Golden Gate University

# POVERTY AND FISCAL POLICY: AN EXPLORATORY ANALYSIS OF DETERMINANTS OF POVERTY IN CALIFORNIA

A Dissertation Submitted to
The Faculty of the Ageno School of Business

In Partial Fulfillment
Of the Requirements for the Degree of
Doctor of Business Administration

By
Steven J. Balassi

San Francisco, California
March, 2007

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Golden Gate University
Doctor of Business Administration Program

DISSERTATION

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By: Steven J. Balassi

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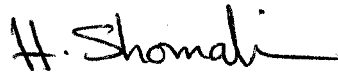
AGENO SCHOOL OF BUSINESS
GOLDEN GATE UNIVERSITY



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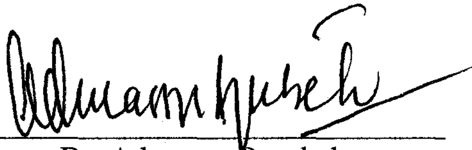

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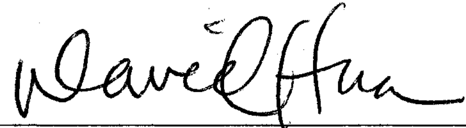

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# Abstract

Poverty and income inequality are both major problems in California. Government spending, called fiscal policy, should be used to help alleviate poverty. There are five major sub areas which have a great impact on poverty; they are education, immigration, health care, crime, and tax policies. Uses and effects of fiscal policy, both Federal and State levels, and California's poverty will be examined. By comparing California's poverty to the United States levels, this study finds that U.S. fiscal policy accounts for 71% of Californa's poverty. This study goes on to examine the 29% which U.S. fiscal policy does not account for. The conclusion also provides California with recommendations which will help alleviate California's poverty problems in the five major sub areas.



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## Introduction

Poverty in the United States refers to a condition afflicting people whose annual family income is below a "poverty line" set by the U.S. government (U.S. Census Bureau, Sept 21, 2006). An absolute poverty measure was developed in the mid-Sixties as part on the Johnson Administration's "War on poverty." Based on this measure, the poverty line is set at approximately three times the annual cost of a nutritionally adequate diet. It varies by family size and is updated yearly to reflect changes in the consumer price index. Currently, about thirteen percent of the US population falls below the federal poverty threshold.

There are two versions of the federal poverty measure: the poverty thresholds (which are the primary version) and the poverty guidelines. The Census Bureau issues the poverty thresholds, which are generally used for statistical purposes—for example, to estimate the number of people in poverty nationwide each year and classify them by type of residence, race, and other social, economic, and demographic characteristics. The Department of Health and Human Services issues its poverty guidelines for administrative purposes—for instance, to determine whether a person or family is eligible for assistance through various federal programs.

The official poverty rate in the U.S. has recently increased for four consecutive years, from a 26-year low of 11.3% in 2000 to 12.7% in 2004 (the most recent year measured). This means that 37.0 million people were below the official poverty



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thresholds in 2004. This is 5.4 million more than in 2000. The poverty rate for children under 18 years old increased from 16.2% to 17.8% over that period. The current poverty rate is measured according to the 2006 HHS Poverty Guidelines which are illustrated in Table #1 below.

Table #1. Poverty Rate, Based on Income and Family Size

| Persons in Family Unit | 48 Contiguous States and D.C. | Alaska | Hawaii |
|---|---|---|---|
| 1 | $9,800 | $12,250 | $11,270 |
| 2 | $13,200 | $16,500 | $15,180 |
| 3 | $16,600 | $20,750 | $19,090 |
| 4 | $20,000 | $25,000 | $23,000 |
| 5 | $23,400 | $29,250 | $26,910 |
| For each additional person, add | $3,400 | $4,250 | $3,910 |

SOURCE: Federal Register, Vol. 71, No. 15, January 24, 2006, pp. 3848-3849.

Poverty is a major problem in California, just as it is throughout the nation and the world. From 1969 to 1988, California had a lower poverty level than the rest of the United States. Since 1988, California has had a higher poverty level than the US as a whole. The data below, from the Public Policy Institute of California (Feb 2006), paint a bleak picture of where California stands.

- Poverty has held steady in California in recent years.

After peaking at over 18 percent in 1993 and declining to under 13 percent in 2001, the poverty rate in California held fairly steady at just over 13 percent between 2002 and



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2004. Nevertheless, it remained higher in California in 2004 than in the rest of the nation: 13.3 percent versus 12.7 percent.

- Poverty in California today is high compared to poverty in the late 1960s.

Between 1969 and 1993, poverty grew from 9 percent to 18 percent. And the decline in poverty during the late 1990s was not enough to reverse the effects of that growth. At over 13 percent, the poverty rate in 2004 remained well above levels of the late 1960s and the 1970s.

