

The State of Latino Economic Well-Being in California: A Profile of the Latino Middle Class

Latinos make up a plurality of California's population.¹ Yet studies show there is a large disparity between the economic well-being of California Latinos and that of the overall state population. Latinos in the state are underrepresented among upper-income groups and are overrepresented in lower-income groups—including those living in poverty.²

Given Latinos' growing demographic presence in the state—38.5% of the state's population—a strong Latino middle class is essential to the future economic vitality of the state as a whole.³ While many studies have examined the often poor economic outcomes faced by a large segment of California Latinos, far less attention has been devoted to the economic well-being of the state's Latino middle class. The expansion of the Latino middle class is crucial to ensuring the greater well-being of California's Latino community, as well as that of the California economy.

To support the expansion of the Latino middle class, it is important to first understand the economic barriers and opportunities that Latinos currently face. Accurate data can help dispel stereotypes, misconceptions, and complacency. Data that reveal a more nuanced understanding of the Latino

middle class can help ensure that strategic decisions regarding business, investment, urban planning, education, and other critical areas take into account the challenging and varied conditions faced by Latino middle-class families in the state. This is especially important given California's rapidly evolving and increasingly complex economic and political climate.⁴

To provide these critical data, the California Latino Economic Institute has partnered with Mindy S. Romero, Ph.D., of the Price School of Public Policy at the University of Southern California, and CLEI Academic Advisory Committee Member, to carry out an innovative and comprehensive study of the Latino middle class in California. This research brief, the first in a series, will provide an up-to-date profile of the Latino middle class in California, highlighting such characteristics as gender, educational attainment, age, and home ownership. Future briefs will offer a detailed look at how the experience of middle-class Latinos compares with that of other racial and ethnic groups in California. Among other things, these briefs will highlight variations within the Latino middle class, explore geographic hot spots of opportunity, identify areas with the greatest growth potential, and pinpoint institutions or sectors that call for the most urgent investment.

Defining the Middle Class in California

Defining the middle class is difficult because there is no official definition in California or the U.S. Among the myriad definitions that have been used, most depend on a form of income classification. Some use the percentage of median income, or a range of income between the 25th and 75th percentiles, to denote middle-class economic status. For example, the Washington D.C.-based Urban Institute starts by creating a common standard-of-living measurement, and then converts all incomes into family-of-three equivalents (since the average household size is 2.6 persons, according to the U.S. Census). It then organizes income groups into five classes, defining a size-adjusted annual middle-class income as one that ranges from \$30,000 (for lower middle-class households) to \$100,000 (for upper middle-class households).⁵

The Pew Research Center takes a somewhat different approach. Its researchers first adjust income for household size. Next, they define middle-class households as those with incomes that are 67% to 200% of the overall median household income. Using this definition, they establish that middle-class income in the U.S. for a three-person household ranges from \$42,000 to \$126,000 annually, while middle-class income for a one-person household ranges from \$24,000 to \$73,000 per year.⁶

In this brief, we, like many others in this field, use an income classification to discuss California's Latino middle class. Using the most recent data available, the 2016 American Community Survey, we define middle-class households (adjusted for household size and scaled to a household size of three) as those with income falling between the 60th and 80th percentiles (3rd and 4th quintiles) of the state's total income distribution. These classifications are calculated for all those whose income can be determined. (For the purposes of this study, individuals without household income data were removed from the data analysis.⁷) Throughout this

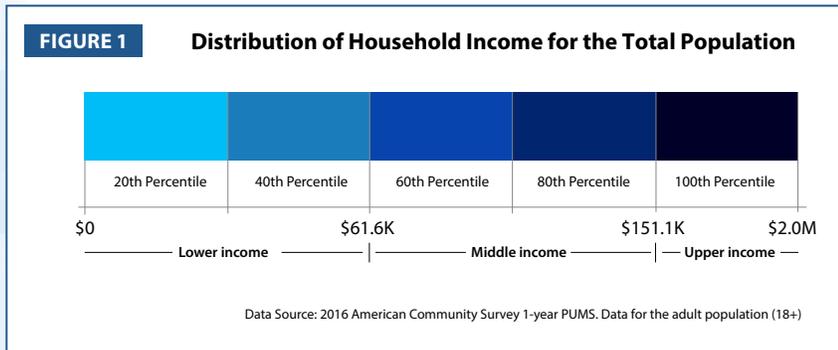
Study Highlights

- Middle-income Latinos are most likely to be U.S.-born males under the age of 45 who are college-educated and own a home.
- In California, the average middle-income adult earns 35.3% more than the average middle-income adult Latino.
- Fewer Latinas than Latinos attain middle-class incomes: 52.2% of middle-income Latinos are men, while just 47.8% are women.
- The San Joaquin Valley and the North State regions have the lowest share of middle-income Latinos (31% and 27.3%, respectively), compared to other regions in the state.

report, we use the term ‘middle-income’ to describe someone who is potentially in the middle class, a term that transparently identifies income as our measure of class position.

