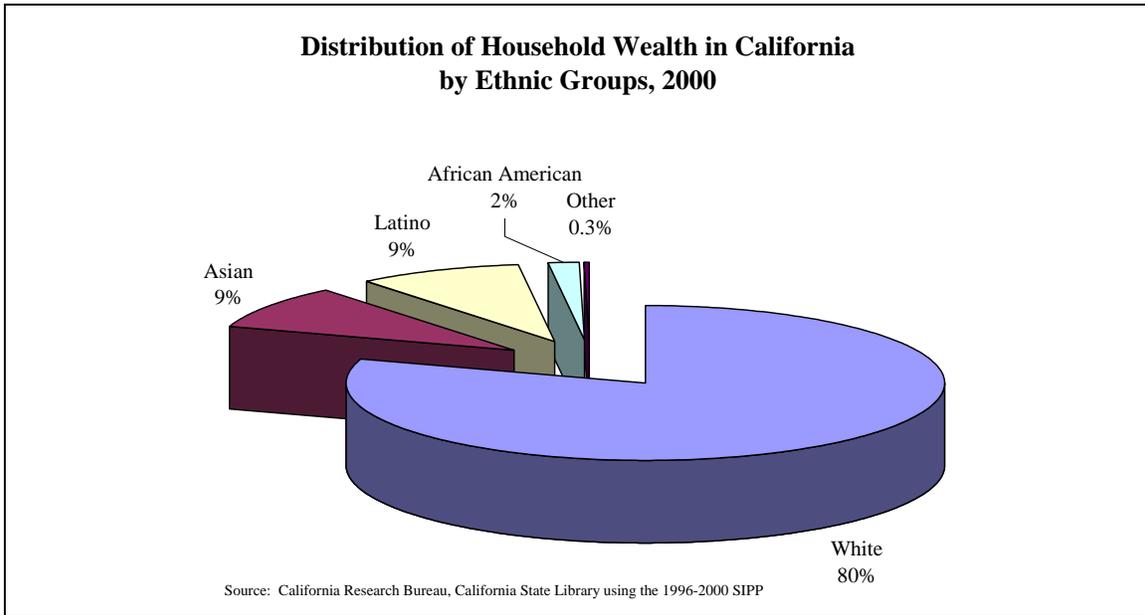
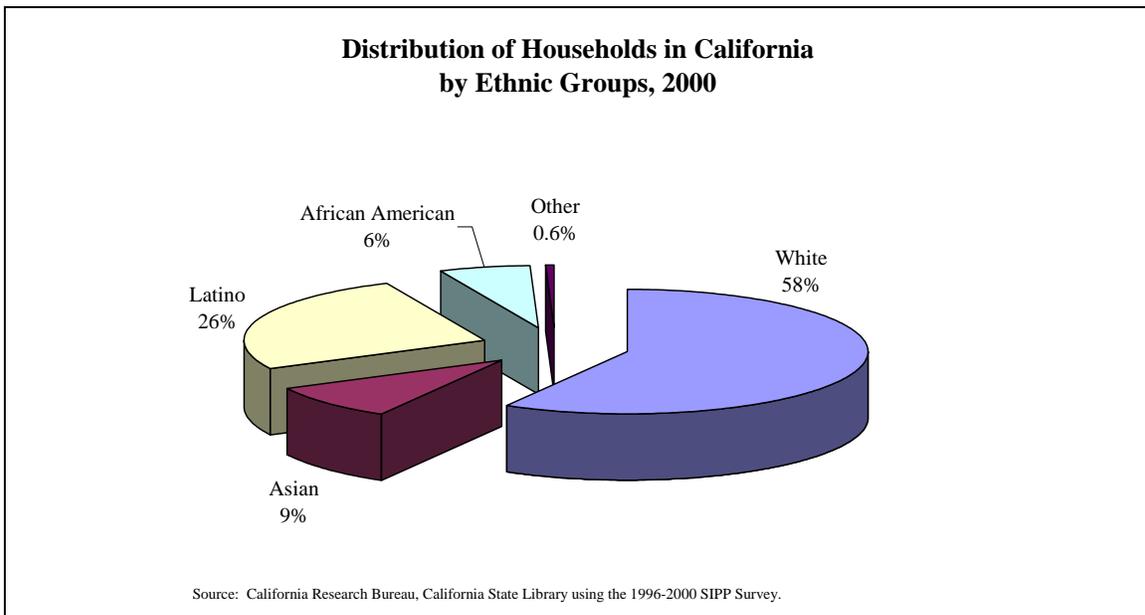


Figure 3

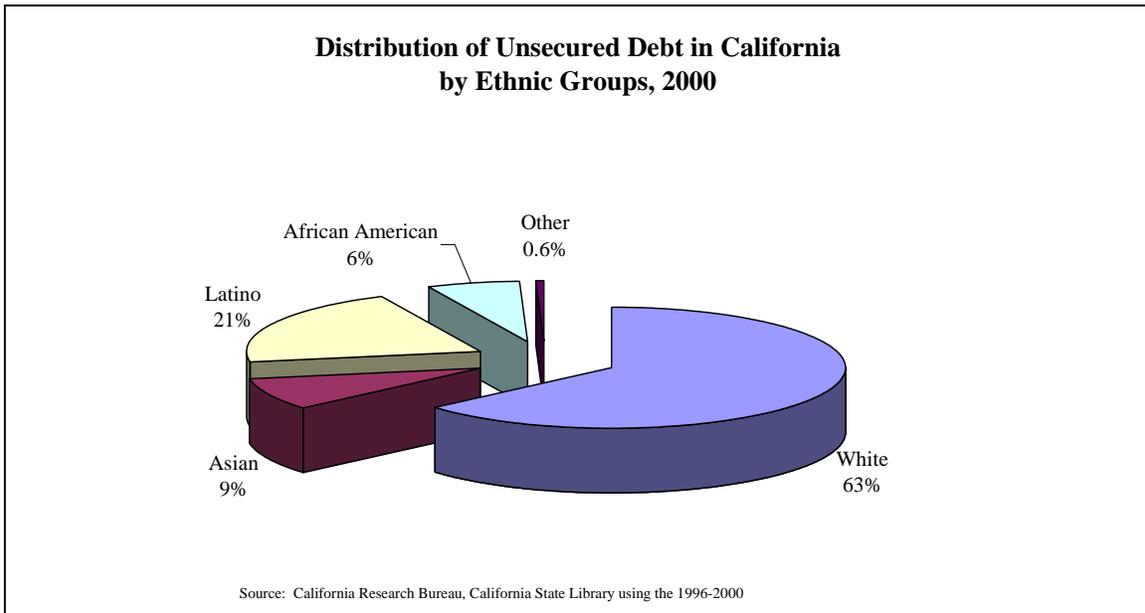


Unsecured Debt and Net Wealth

Does the distribution of wealth change when unsecured debt (not secured by an asset, such as credit card debt) is deducted from total household wealth? The answer is no, because unsecured debt is only 2.9 percent of the total household wealth; therefore, it does not significantly affect the distribution of wealth. Moreover, differences in average unsecured debt among ethnic groups are not large (the average ranges between \$4,758 for Latinos to \$6,378 for Whites). Thus, the distribution of net wealth or worth by ethnic group is identical to that shown in Figure 2.

Unsecured debt is more evenly distributed among the different ethnic groups. Latinos live in 26 percent of the housing units and hold 21 percent of the unsecured debt; African Americans live in six percent of the housing units and hold six percent of the unsecured debt. Figure 4 shows the distribution of unsecured debt in California, by ethnic group.

Figure 4



Individual Level Analysis

- **All Californians**
- **Children**
- **Workers**
- **Elderly**

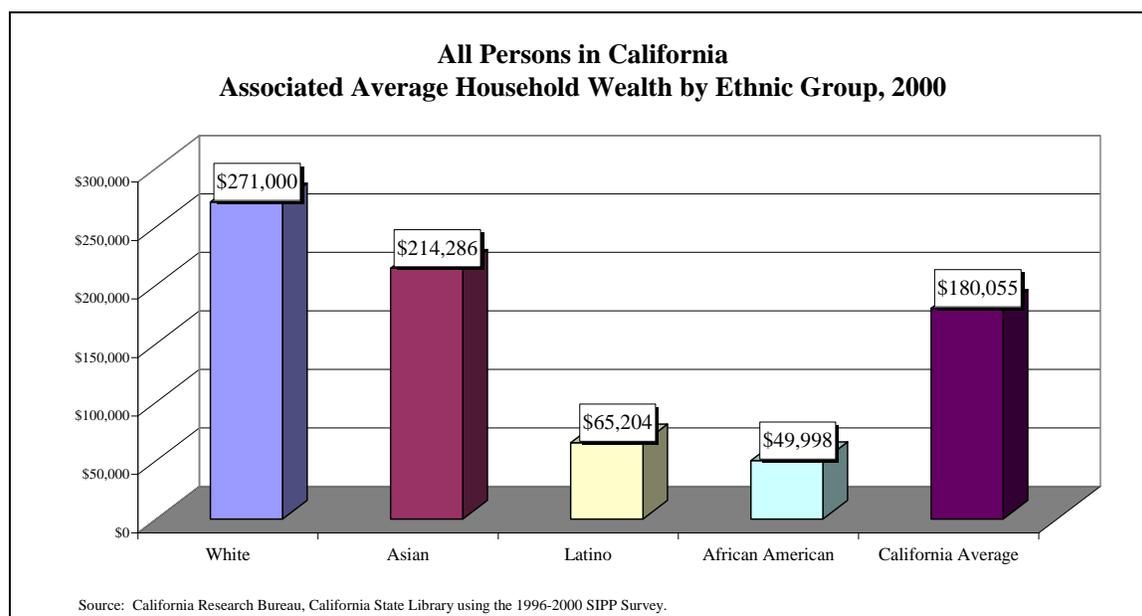
ALL CALIFORNIANS

The following sections present information about groups of individuals and the household wealth that is available to them. When dealing with individuals (working Californians, children, and the elderly), we assign to each one of them the total wealth of their household.* We begin with an analysis of all individuals in the general population, which will serve as the reference point for the other three subgroups: children, the working population, and the elderly.