- Latinos and African Americans have higher poverty rates than other groups.

The poverty rate for Latinos and African Americans is about 20 percent, more than twice that for whites (8%) and Asians (10%). For Latinos living in families with a foreign-born head of household, the poverty rate is much higher (24%) than for U.S.-born families (14%). Poverty is also high among Native Americans and immigrant families from the Southeast Asian countries of Vietnam, Cambodia, and Laos.

- Poverty rates are particularly high among children.

Poverty rates are higher for children under age 18 (19%) than for adults ages 18-64 (12%) and much higher than for the elderly, ages 65 and older (7%). About 22 percent of children are living in a family headed by an unmarried woman, and nearly 40 percent of children in these families are poor.



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- Most poor families in California are employed.

Work participation among the poor in California has increased over the past three decades and has been substantially higher than in the rest of the nation. Almost 38 percent of poor families have a member employed more than 1,500 hours per year. Another 21 percent have a family member employed at least 200 hours a year.

- Poverty varies considerably across California's regions.

At only 8 percent, the San Francisco Bay area has the lowest poverty rate of California's major regions. The San Joaquin Valley has the highest poverty rate, at 18 percent. The poverty rate in Los Angeles County is 16 percent.

- California's high cost of living is not reflected in official poverty measures.

Poverty is officially measured by comparing family income to a nationally determined threshold and does not take into account regional differences in cost of living. The poverty threshold was $19,157 for a family of four in 2004. However, the U.S. Department of Housing and Urban Development (HUD) estimates the two-bedroom fair market rent for an apartment in San Francisco to be $21,300 annually. Even for Los Angeles, the HUD estimate for rent ($12,252) is well over half the poverty threshold.

There are many problems poverty can cause to an economy. Some are direct and some are indirect. Here are some of the major problems listed:



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- More government payouts (expenses). When poverty is higher, the government pays out more to programs like Medicaid, Unemployment Insurance, Food Stamps, Medical Benefits, and Welfare. The government will also tend to invest money in poor communities, to rebuild them. All the money that is spent in these areas could be redirected to other programs if poverty was not as big of a problem.

- Crime rates go up in high-poverty areas because people have less money and fewer jobs. When this happens, the opportunity cost for crime goes up and more people may steal to survive. Crime leads to more people in jail which increases our costs of the penal system.

- More personal investment or donations by charities to alleviate poverty means less to other causes like cancer, savings accounts, and education.

- In many areas, racial tension can come from poverty. If one race feels that another is taking advantage of it, it may build animosity towards the other race. This is not good for society or the economy because we all need to value each other's contribution to our world.

- When people have no money, they cannot buy food. This leads to starvation and death.



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- When people do not have money, it becomes much harder and almost impossible to get an education. You tend to need some sort of education in order to get a job that will get you out of poverty.

Fiscal policy is defined as "Decisions that determine the government's budget, including the amount and composition of government expenditures and government revenues" (Bernanke and Frank, 2004). Governments, from the federal level to the local municipalities, receive money mainly through taxes. They spend the money in many different areas, from roads to poverty programs, to try to do what is best for the area they are elected to oversee. Because money is scarce and not unlimited, the government must make hard choices when allocating dollars. Each group of people receiving government disbursements will usually lobby vigorously for its cause, and protest bitterly if the money allocated is deemed insufficient.

Besides allocating out money to various groups, governments can choose how to tax people to encourage certain behaviors. An example is charitable contributions. You may donate money or clothing to The Salvation Army so they may help poor people. The government will give you a tax break on what you have donated. This tax break will lead to more people donating because they save money on taxes. By doing this, the government indirectly helps out with the poverty problem.

As of 2006, California has the eighth-largest economy in the world (The World Bank, 2007). It is responsible for 13% of the United States' gross domestic product



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(GDP). California, like all the 50 states, is governed as a republic, with three branches of government: the executive branch consisting of the Governor of California and the other independently elected constitutional officers; the legislative branch consisting of the Assembly and Senate; and the judicial branch consisting of the Supreme Court of California and lower courts. The state also allows direct participation of the electorate by referendum, recall, and ratification.

The Governor of California and the other state constitutional officers serve four-year terms and may be re-elected only once. The California State Legislature consists of a 40-member Senate and 80-member Assembly. Senators serve four year terms and Assembly members two. The terms of the Senators are staggered so that half the membership is elected every two years. The Senators representing the odd-numbered districts are elected in years evenly divisible by four, which corresponds to presidential election years. The Senators from the even-numbered districts are elected in the intervening even-numbered years, in the gubernatorial election cycle. California's legislature is organized such that the party caucus leaders wield great power and can usually speak on behalf of their caucuses. Many important legislative decisions are thus not made on the floor of the legislature but in back-room deals by the "Big Five," which is comprised of the governor and the Democratic and Republican leaders of each chamber. Members of the Assembly are subject to term limits of 3 terms, and members of the Senate are subject to term limits of 2 terms.