At the same time, we recognize that using income alone to define class can lead to a limited or even distorted understanding of the actual, lived experience of class for Latinos or any other group.⁸ We also know that, according to Pew survey research, close to half of Latinos, as well as about half of the overall population, self-identify with what they see as the middle class.⁹ Therefore, in our upcoming, full report due out in February 2018, we provide an expanded description of the Latino middle class that considers both economic and non-economic factors that can directly impact class position and experience in California and the nation. Such factors include standard of living, level of educational attainment, type of employment, and entrepreneurship.

What is a Middle-Class Income in California?



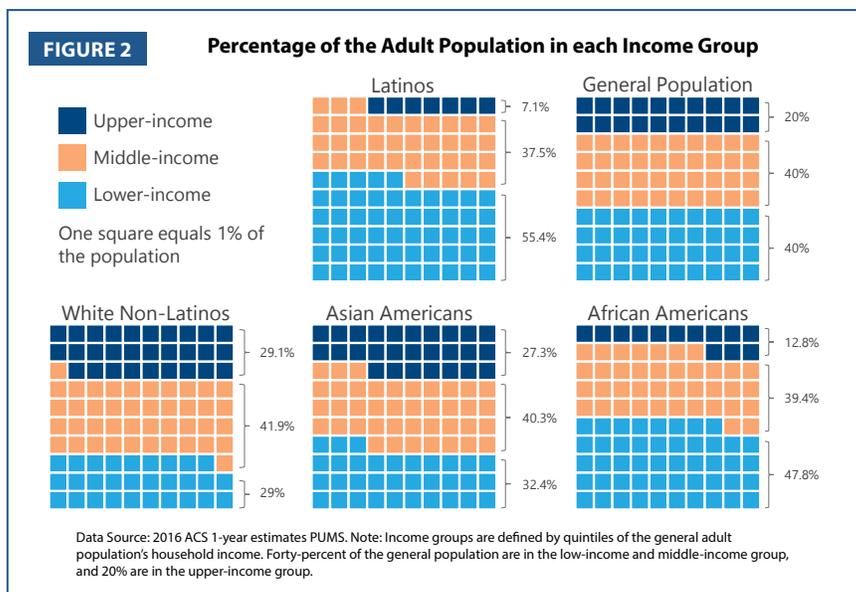
Using our definition, what does middle-income look like in California? Figure 1 shows that, in 2016, middle-income California households, or those falling between the 60th and 80th percentiles, earn anywhere from \$61,600 to \$151,100. A total of 40%, or 11,745,544 of the total adult (18 years and older) population fall into this range.

In Figure 2, we take a closer look at the middle-income distribution for households by race and ethnicity. Here, we see that 37.5% of the Latino population falls into the middle-class income

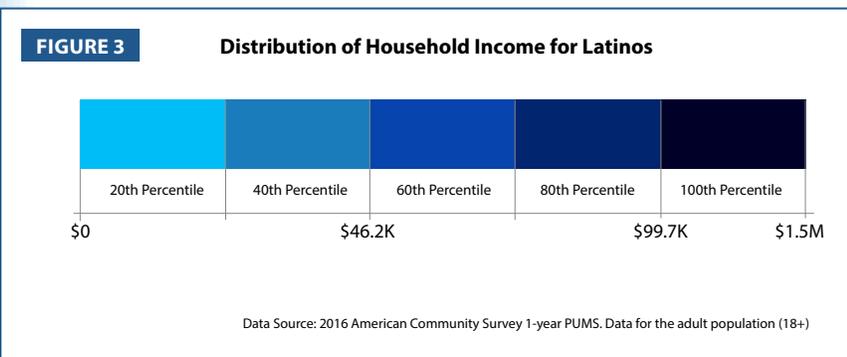
bracket. The Latino share is less than what we see for African Americans (39.4%), Asian Americans (40.3%) and non-Latino Whites (42%).

In addition, large disparities in household income by race and ethnicity can be found among lower-income Californians. For instance, 29.0% of non-Latino Whites are in the lower-income group. The figure for Latinos is 55.4%. The difference is 26.4 percentage points, underscoring the presence of significant income inequality in California.

While Latinos are disproportionately represented in lower-income groups, they are not well represented among California’s highest-earning households. The top 20%, or 5,873,241, of California’s total adult population has a household income of over \$151,100 or more. Least represented in California’s upper-income group are African Americans at 12.8% (204,169), followed by Latinos who make up the smallest portion in this income group at just 7.1%, or 736,010.