Average Household Wealth

Figure 5 displays the average household wealth for California's largest ethnic groups. In the year 2000, an average Californian lived in a household that had wealth of \$180,055.

Figure 5



The average household wealth for Whites and Asians is above the state average, while the average wealth of Latinos and African American is significantly below. The

* The methodology employed in this and subsequent sections is similar to the one used to attribute family income to individuals. When somebody says that children of a particular group have an average family income of \$30,000, they are talking about the income of the adults. As a collective concept, family income is thought to benefit children either directly or indirectly. This report takes the same approach and thus we will talk about individuals and their associated household wealth, another collective concept. The assumption is that individuals in a household (children, seniors, etc.) can draw or benefit from the pool of resources that are contributed by all members in the household.

It is important to keep in mind that the numbers presented in this report are not adjusted for household size. If household size were taken into account, the wealth gap between Whites and the other groups would increase since Whites tend to have fewer persons per household.

household wealth of Latinos is about one third of the statewide average, and for African Americans it is about one fourth.

Household Wealth by Quartiles

In order to present information on the distribution of household wealth, we divide the population into four equal groups, so that 25 percent of the total population falls in each quartile.

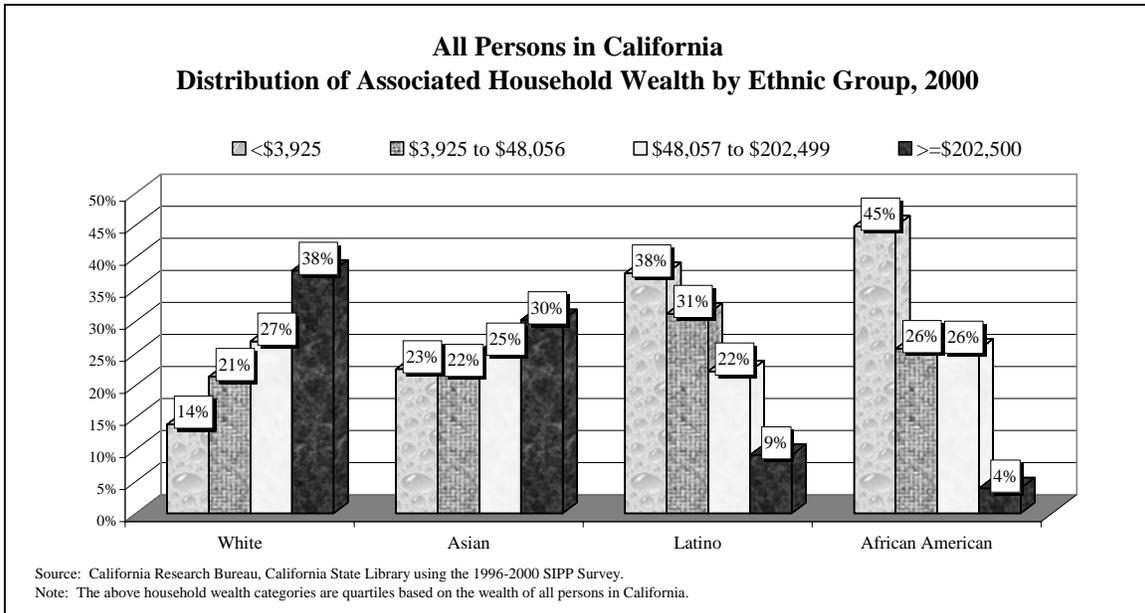
The distribution of California household wealth by quartiles is described in Figure 6. The poorest 25 percent of the population lives in households with wealth of less than \$3,925; another 25 percent lives in households whose wealth level ranks from \$3,925 to \$48,056; the next 25 percent live in households with wealth between \$48,057 and \$202,499; and the richest fourth of the population live in households whose wealth is above \$202,500.

The mean or the median?

Measures of wealth can be heavily skewed by extreme values; neither the average nor the median (the value that is exactly in the middle of the distribution, dividing it in two equal parts) adequately describes the distribution. This report uses both the average and quartiles. Quartiles divide the population into four groups, each with an equal number of persons.

Figure 6 shows the percent of individuals within each ethnic group by household wealth category. All ethnic groups have persons living in households in each of the four household wealth categories. However relatively more African Americans and Latinos are in the poorer households, and a smaller portion lives in the wealthiest households.

Figure 6



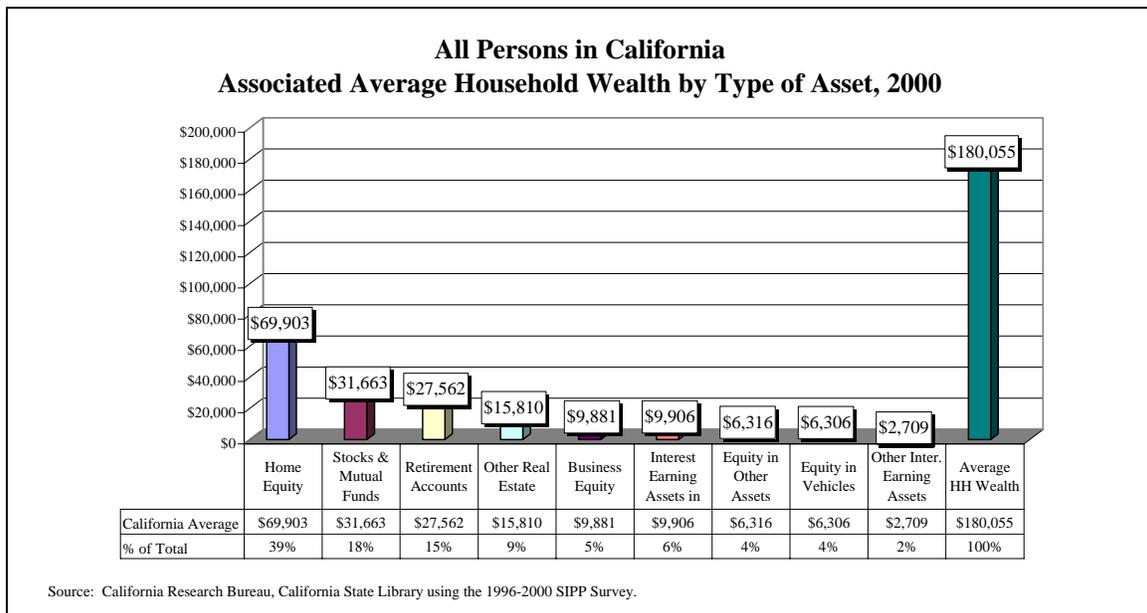
Wealth by Asset Type

The U.S. Census Bureau’s Survey of Income and Program Participation (SIPP) is a rich dataset that contains information on the types of assets owned. This enables us to find out which ethnic groups in California are likely to own various kinds of assets.

Figure 7 shows assets types as percentages of total household wealth in California in the year 2000. Most of Californian’s household wealth is held in the following three categories:

- 1) Real estate, mostly home equity (home value net of debt)
- 2) Equity in stocks and mutual funds
- 3) Retirement accounts such as 401(k), IRA, and Keogh accounts[†]

Figure 7



The likelihood of owning these assets, however, varies by ethnic group. Figure 8 displays the allocation of household wealth by type of assets according to ethnicity. We see that:

- Home equity is the largest asset in all ethnic groups, but is most significant for Latinos and African Americans.
- Whites and Asians invest relatively more of their wealth in stock and mutual funds.
- Latinos have a relatively lower proportion of their wealth invested in retirement accounts.

[†] In this definition of wealth, the SIPP survey does not include holdings in defined benefit plans like the ones provided by state and local governments, and large employers. CalPers (the state retirement system) is an example of a defined benefit plan.

- Business and vehicle equity represent a significant proportion of household wealth in the Latino and African American communities.

Figure 8
All Persons in California
Allocation of Associated Household Wealth by Type of Asset
by Ethnic Group, 2000

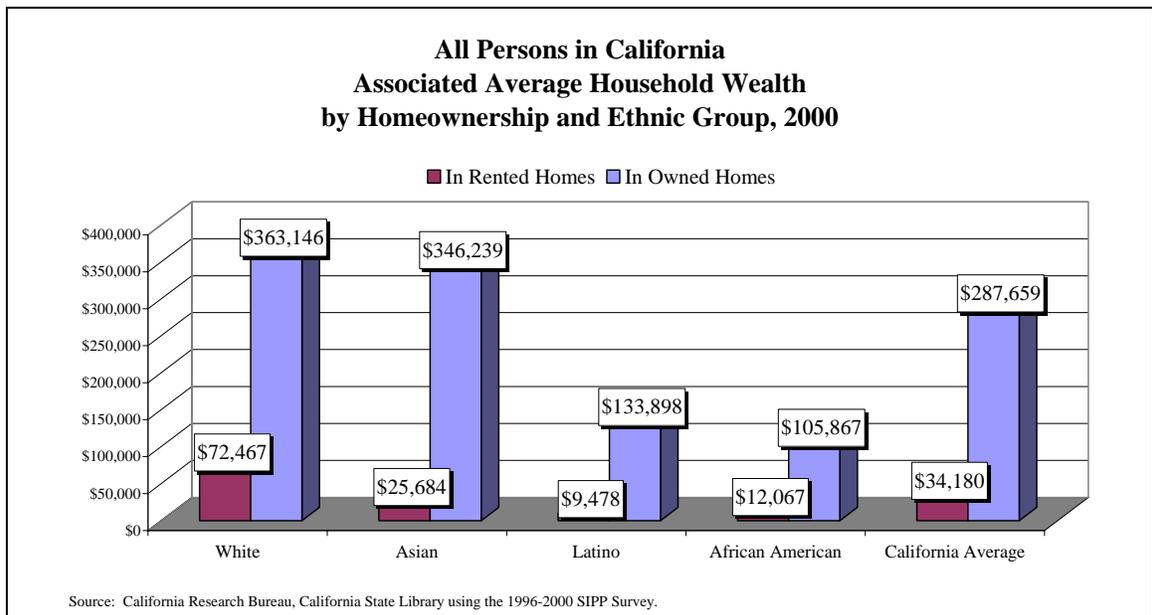
Ethnicity	Home Equity	Stocks & Mutual Funds		Retirement Accounts	Other Real Estate	Business Equity	Interest Earning Assets in Banks	Equity in Other Assets	Equity in Vehicles	Other Inter. Earning Assets
		Mutual Funds	Retirement Accounts							
White	36%	20%	16%	8%	5%	6%	4%	3%	2%	
Asian	38%	15%	16%	15%	3%	5%	3%	4%	1%	
Latino	54%	7%	10%	7%	9%	5%	2%	6%	0%	
African American	50%	8%	15%	5%	6%	5%	2%	7%	2%	

Source: California Research Bureau, California State Library using the 1996-2000 SIPP Survey.