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California's budget for 2006-2007 is projected to be $92 billion (State of California's official website, 2006). California levies a 9.3% maximum variable rate income tax, with 6 tax brackets. California's minimum combined state, county and local sales and use tax is 7.25%. The rate is higher in cities and counties with special taxing districts. All real property is taxable and shall be assessed at fair market value.

This study will examine poverty and fiscal policy in the State of California. Uses and effects of fiscal policy and California's poverty levels will be examined. Once this study has defined poverty and fiscal policy, California's poverty levels will be compared to the United States. U.S. fiscal policy should account for some of the poverty issues which California has, but not all of them. This study will then go on to examine the gap between the effect U.S. fiscal policies have on California and where California stands. The conclusion of this study will provide California with recommendations which will help alleviate California's poverty problems.



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# Literature Review

The purpose of this literature review is twofold. The first section will examine California's current poverty levels and show why poverty is a major economic concern to the state's citizens. It will show how poverty affects all Californians in an economically negative way and needs to be addressed for the greater good of the state and its people.

The second section will focus on the nature and use of fiscal policy. It will also discuss how fiscal policy, used correctly, can help to reduce poverty levels. This study will try to find prior work on how California and other States use fiscal policy to reduce poverty levels. This proposed study is distinctive from prior research in that it examines California's fiscal policies separately from those of the U.S. government. It also demonstrates the effects of fiscal policy on California and proposes solutions to these problems.

## I- Why Poverty in California is a Concern

Despite the national decline in both child and adult poverty in the United States since the early 1990s, in California these sad statistics have exceeded those of the nation as a whole (NCCP, 2002). This demographic profile of California's low-income families highlights the high number and rate of low-income children in California. It also features several facts that challenge stereotypes about these families. For example, a large and growing majority of poor children live in working families, and as many of California's



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poor children live in two-parent families as those as do those in single-parent homes. This study illustrates the rapidly changing demographic picture of California's poor and low-income families. Almost half of all California's children are immigrants, most of whom are Hispanic. The picture painted by the data can only be described as grim. For example:

- The number of low-income children in California has increased by almost 1.6 million, from 2.77 million to 4.36 million. The number of California's children in poverty has increased by 850,000, from 1.27 to 2.12 million.

- One in six poor children in the United States lives in California (as compared to about one in 10 two decades ago). The number of poor children in California has grown at a faster pace than that of the total number of children in the United States.

- California alone has accounted for the net national increase of 800,000 in the number of children in poverty since the late 1970s.

- California's child poverty rate has increased by more than 10 percent since 1979 — from just under 20 percent during 1979–1983 to 22 percent during the period 1996–2000. During the same time period, the national child poverty rate dropped from 19 percent to 18 percent.



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In an essay titled "Crime and Poverty" (2002), the Public Defender of Orange County California, Carl Holmes writes:

> "If poverty were a disease it would be the most insidious, devastating, and life threatening disease that Americans suffer. The poor suffer not just economically, but they also suffer lack of opportunity, lack of education, lack of health care, and significantly more violence than others better situated in the community. They suffer higher disease rates, death rates and imprisonment than their affluent brethren. They are imprisoned at much higher rates and they are executed for capital crimes more often than any other group. In fact, they are almost the exclusive recipients of the death penalty." (Holmes, 2002)

The exact causes of poverty are difficult to pinpoint, social stereotypes notwithstanding. According to the Children's Defense Fund, which has collected and studied the data for over a decade: "Recent academic studies demonstrate that the effects of poverty cannot be explained away as mere side effects of single parenthood, race, parents low IQ's or lack of education (Children's Defense Fund, 2006). To the contrary, poverty itself spawns this waste and desolation.

The "waste and desolation" hits minorities disproportionately hard. According to U.S. Census figures in 1997:

- 20.5 percent of all children under age 18 were poor



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- 11.1 percent of White children were poor
- 39.9 percent of Black children were poor
- 40.3 percent of Hispanic children were poor and
- 19.5 percent of Asian/Pacific Islander children were poor (U.S. Census, 1997)

If poor people are more likely to commit crime, and if minorities are more likely to be poor, are they also more likely to commit crime? Deductive reasoning would say so. Data produced by prosecutors tends to confirm this notion. This is another of the cruel and devastating effects of poverty.

Charles Murray wrote (1987) that the overarching revision in the received wisdom will be in the image of the poor as victims. Some are victims, without question. But a great many people below the poverty line will be seen as living lives that they choose to live. He showed the most numerous will be people who reveal that they don't consider themselves to be living impoverished lives, even though their income puts them below the federal poverty line. But the PSID data also indicate that most of those who do consider themselves to be poor have an option open to them for increasing their income-the labor market-that they are not using, or are using only sporadically.