What do Middle-Income Latinos Earn in California?



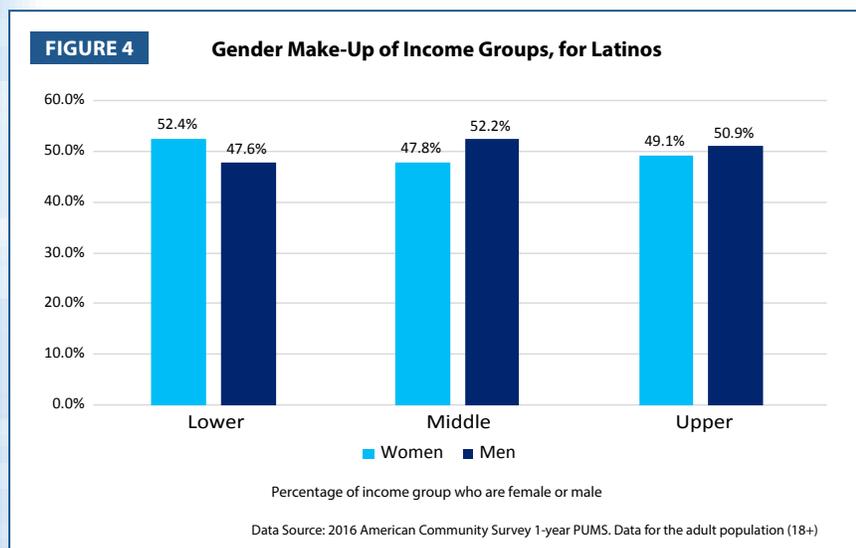
Although we define the middle class using the household income distribution for the total population (see Figure 1), it is important to note that the household income distribution for the Latino population alone tends to be lower than that of the general population. Figure 3 shows that Latinos who fall into the 60th and 80th percentiles earn between \$46,248 and \$99,751. This income range for Latinos is lower than it is for the total population, whose income range for the same percentiles is between \$61,600 and \$151,100. The average

household income for all adults in the middle-income group is \$98,376, while the average household income for all Latino adults in the middle-income group is \$68,891. This means that the average middle-income adult in California earn 35.3% more than the average middle-income adult Latino in the state.

It is worth noting here that individual income for members of the Latino middle class is also much lower than it is for those in the total population. Middle-income Latinos in California (those who fall between the 60th and 80th percentiles of individual income) make \$12,100 to \$40,300, while the middle-income range for the total state population is \$16,100 to \$65,500. It is also worth noting that there is significant income inequality for the general population as well; in 2014 the gap between the top 10% of incomes and the bottom 10% was twice as large as it was in 1980.¹⁰

In the following sections, we explore several characteristics of middle-income Latinos, taking a close look at educational attainment, age, gender, and geography. For this analysis, we examine Latinos who fall into the middle-income range of the total population's household income (between \$61,600 to \$151,100). We will also compare some of the characteristics of middle-income Latinos to those of Latinos in lower-income and upper-income groups.

Middle-Income Latinos and Gender



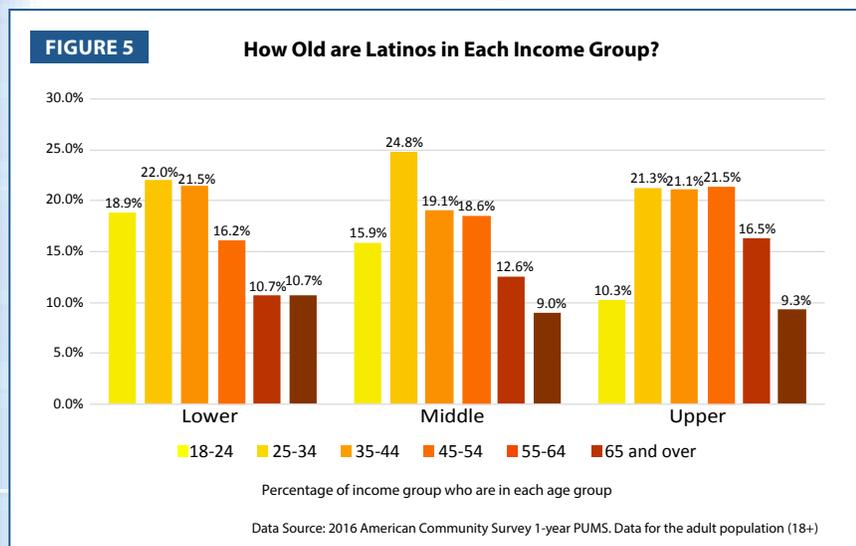
Latino income attainment varies by gender. In Figure 4, we see that just over half of lower-income Latinos are women. In contrast, slightly more men than women have incomes in the middle-income group. In more precise terms, 52.4% of Latinos in the lower-income group are female, while 52.2% and 50.9% of those in the middle and upper-income groups are male, respectively.