Average Household Wealth by Home Ownership

Since home equity accounts for the largest share of household wealth, it is important to distinguish between homeowners and renters. Forty-two percent of California's population lives in rented homes. They have significantly lower levels of wealth compared to homeowners. This is true for all ethnic groups in California.

Figure 9
All Persons in California
Associated Average Household Wealth
by Homeownership and Ethnic Group, 2000



Asset Allocation by Homeownership and Ethnicity

Figure 10 compares the allocation of assets for homeowners and renters. The distribution of wealth among homeowners is similar to the distribution of wealth among Californians in general. Most of the wealth of homeowners is held as home equity. The amount of home equity relative to other assets is higher for Latinos and African Americans. For Asians who own a home, equity in other real estate is also a significant source of wealth.

Most of the wealth held by White renters is allocated in stocks and mutual funds, retirement accounts, and business equity. Latino renters are least likely to have investments in stocks and mutual funds, but relatively more likely to have equity in a business. African American renters hold most of their wealth in retirement accounts, vehicles, and stocks and mutual funds. Asian renters hold most of their wealth in bank accounts, retirement accounts, stocks and mutual funds, and vehicles.

Figure 10
All Persons in California
Allocation of Associated Household Wealth by Type of Asset
by Homeownership and Ethnic Group, 2000

Home Owners												
Ethnicity	Home Equity	Stocks & Mutual Funds		Retirement Accounts	Other Real Estate	Business Equity	Interest Earning Assets in Banks	Equity in Other Assets	Equity in Vehicles	Other Inter. Earning Assets	Average Household Wealth	Percent of Group in Owned Home
White	39%	18%	16%	8%	5%	5%	4%	3%	2%	\$363,146	68%	
Asian	40%	15%	15%	16%	2%	4%	3%	3%	1%	\$346,239	59%	
Latino	59%	7%	9%	7%	8%	4%	1%	4%	0%	\$133,898	45%	
African American	58%	5%	13%	6%	6%	4%	1%	3%	2%	\$105,867	40%	
Total	42%	16%	15%	9%	5%	5%	3%	3%	2%	\$287,659	58%	

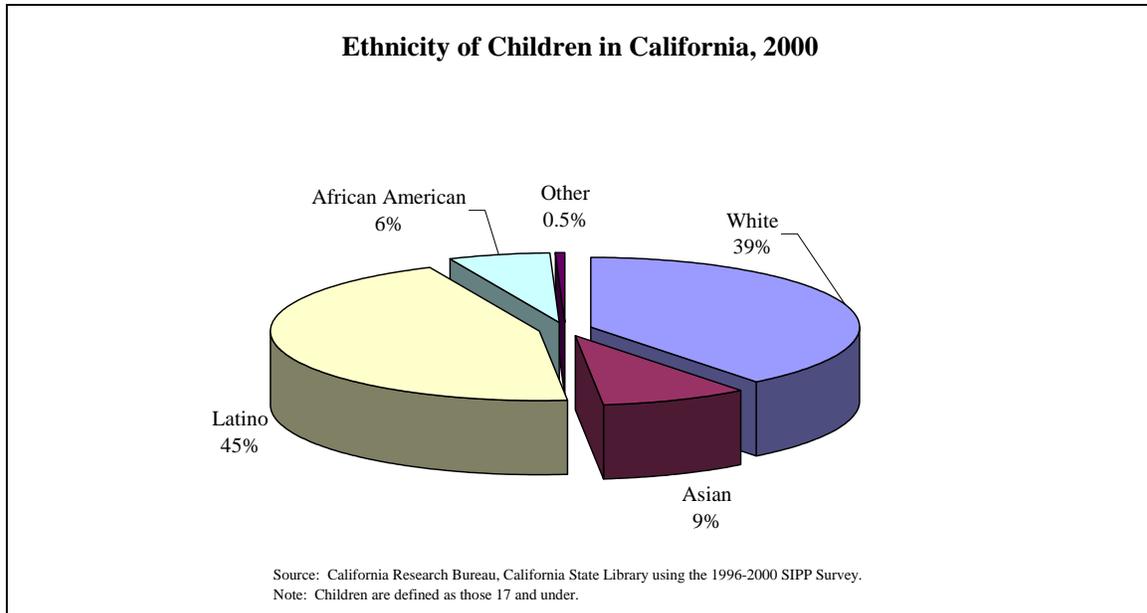
Renters												
Ethnicity	Home Equity	Stocks & Mutual Funds		Retirement Accounts	Other Real Estate	Business Equity	Interest Earning Assets in Banks	Equity in Other Assets	Equity in Vehicles	Other Inter. Earning Assets	Average Household Wealth	Percent of Group in Homes Rented
White	0%	44%	19%	8%	10%	8%	4%	7%	2%	\$72,467	32%	
Asian	0%	12%	27%	10%	11%	21%	3%	17%	0%	\$25,684	41%	
Latino	0%	6%	24%	8%	14%	16%	7%	26%	0%	\$9,478	55%	
African American	0%	27%	23%	0%	6%	7%	10%	26%	2%	\$12,067	60%	
Total	0%	36%	20%	8%	10%	10%	4%	10%	2%	\$34,180	42%	

Source: California Research Bureau, California State Library using the 1996-2000 SIPP Survey.

CHILDREN AND HOUSEHOLD WEALTH

Among California children (persons 17 years of age and under), Latino children are the most numerous group, followed by White, Asian, and African American children (see Figure 11)*

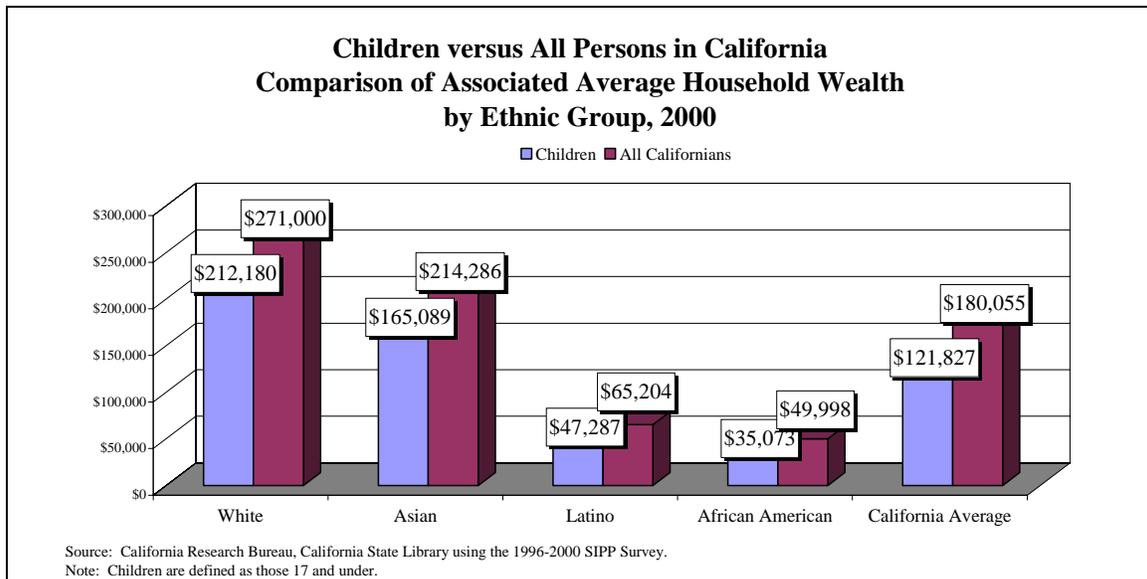
Figure 11



* This data is from the SIPP and differs slightly from the 2000 Census data. For the ethnic distribution based on the Census 2000 see: Elías López, *Census 2000 for California: A Friendly Guide* (Sacramento: California Research Bureau, California State Library, 2002), page 17. (Available at <http://www.library.ca.gov>)

The distribution of children’s associated household wealth by ethnic group is similar to the distribution of wealth of all households. However, children in California tend to live in homes with lower levels of wealth than the general population, regardless of ethnic group. The extent of this difference in relative terms is similar among all ethnic groups. Figure 12 shows that White and Asian children live in homes with higher levels of household wealth than do Latino and African American children.

Figure 12

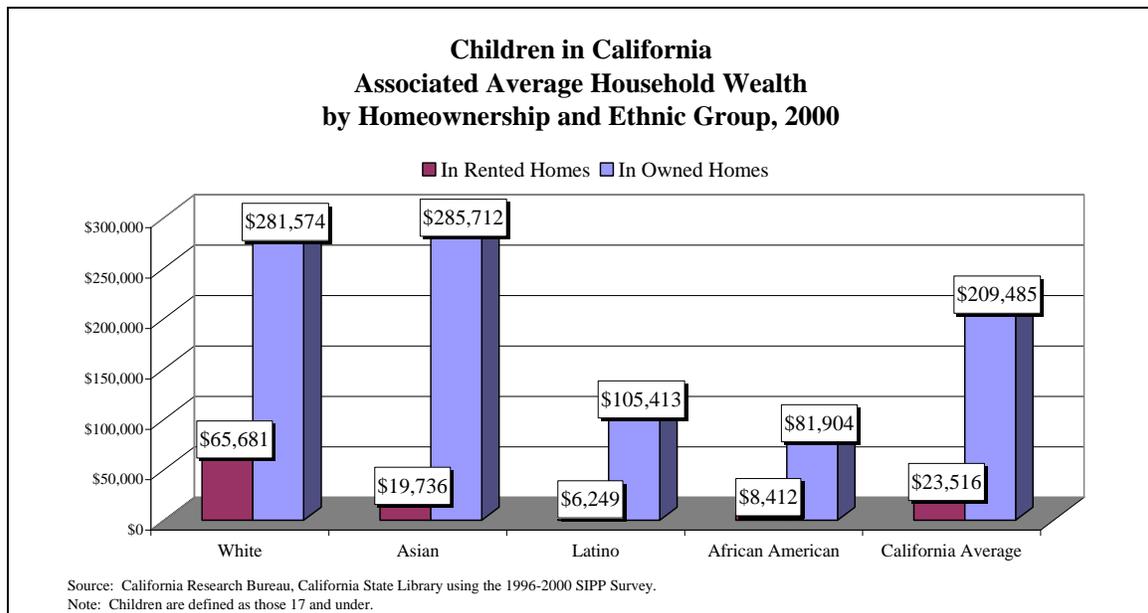


Children's Average Household Wealth by Homeownership and Ethnicity

One factor that may explain the lower level of household wealth associated with children relative to the average population is homeownership. Children are more likely to live in rented homes than the general population (47 versus 42 percent, respectively).[†]

Figure 13 shows the household wealth for children in owned and rented homes. The wealth differences are very sharp. California children who live in rented homes are significantly poorer than those living in owned homes. Children living in owned homes have between 4 to 17 times more household wealth available to them than children living in rented homes (this proportion is 4 times for Whites, 12 times for African Americans, 16 times for Asians, and 17 times for Latinos).

Figure 13



[†] Another factor is that the general population figures include older age groups. Older persons, particularly the elderly, are more likely to be homeowners rather than renters. (See the section on the elderly).

Distribution of Children's Household Wealth

Using the same wealth categories defined in the previous section, each containing one-fourth of the state's population, we look at the percentage of children that falls in each household wealth category. Figure 14 shows that more than one third of California children live in the poorest households (with less than \$3,925 in household wealth), 60 percent live in households with less than \$48,056 in household wealth, and only 16 percent live in households with more than \$202,500 in wealth.

Figure 14

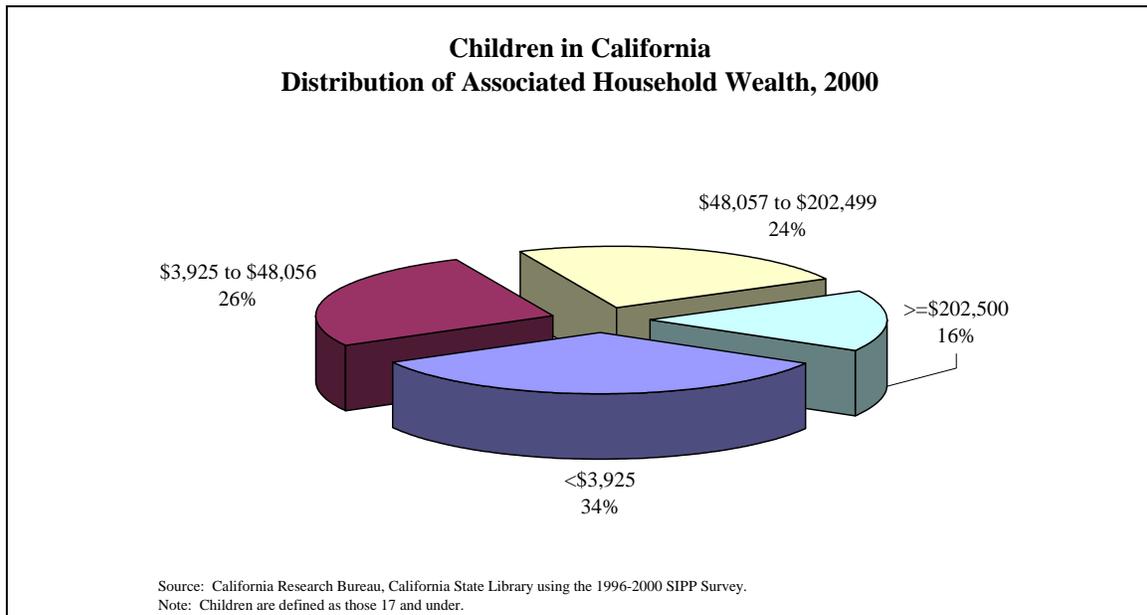
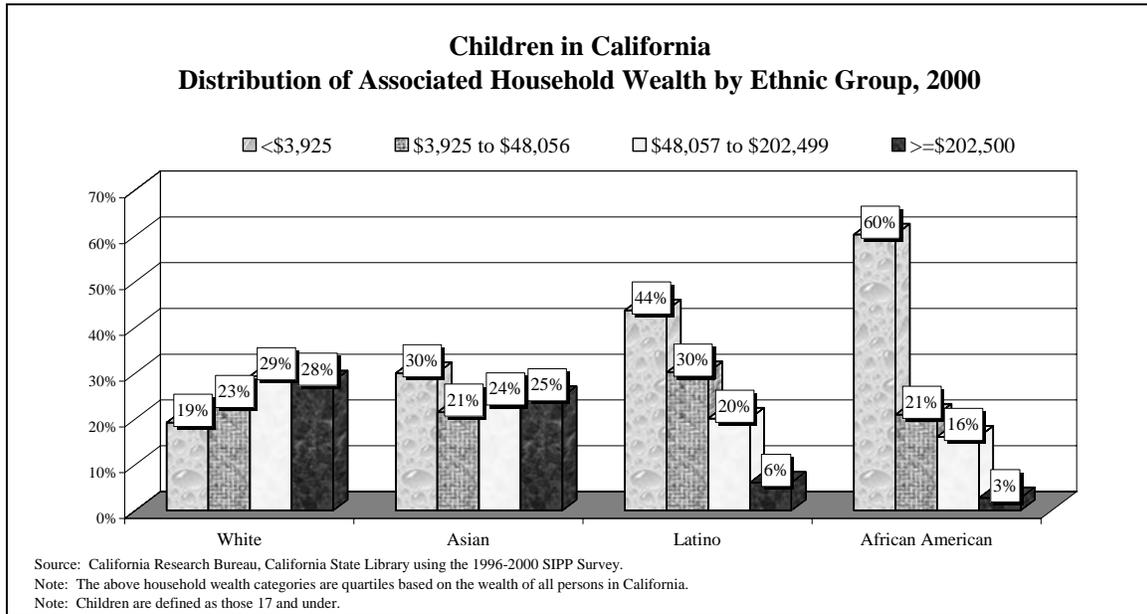


Figure 15 displays the same information for each ethnic group. The distribution of household wealth among African American and Latino children is very uneven, with most children living in households with the lowest wealth category. Only 6 and 3 percent of Latino and African American children, respectively, live in households in the wealthiest bracket, compared to 28 percent of Whites and 25 percent of Asian children.

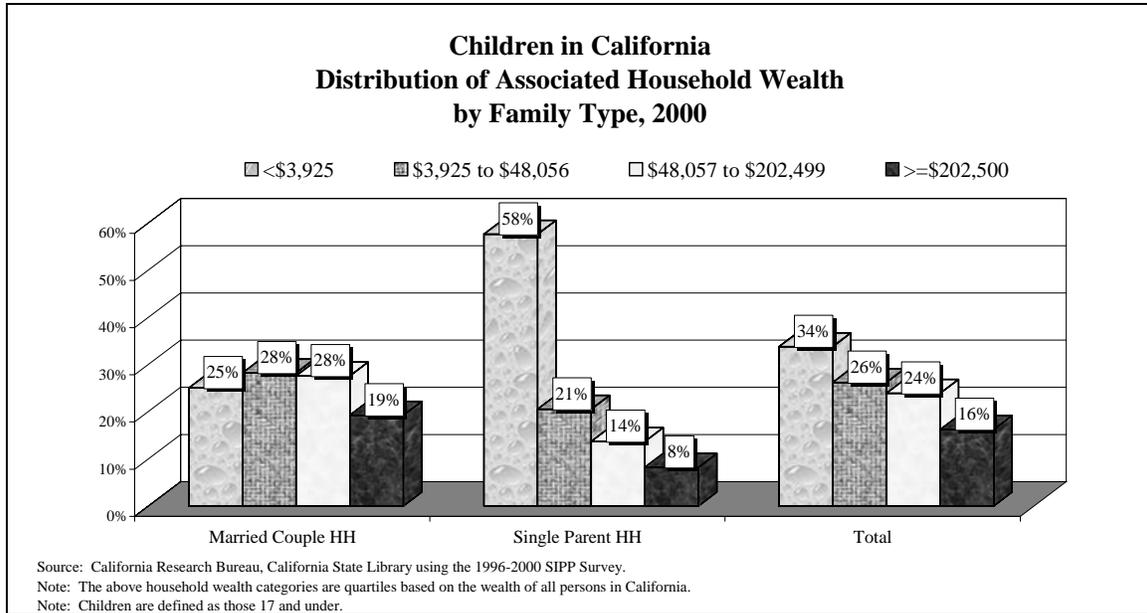
Figure 15



Children's Household Wealth by Family Type

Living in a two-parent home raises the chances that a child's household falls in the middle of the wealth distribution. In contrast, children from single parent homes are very likely to live in the poorest households. In California, close to a quarter of all children live in a single parent home.[‡]