When looking at the distribution of Latinas across income groups, we find a greater percentage of Latina women in the lower-income group (57.5%) than Latino men (53.2%). But in the middle-income group, we find a smaller percentage of Latina women (35.6%) than Latino men (39.5%).

In upcoming briefs in this series, we will examine factors that contribute to income disparities by gender, such as differing patterns in employment and business ownership.

Note that when income groups are determined by individual income (not shown here), rather than by household income, the gender disparity across groups becomes much larger. This could be influenced, in part, by the fact that some women with lower individual incomes are part of middle-income and upper-income households. A total of 6.2% of all adult Latinas are single householders, while 12.9% of the general adult population are single householders.

Middle-Income Latinos and Age



In Figure 5, we see that age distribution is generally similar across household income groups. The greatest percentage of Latinos (24.8%) in the middle-income group are age 25-34. A total of 59.8% of middle-income Latinos are younger than 45, with a mean age of 40.6 years. The percentage of Latinos in each age group is relatively similar across genders and income groups, although there are somewhat greater percentages of older women than older men in each income group.

Note that household income includes everyone (relatives and non-relatives) in the household, which may decrease age group differences across income groups.

Middle-Income Educational Attainment

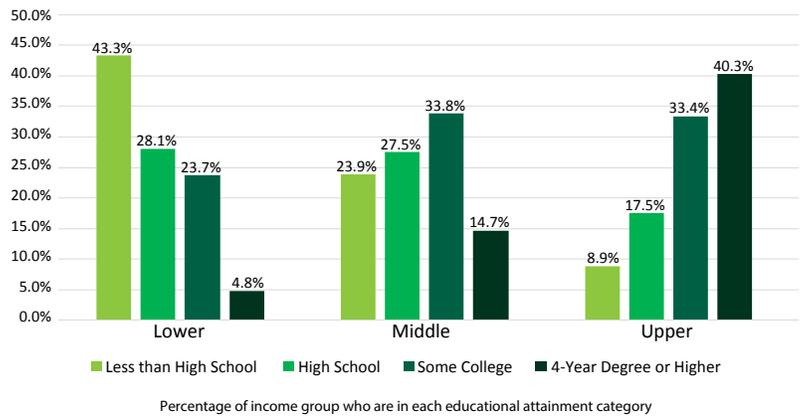
When it comes to education, middle-income Latinos in California are more educated than lower-income Latinos. Over 40% of lower-income Latinos have not earned a high school diploma, as compared to 23.9% for middle-income Latinos.

Figure 6 shows that 40.3% of upper-income Latinos have attained a college degree (a four-year degree or higher), compared to only 14.7% of those in the middle-income range, and 4.8% of those in the lower-income range. In the general California population, 63% of upper-income people have a college degree or higher, compared to 31.5% of middle-income people, and 13.6% of lower-income people.

Gender matters in education. Educational attainment is generally higher for middle-income Latina women than it is for middle-income Latino men. This gender disparity is even more pronounced when it comes to higher educational attainment. Figures 7 and 8, show that a total of 17.0% of Latina women in the middle-income group have earned a college degree, versus 12.5% of Latino men in the same income group. Meanwhile, 42.5% of Latina women in the upper-income group have achieved a college degree, as compared to 38.0% of Latino men in the same group. In general, Latina women in every income group outperform Latino men in terms of educational attainment.

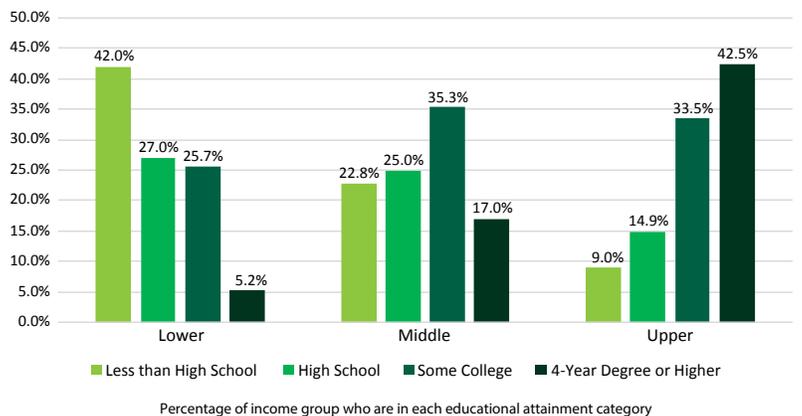
We should note that overall, women and men in California and the U.S. obtain 4-year degrees at similar rates. The percentage of both women and men in the general California population who have attained a 4-year degree or higher is 32.9%. At the national level, 31.7% of women and 30.8% of men have attained a 4-year degree or higher.¹¹ However, there are different patterns for Latinos, given the variety of factors that contribute to the likelihood of both college attendance and graduation. We will explore these issues in future briefs.