Figure 16

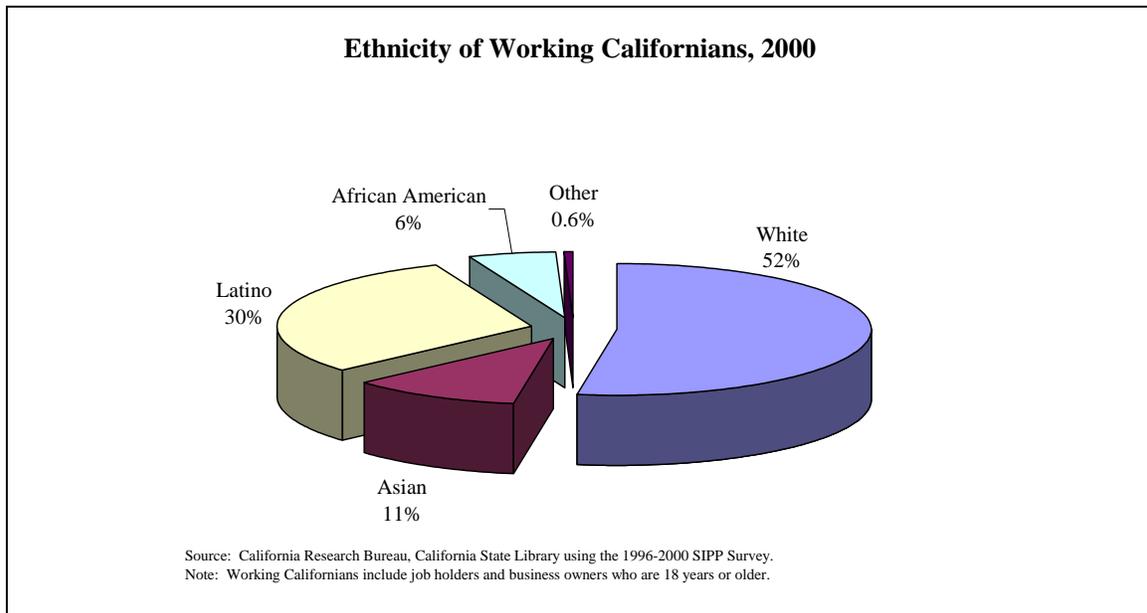


[‡] For the percentage of children living in single parent homes by ethnic group, see: Elías López, *Census 2000 for California: A Friendly Guide* (Sacramento: California Research Bureau, California State Library, 2002), page 19. (Available at <http://www.library.ca.gov>).

WORKING CALIFORNIANS AND HOUSEHOLD WEALTH

In this section we analyze the distribution of household wealth available to the adult working population, defined as persons 18 years of age and older who have a job and/or work in their own business.* Whites are the largest group, followed by Latinos, Asians, and African Americans.†

Figure 17



* We separately analyzed the group of working Californians who are 25 years and older, since a significant proportion of those under 25 are students and may not be formally integrated in the labor market. However the results do not change very much; so, we do not present that analysis here.

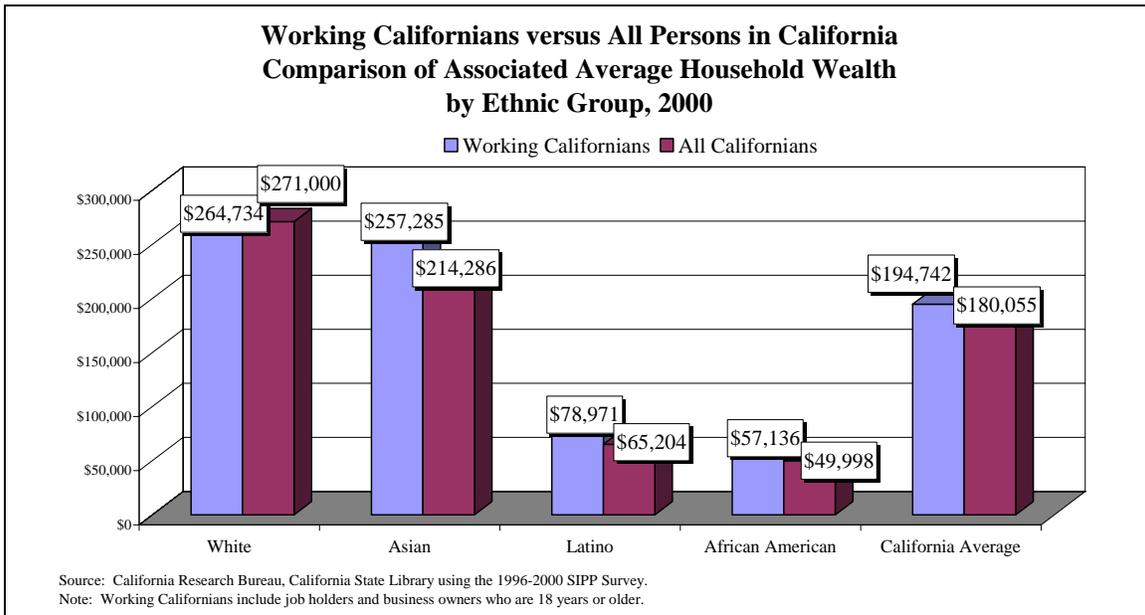
† Data based on the SIPP survey (1996 to 2000) differs slightly from the 2000 Census.

In our analysis we separately examine working Californians who own a business from those who are jobholders. Almost 15 percent of working Californians own a business, while more than 85 percent are jobholders.

Figure 18 compares the average wealth of working Californians to that of the total population, by ethnic group. With the exception of Whites, the average wealth level of workers (jobholders and business owners) is higher. Whites have a larger proportion of seniors than the other groups, and the elderly tend to be wealthier.[‡]

Despite higher levels of wealth compared to the general population, the significant gap in wealth between Whites and Asians on the one hand, and Latinos and African Americans on the other, remains.

Figure 18

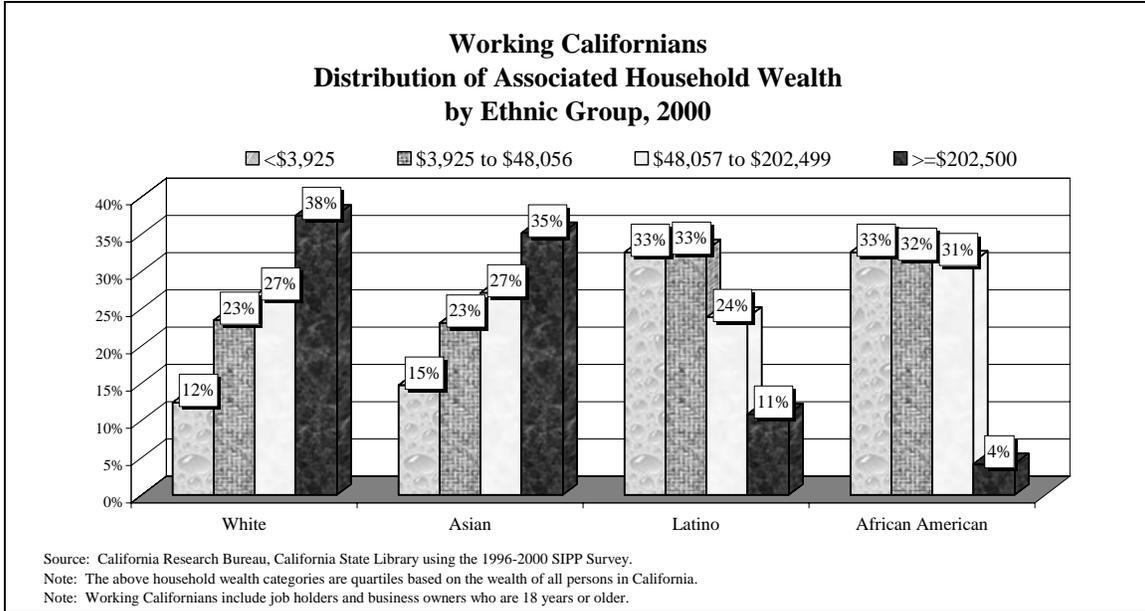


[‡] See the section on the elderly, and Figure 26.

Wealth Distribution

Figure 19 shows that almost two-thirds of Latino and African American workers fall within the two lowest quartiles of household wealth. In contrast, near two-thirds of Whites workers fall in the two highest household wealth categories, as do about three-fifths of Asians.

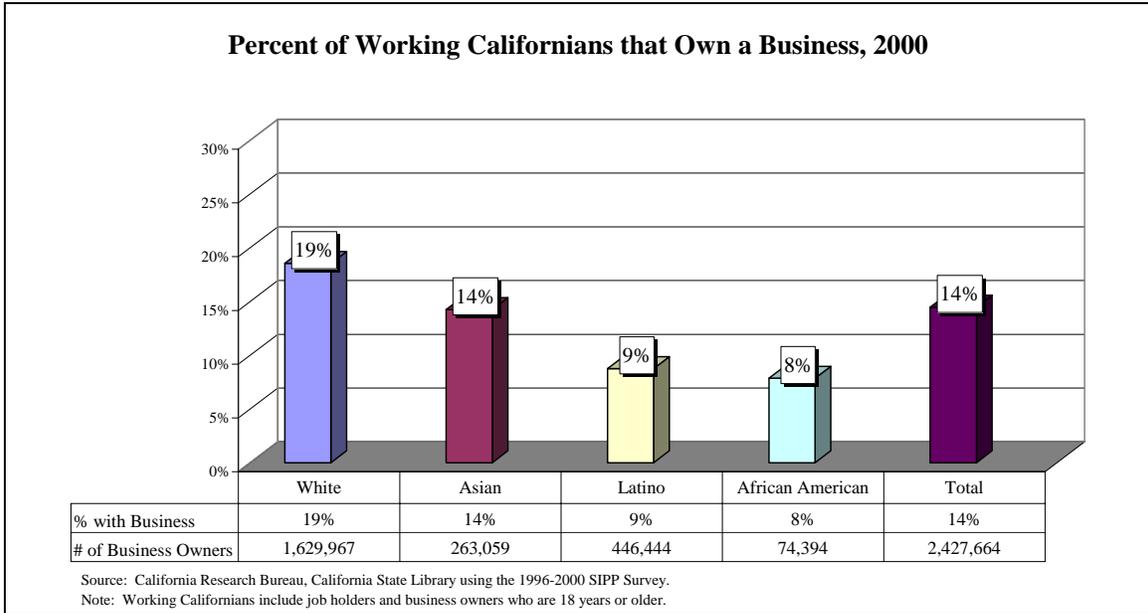
Figure 19



Business Ownership Rates by Ethnicity

The household wealth holdings of persons who own a business differ drastically from those who work at a job. Figure 20 shows that the business ownership rate is highest for Whites (19 percent), followed by Asians (14 percent). Latinos and African Americans have the lowest business ownership rates (9 and 8 percent, respectively).

Figure 20



Average Household Wealth by Type of Worker by Ethnicity

Business owners are significantly wealthier than jobholders, particularly among Latinos and African Americans. In general, business owners are more than 2 times wealthier than jobholders. In the case of Latinos and African Americans, this ratio goes up to 3.5 and 2.9, respectively. Asian business owners are 1.2 times wealthier than Asian jobholders. Asian and White jobholders have comparable levels of household wealth. Asian and White jobholders have comparable levels of household wealth.

Figure 21

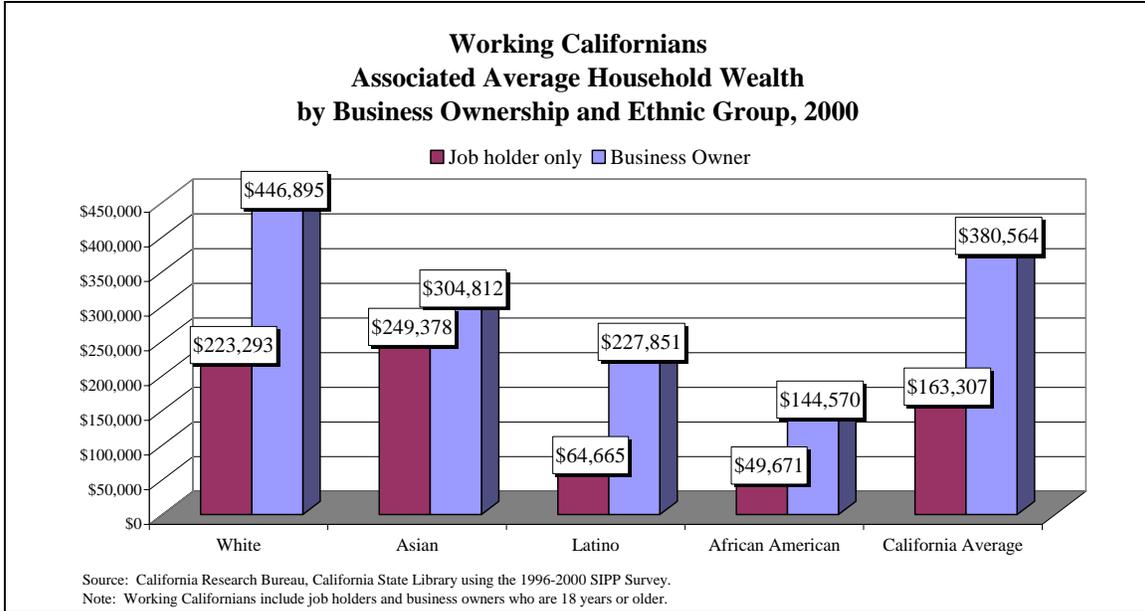
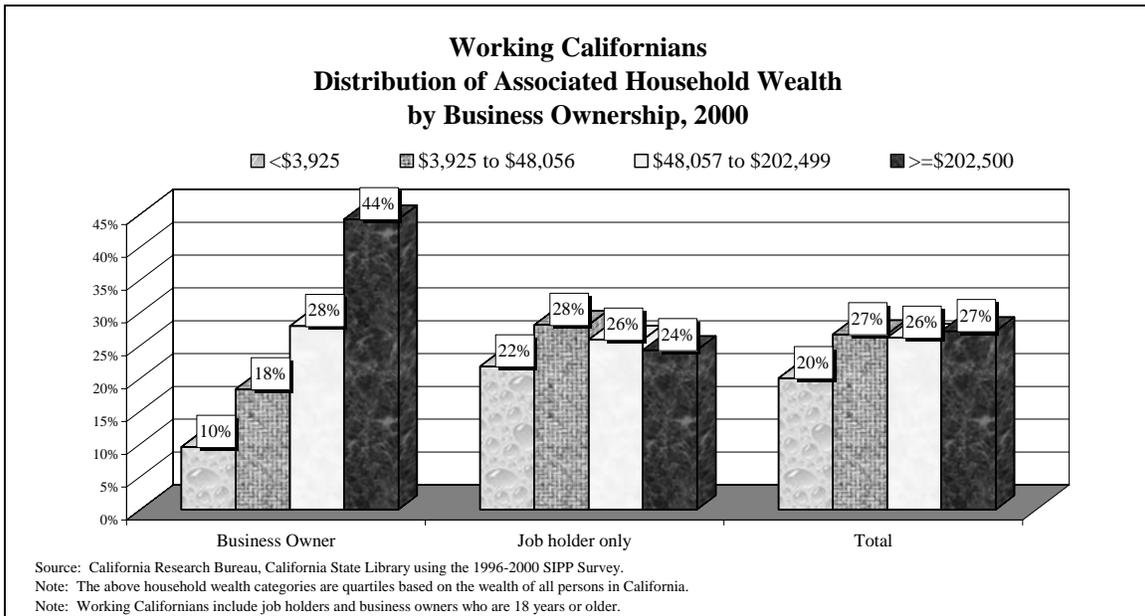


Figure 21 shows a strong association between business ownership and wealth, regardless of ethnic identification. We will also see in a later section that business owners with a high school degree have comparable levels of wealth with jobholders having some college education. This is an interesting result and more research needs to be done to determine the effectiveness of owning a business as a means for promoting upward mobility.

Distribution of Household Wealth by Type of Worker

Comparing the distribution of household wealth for jobholders and business owners in each of the four household wealth quartiles introduced earlier, we find that almost half of the business owners are in the wealthiest category, with only 10 percent in the poorest category. Among jobholders, household wealth is more evenly distributed (see Figure 22).

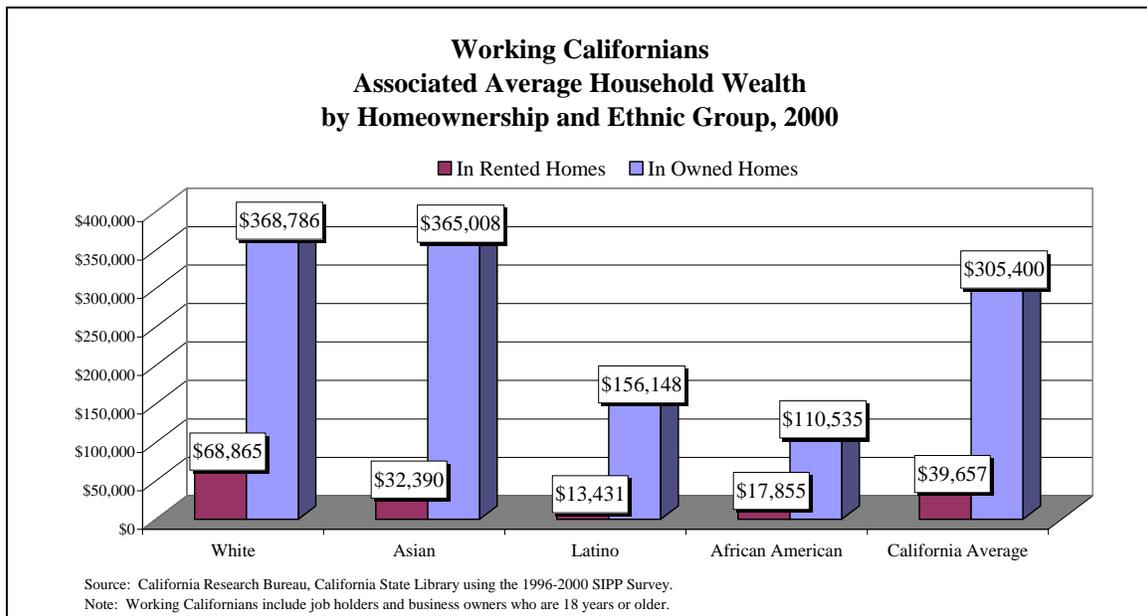
Figure 22



Homeownership and Average Household Wealth of Working Californians, by Ethnicity

In California, workers who live in their own homes are 5 times as wealthy as those who rent. For Asians and Latinos, this ratio is significantly higher, 11 and 12 times, respectively. Figure 23 underscores again the importance of homeownership in the determination of household wealth.