FIGURE 6 What is the Educational Attainment of Latinos in Each Income Group?



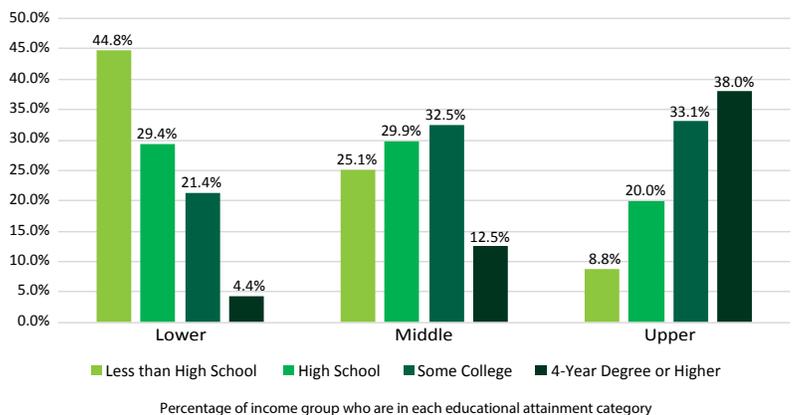
Data Source: 2016 American Community Survey 1-year PUMS. Data for the adult population (18+)

FIGURE 7 What is the Educational Attainment of Latina Women in Each Income Group?



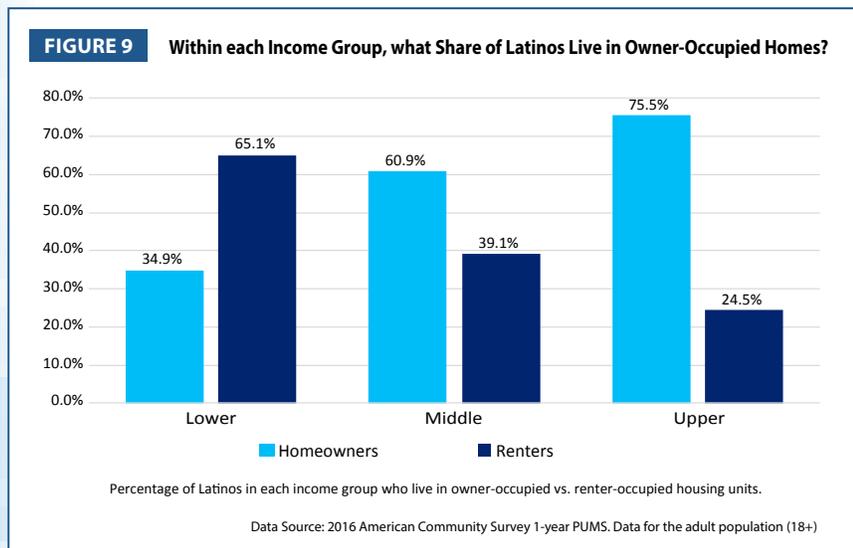
Data Source: 2016 American Community Survey 1-year PUMS. Data for the adult population (18+)

FIGURE 8 What is the Educational Attainment of Latino Men in Each Income Group?



Data Source: 2016 American Community Survey 1-year PUMS. Data for the adult population (18+)

Latino Home Ownership by Income Group



Homeownership is considered by many in the U.S. to be an important marker of middle-class status and financial security. When it comes to Latino home ownership, we see a pattern across income groups: as income increases, the proportion of Latinos who own their homes also increases. When it comes to renters, the opposite occurs.

In Figure 9, we see that a total of 34.9% of Latinos in the lower-income group own a home or live in a home owned by a household member. In the middle-income and upper-income groups, homeownership increases to 60.9% and 75.5%, respectively. Conversely, the percentage of renters decreases across income groups, starting with 65.1% renting in lower-income group, down to only 24.5% who are renting in the upper-income group.

We also examined data for Latinos who own their homes outright (without a mortgage or loan). Among upper-income Latinos, 11.0% own their homes outright.¹² Another 64.6% in this group own their homes with the help of mortgages or loans. In contrast, just under half of middle-income Latinos own their homes with mortgages or loans, while 11.7% of middle-income Latinos own their homes outright.

For California Latinos, there are small differences between the percentage of men and women who own or rent a home. A total of 62.3% of Latina women in the middle-income group own their own homes (or live in homes owned by a householder), compared to 59.6% of Latino men in the middle-income group.