Figure 23



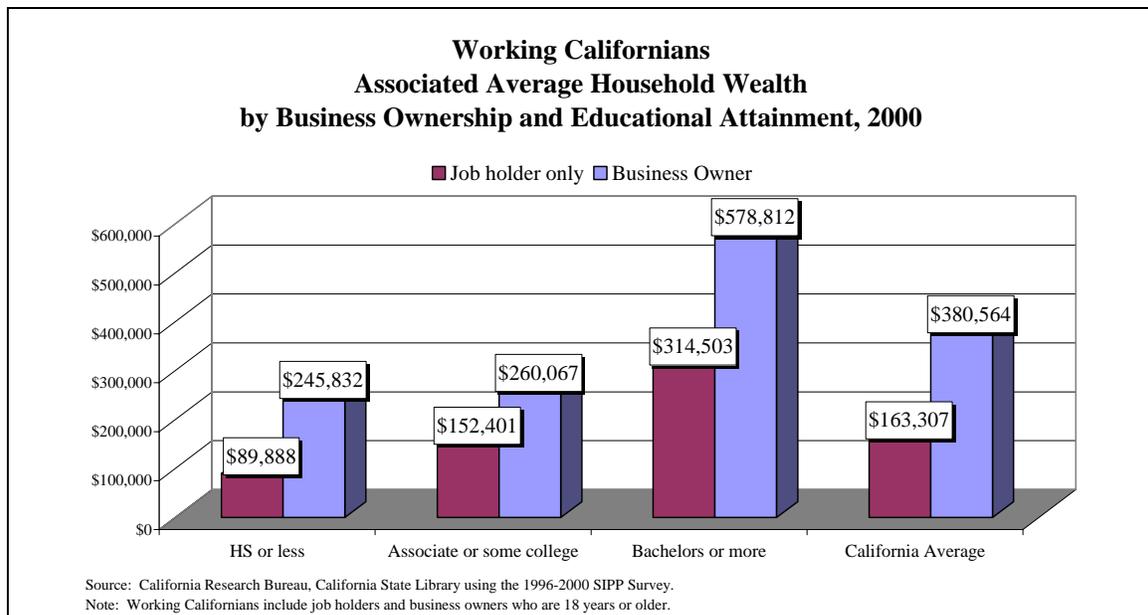
Educational Attainment and Household Wealth by Type of Worker

Educational attainment is another important factor strongly associated with wealth accumulation. Figure 24 compares average household wealth among jobholders and business owners, by educational attainment. Higher levels of educational attainment are associated with higher levels of household wealth. This is true for both business owners and jobholders.

The household wealth of business owners who have at least a bachelor's degree is 2.4 times higher than the household wealth of business owners who have only a high school diploma or less. This difference is more significant for jobholders, where the ratio is 3.5. It is interesting to note the association between some college education and wealth for jobholders. Jobholders with some college education have almost twice the level of wealth than those with a high school diploma or less.

It is interesting to also note that a business owner with a high school degree has a higher household wealth than a jobholder with some college education, and three-fourths the household wealth of a jobholder with a bachelor's degree. This association suggests that owning a business could be an effective tool for social mobility for those with lower levels of education, a subject that deserves future research.

Figure 24

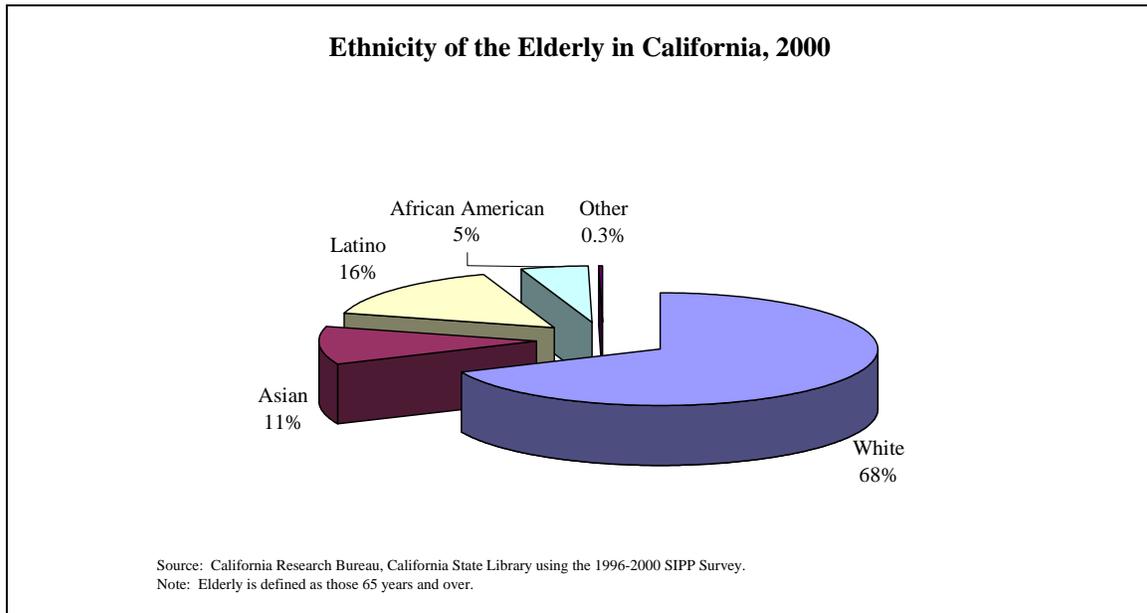


THE ELDERLY AND HOUSEHOLD WEALTH

This section analyzes the distribution of household wealth among California's elderly population (65 years of age and older). The analysis does not include persons living in nursing homes, assisted living, or in other types of institutions. Also, since some seniors are working, there may be some overlap with our analysis of working Californians.

The distribution of the elderly population in California by ethnic group is very different to the distribution of the younger population. Figure 25 shows the distribution of the elderly population in California. By far the largest group is Whites. Next are Latinos, Asians, and African Americans.* In contrast, as Figure 11 showed, Latino children are the largest ethnic group.

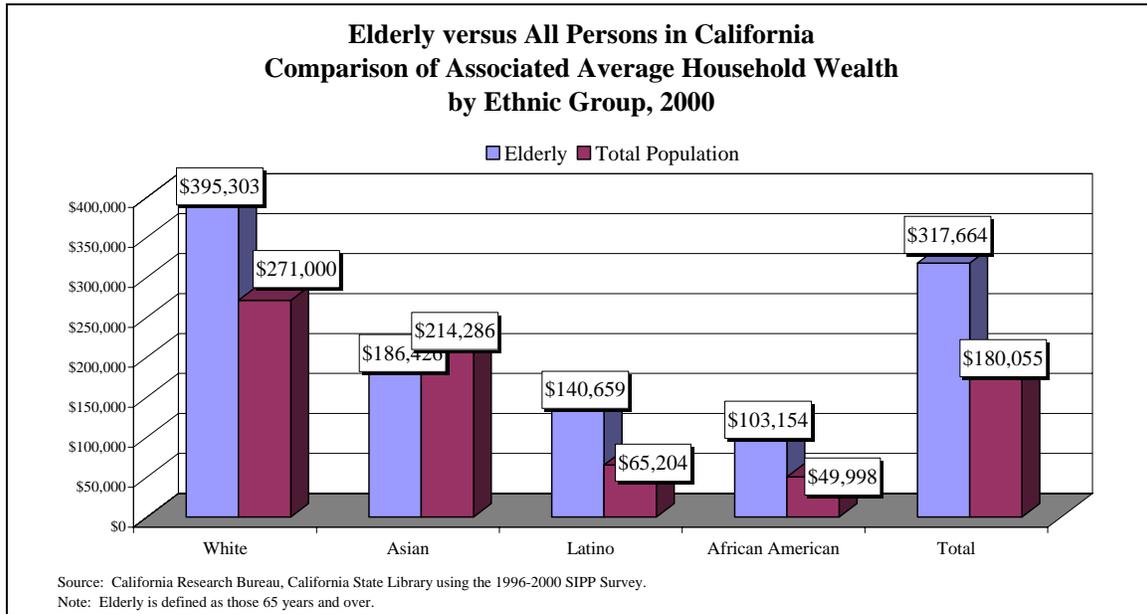
Figure 25



* This data is from the SIPP and differs slightly from the 2000 Census data. For the ethnic distribution based on the Census 2000 see: Elías López, *Census 2000 for California: A Friendly Guide* (Sacramento: California Research Bureau, California State Library, 2002), page 21. (Available at <http://www.library.ca.gov>).

Compared to the total population, seniors are wealthier. Figure 26 shows that, except for Asians, the elderly live in households with higher levels of wealth. This relationship is also true when comparing the household wealth of the elderly with that of workers. (Figure 26 compared to Figure 18).

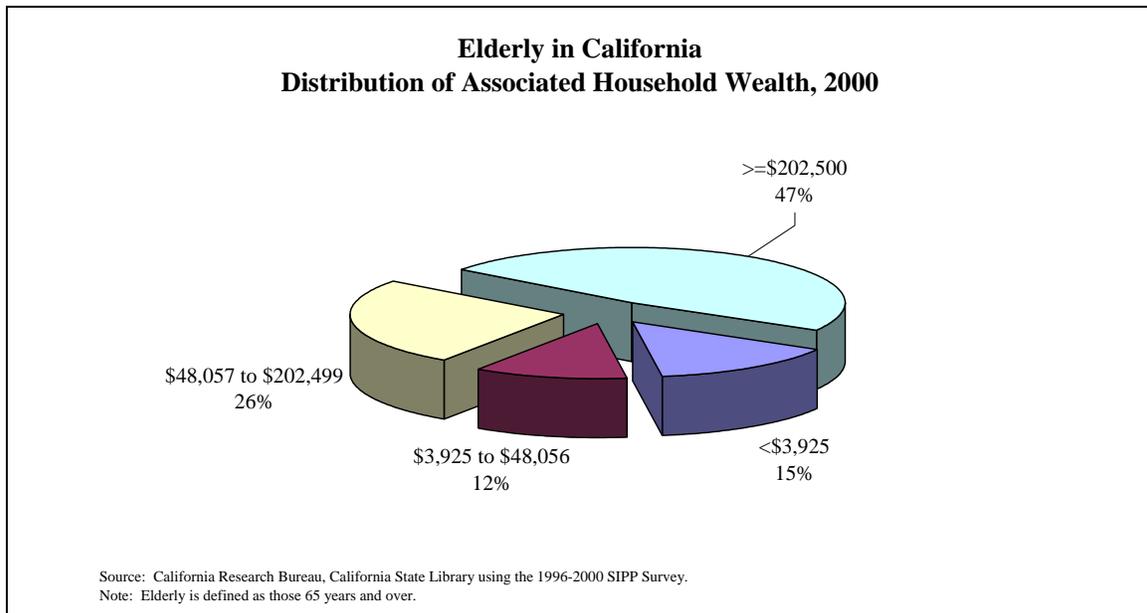
Figure 26



Wealth Distribution of the Elderly

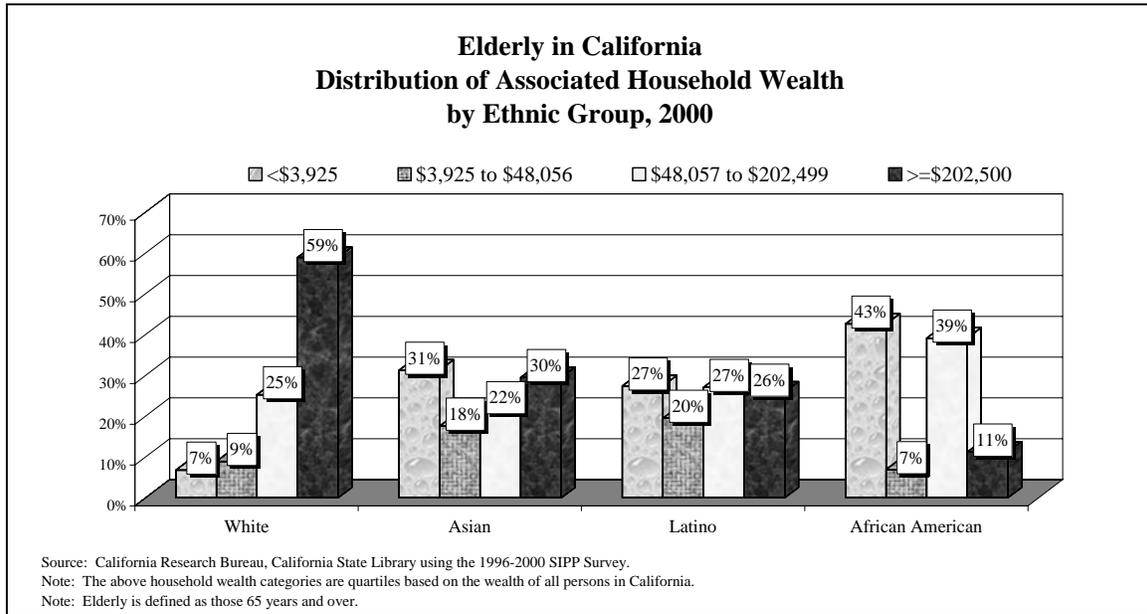
The distribution of household wealth among the elderly is over-represented in the wealthier categories. Almost half of the elderly population falls within the highest household wealth quartile (more than \$202,500 in household wealth), compared to 15 percent in the lowest wealth quartile (below \$3,925).

Figure 27



Wealth among the elderly, however, is not distributed evenly among the major ethnic groups. Whites are more likely to be in the highest household wealth category (59 percent) and African Americans are the least likely (11 percent).

Figure 28



Asset Holdings of Elderly by Home Ownership

Unlike the general population, most seniors live in an owned home. Homeownership rates for seniors vary from 52 percent for Asians to 83 percent for Whites. Homeownership plays a large part in wealth accumulation.

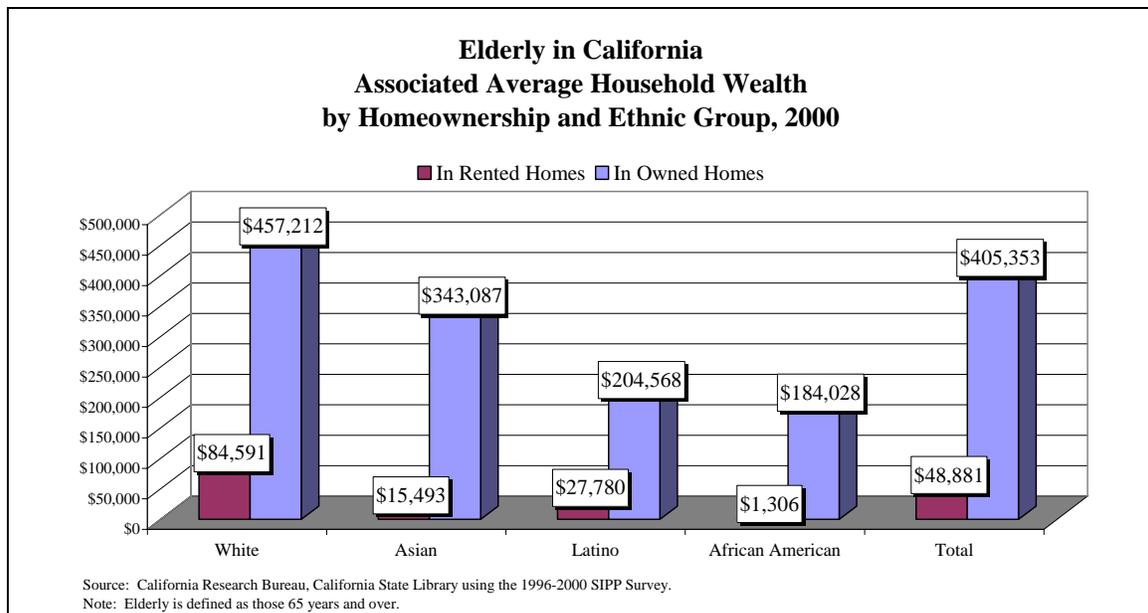
Most of the wealth of households containing seniors is held in real estate. This is particularly true for African Americans. Whites also have a significant amount of wealth allocated to equity in stocks, retirement accounts and mutual funds, while Latinos have a very low proportion (4 percent) and African Americans do not generally hold this type of asset. Asian seniors have 70 percent of their wealth held in real estate.

For those seniors living in rented homes, the average household wealth is small. Whites are the exception because they have a significant amount invested in stocks and mutual funds, retirement accounts, and other real estate.

Senior's Average Household Wealth by Homeownership

The differences in wealth that exist between elderly persons living in an owned home, as opposed to a rented, are significant. Whites and Latinos seniors who live in owned homes are 5 and 7 times wealthier, respectively, than their counterparts who rent. Asians and African Americans seniors who live in owned home are over 20 times wealthier than Asians and African American seniors living in rented homes.

Figure 29



CONCLUSIONS

Data show that there are sharp differences in household wealth between Whites and Asians on the one hand, and Latinos and African Americans on the other. White Californians are relatively much richer than other ethnic groups. While they comprise less than half of the California population, they hold more than 80 percent of the total household wealth. This is explained in part because the White population tends to have higher educational attainment and be older than other ethnic groups, two characteristics associated with higher household wealth. The proportion of household wealth held by Asians is comparable to their share of California's population. Latinos and African Americans are relatively the poorest; they also have the highest proportion of unsecured debt (such as credit cards) relative to their assets.

The poorest 25 percent of Californians live in households with wealth of less than \$3,925; the richest fourth live in households whose wealth is above \$202,500. Although there are persons from all ethnic groups in each wealth category, relatively more African Americans and Latinos live in the poorer households, with a very small proportion in the highest category.

In California there are 3.5 million children living in the poorest households (with wealth of \$3,925 or less). Among these, 58 percent are Latino, 22 percent are White, 11 percent African American, and 8 percent Asian. However, the propensity to be in the poorest category is the highest for African Americans; 60 percent of the children are poor. Latino children follow with 44 percent, Asians with 30 percent, and Whites with 19 percent.

Homeownership plays a major role in the accumulation of household wealth. Most Californians hold most of their household wealth in real estate. Homeowners are 8 times wealthier than renters. Renters are the poorest group in all ethnic groups. Children and the elderly living in rented homes have the lowest levels of household wealth.

In addition to home ownership, educational attainment is associated with the accumulation of wealth. Workers with a Bachelor degree or higher are 3.5 times wealthier than those with a high school diploma or less.

Business ownership is associated with higher wealth. A business owner with only a high school education has significantly more wealth than a jobholder with some college education. Furthermore, business owners with a high school diploma have about three-fourths the wealth level of a jobholder with a bachelor's degree. These findings are promising and more research needs to be done to understand the exact role that business ownership plays in wealth accumulation.

Some policy implications that follow from these conclusions are:

- Given the importance of home equity in the composition of household wealth, programs designed to increase homeownership (for example, providing low interest rate loans or encouraging the construction of more affordable homes) are very important in order to increase the standard of living of the poor.
- The analysis showed that educational attainment is strongly associated with higher levels of wealth. Although persons that tend to be more educated tend to come from wealthier background, it is also true that a higher level of education is associated with higher returns in the labor market, and future accumulation of wealth. This finding reinforces the importance of providing education to low-income groups, such as facilitating access to education for Latinos and African Americans, the poorest groups and also the groups that are the least likely to go on to college.
- Since owning a business is correlated with higher household wealth, this suggests that promoting and supporting business ownership may be an important tool for increasing wealth in California. This could be achieved by designing and/or supporting business ownership programs targeted to disadvantaged high school students or adults with lower levels of education. Another possibility is the implementation of training programs on entrepreneurship skills that could be offered through high schools or community colleges. Finally, state and local governments could simplify regulatory complexities for new businesses.

ENDNOTES

¹ See for example, Ruth Milkman and Rachel E. Dwyer, *Growing Apart, 'The New Economy' and Job Polarization in California, 1992-2000* (University of California, Institute for Labor and Employment, 2002); and Deborah Reed and Jennifer Cheng, *Racial and Ethnic Wage Gaps in the California Labor Market* (San Francisco: Public Policy Institute of California, May 2003).

² See for example, Mishel Lawrence, Jared Bernstein, and John Schmidt, *The State of Working America 2000-01* (Economic Policy Institute Books), various years.