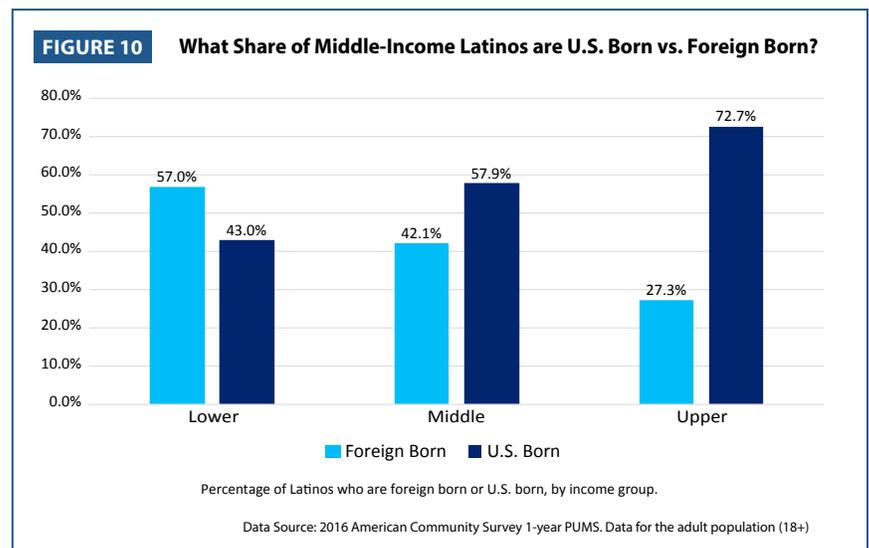
Note that Figure 9 shows data for all adult Latinos, regardless of head of household status. Therefore, these data represent the percentage of Latinos who own a home, which includes Latinos who own a home or live in a home owned by a member of their household. For more details on Latino homeowners, see Brief 2 of this series.

Nativity by Income Group

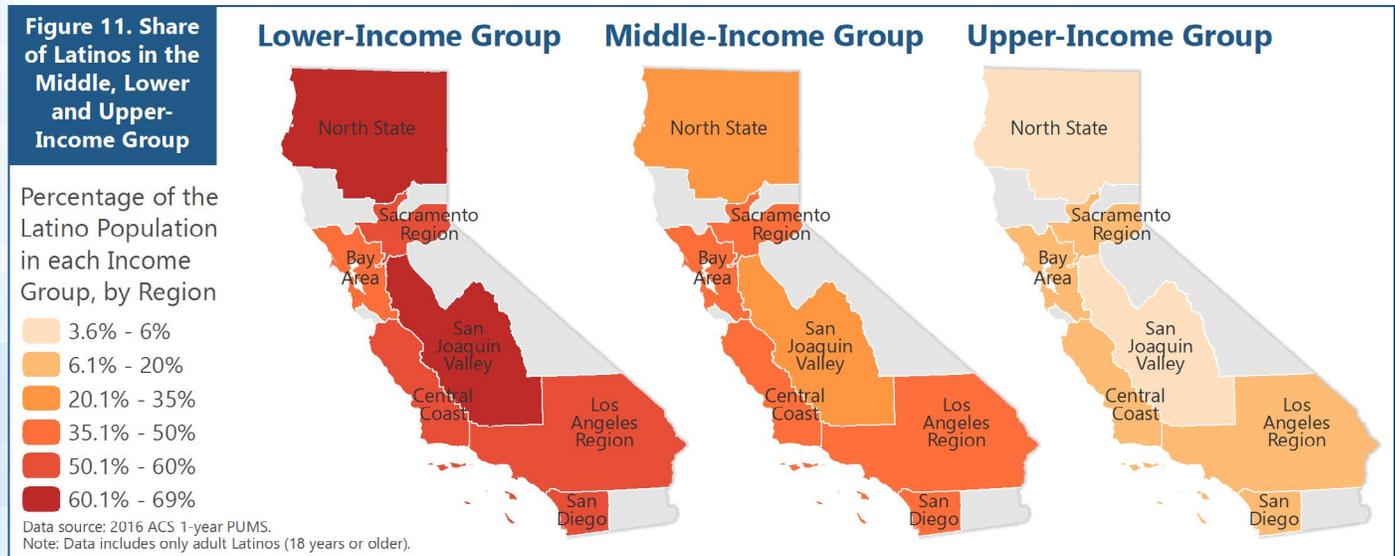
There are significant differences in income depending on whether the individual Latino is born inside or outside the U.S. These differences may reflect the fact that first-generation Latino immigrants are more likely to have lower socioeconomic status and lower levels of education¹³ and more likely to experience wage discrimination, exploitation and limited opportunities for promotion in the workplace.¹⁴ It can be a key factor in creating income differences within the Latino community, as well as income differences between Latinos as a whole, and the overall population. Out of the 10,331,896 Latinos who make up this study population (comprised of California Latinos who were 18 years or older, and did not live in group quarters), 49% are born outside of the U.S. (5,094,521). Given their large share of the population, the economic success of foreign-born Latinos is crucial to the well-being of Latinos, overall, as well as the state's general population.

In Figure 10, we see that the majority—nearly 58%—of middle-income Latinos are U.S.-born. In contrast, the majority (57%) of Latinos who live in lower-income households are foreign-born. As household income increases, the percentage of Latinos in each income group who are foreign-born decreases. The inverse is true for U.S.-born Latinos—while 43% of lower-income Latinos are U.S.-born, nearly 73% of upper-income Latinos are U.S.-born.

The patterns for female and male Latinos are similar to those for the entire Latino population: 58.4% of Latinas in the middle class are U.S.-born, as compared to 57.4% of male Latinos. Latinos who are foreign-born often experience additional barriers to income attainment in California. In our upcoming full report, we will examine how these barriers impact the likelihood of Latinos entering the middle class.



Geographic Distribution of Latinos by Income Group



Statewide, higher incomes are generally clustered in more densely populated areas. For instance, in the Bay Area, one of California's most highly populated regions, 13.7% of Latinos are in the upper-income group, while less populated regions such as the North State and San Joaquin Valley see around 4% of the Latino population in the region's upper-income group.

In general, and across income groups, Latinos see the highest percentage of their population in lower-income groups, and the lowest percentage of their population in upper-income groups. For example, in the North State region, 3.7% of Latinos are in the upper-income group and 27.3% are in the middle-income group. The majority (69%) of the region's Latinos are in the lower-income group. The only region where this trend is not seen is the Bay Area. Here, middle-income earners make up 44% of the Latino population, while 41% of Latinos are in the lower-income group. The Bay Area is the only region where middle-income Latinos are the predominant group. In all other regions, a majority of Latinos are in the lower-income group.

Across California's regions there is significant variation in the range of income for most of the population. In our upcoming report, we will take a detailed look at each region's income patterns and Latinos' ability to attain a middle income in each area.

Future Analysis

Because Latinos continue to be a plurality of California's population (38.5% in 2016, and growing), the expansion of the Latino middle class is essential to ensuring the future economic stability of California. This brief provides a profile of the key characteristics of the Latino middle class in the state, as defined by income attainment.

Overall, middle-income Latinos are more likely to be U.S.-born males under age 45 who have a college degree and own a home. But, as we have demonstrated, the income structure of the Latino population is far from monolithic. While some Latinos are making progress by entering the middle-income group, the majority of Latinos in California are in households with incomes that do not fall within the middle-income range for the overall California population. Meanwhile, fewer Latinos than Latinos are attaining middle-class incomes for themselves and the households they lead. It is clear that Latinos experience significant barriers to entry into the middle class.

Future briefs will provide in-depth analyses of the experiences of the Latino middle class in the areas of housing, education and employment. They will also address how targeted actions designed to improve outcomes in these areas can translate into an expanded and sustainable Latino middle class in California.

Overall, this study will establish baseline data about the California Latino middle class that the CLEI will use to measure and analyze Latino economic progress over time. Ultimately, these data will assist policymakers and key stakeholders in developing effective strategies and policies to promote economic growth, encouraging the development of a thriving Latino middle class in communities across the Golden State.

Notes

1. U.S. Census Population estimates, July 1, 2017. See: <https://www.census.gov/quickfacts/fact/table/ca/PST045217>.
2. UnidosUS (formerly National Council of La Raza), "Latinos in the Golden State: An Analysis of Economic and Demographic Trends," 2016. <https://www.unidosus.org/about-us/media/press/releases/nclr-CA-economy-report-13017>, and "Measure of America. A Portrait of California 2014–2015," 2014. <http://www.measureofamerica.org/california2014-15/>.
3. 2016 American Community Survey, 1-year Estimates.
4. Pew Research Center. 2015. "The American Middle Class is Losing Ground: No longer the majority and falling behind financially". <http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/>. Alissa Quart (2018). "Squeezed: Why our Families Can't Afford America". New York, NY (Ecco).
5. Stephen J. Rose. 2016. "The Growing Size and Incomes of the Upper Middle Class". (The Urban Institute). <https://www.urban.org/sites/default/files/publication/81581/2000819-The-Growing-Size-and-Incomes-of-the-Upper-Middle-Class.pdf>.
6. Pew Research Center. 2016. "America's Shrinking Middle Class: A Close Look at Changes within Metropolitan Areas." <http://www.pewsocialtrends.org/2016/05/11/americas-shrinking-middle-class-a-close-look-at-changes-within-metropolitan-areas/>.
7. Housing and person files from the PUMS 2016 1-year estimates were used in this analysis. The household income was first adjusted for inflation using the census-published adjustment factor. Then it was adjusted for household size and scaled to a uniform household size of three people. According to the 2016 ACS 1-year Estimates, the average household size in California is 2.97. So we rounded up to a uniform household size of 3, allowing for the comparison of differently-sized households.* The adjusted household income for all adults (18 years and older) was classified with person-weighted quintiles, and each quintile contains one-fifth of the adult population in California. The lower-income group was composed of the first and second quintile of the adjusted household income for the total adult population. Meanwhile, the third and fourth quintile made up the middle-income group (or middle class), and the fifth quintile made up the upper-income group. For example, an individual whose adjusted household income fell within the range of the 3rd quintile would be considered middle income. Quintiles provided a population-driven definition of the middle class, with an income range based on the actual distribution of household income. Because there is no household income published for people in group quarters, people living in institutional and non-institutional group quarters were excluded from the analysis. *We used the equivalence scale adjustment method, where the adjusted household income equals the household income divided by the square root of the household size. The adjusted household income was then scaled to a three-person household size by multiplying the adjusted household income by the square root of 3.
8. Jody A. Vallejo (2012). "Barrios to Burbs. The Making of the Mexican-American Middle Class". Stanford, CA (Stanford University Press).
9. Pew Research Center report. 2012. "The Lost Decade of the Middle Class". <http://www.pewsocialtrends.org/2012/08/22/the-lost-decade-of-the-middle-class/>.
10. Bohn, Sarah and Danielson, Caroline. 2016. "Income Inequality and the Safety Net in California." (Public Policy Institute of California).
11. 2016 American Community Survey, 1-year Estimates.
12. A housing unit is owner-occupied when the owner or co-owner lives in the unit. It includes units owned with a mortgage or loan, or units owned 'free and clear,' which means they are owned outright, without any mortgage or debts.
13. Terriquez, Veronica. 2014. "Trapped in the working class? Prospects for the intergenerational (Im)mobility of Latino Youth." *Sociological Inquiry* 84(3): 382-411.
14. Ayón, Cecilia. 2015. "Economic, Social, and Health Effects of Discrimination on Latino Immigrant Families". (Migration Policy Institute). <https://www.migrationpolicy.org/sites/default/files/publications/FCD-Ayon.pdf>.

The State of Latino Economic Well-Being: Study Overview

The State of Latino Economic Well-Being in California is a three-part study led by Mindy S. Romero, Ph.D. that will provide an up-to-date profile of the Latino middle class in California. The full report will be released by CLEI in February of 2018. The following is an overview of the study's different sections.

1. Descriptive Economic Analysis of California Latinos

- Comparative economic analysis of California Latinos, with demographic overviews of the California Latino population, and the California Latino business community.
- Comparative analysis of demographics of California Latinos and Latinos nationwide.

2. Analysis of the Latino Middle Class

- Description of the current size and make-up of the California Latino middle class.
- Projections of the size of the California Latino middle class (statewide and regionally), given current economic trends.
- Projections of the size of the California Latino middle class (statewide and regionally), given improved outcomes on select variables.

3. Creation of a Latino Economic Index (LEI)

A subset of the indicators examined in this study (available at a census-tract level) will be combined into an index. The LEI will provide a visual data snapshot of the economic well-being of Latino communities in California. It is designed to help policymakers, advocates and other key leaders identify and prioritize communities that can benefit from investment and resource allocation.

The study will establish a baseline of data that can be used to measure Latino economic progress over time. It will provide clear and objective data that will assist policymakers and stakeholders in developing effective strategies that will enable the growth of the Latino middle class in California.

The study release will include an online toolkit of resources that will be accessible through the CLEI website. Prior to the study release date, a series of research briefs will be released, including this brief.



About the California Latino Economic Institute

The CLEI is a collaboration of the California Latino Legislative Caucus and the California Business Roundtable. A stand-alone, independent organization, it focuses on funding and disseminating research, and advancing innovative policy options to support a growing and sustainable Latino middle class. To learn more about the CLEI, visit <http://www.latinoeconomicinstitute.org/>.

About Mindy S. Romero, Ph.D.

Dr. Mindy S. Romero is founder and director of the California Civic Engagement Project (CCEP) at the University of Southern California Price School of Public Policy. Her research explores barriers to civic and political engagement, and their implications for the economic and social well-being of underrepresented and underserved groups. Dr. Romero is frequently invited to share her research findings in academic and policy venues throughout the U.S., including the California State Legislature and the U.S. Congress. She is a member of the CLEI Academic Advisory Board. For more information about this study, contact Dr. Romero at msromero@usc.edu.

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