No data (Murray, 1987) will be able to resolve the question of personal



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responsibility versus environment or genes. But as matters stand, the policy debate is founded on images of people who are poor for reasons like the following: because they cannot work or cannot find work, because they work at jobs that never allow them to rise above the minimum wage, because they are plunged into poverty by unforeseeable disasters. These images, he argues, cannot withstand a rich qualitative data base about the officially poor. In any event, two undoubted goods will come from amassing such a data base. One will be to provide the policy debate with a frame of reference that we will come closer to arguing about people rather than abstractions. The other will be to remind social scientists and politicians alike of how little poverty has to do with income.

In a study by the World Bank (Ravallion, 2002), it reinforces the view that extra public action is warranted to protect public spending on the poor at times of aggregate fiscal contraction. In all the cases studied, they found signs of early program capture by the non-poor, but that targeting tends to improve as the program expands. The evidence reviewed is that it is spending on the non-poor that is protected. This suggests that the "utility effect" dominates the "power effect;" declining marginal utility of spending on the non-poor tends to mean that there is a switch in spending away from the poor during an aggregate contraction.

One implication of these findings concerns impact evaluations of add-on programs intended to compensate losers from fiscal adjustment. The results of their paper suggest that evaluations that ignore the political economy of fiscal adjustment can greatly underestimate the impact on poverty of successful add-on programs, relative to the counter-factual of no intervention. Past performance in reaching the poor is clearly not a reliable guide to outcomes in the absence of the intervention. Restoring the pre-adjustment level of public spending on



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the poor is consistent with large gains relative to what would have happened without intervention. That is implied by their paper's repeated finding that targeting performance tends to deteriorate when aggregate spending declines.

The idea that developing countries face a trade off between poverty and inequality has had considerable influence on thinking about development policy (Ravallion, 2004). The experience of developing countries in the 1990s does not, however, reveal any sign of a systematic trade off between measures of absolute poverty and relative inequality. His research shows that falling inequality tends to come with falling poverty incidence. And rising inequality appears more likely to be putting a brake on poverty reduction than to be facilitating it. However, there is evidence of a trade off for absolute inequality, suggesting that those who want a lower absolute gap between the rich and the poor must in general be willing to see lower absolute levels of living for poor people.

The cost of poverty to the taxpayers of California is substantial. Below (Diagram #1) is the proposed State of California budget for 2006-2007.



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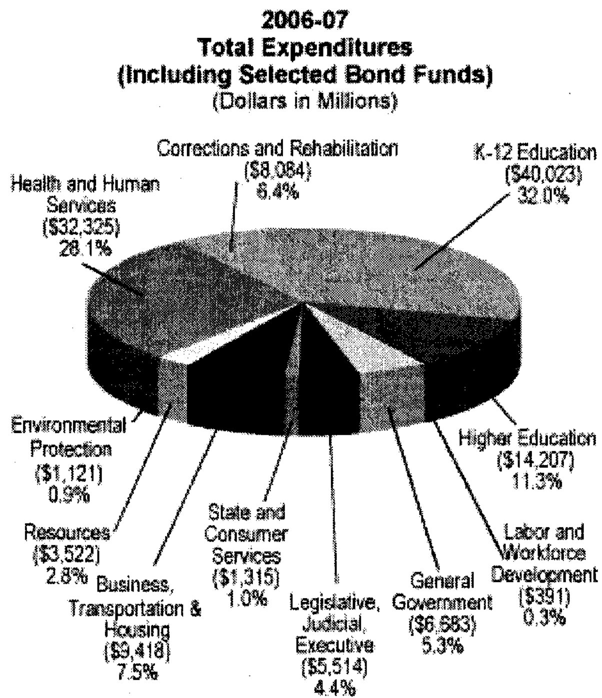
Diagram #1- California's Budget for 2006-2007




* State of California's website

The Health and Human Services budget is over $32 billion, which is 28.1% of the entire budget of California. The Health and Human Services programs provide essential medical, dental, mental health and social services to many of California's most vulnerable and at-risk residents. These programs touch the lives of millions of Californians and provide access to critical services that promote their health, well-being and ability to function in society. The mission of the Health and Human Services Agency also includes recognizing children as a priority investment, promoting personal responsibility for services, and enhancing program effectiveness and accountability.



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For education (K through college), the state expects to allocate $54,230 million. This is 43.3% of the entire budget. California spends over $8 billion in Corrections and Rehabilitation. Poverty has many negative economic effects on the people of California. The most significant aspects include: economic and social equality, crime, and the cost of poverty to a society.

**Economic and Social Inequality**

Economic inequality is defined as "Economic inequality refers to disparities in the distribution of economic assets and income". This term typically refers to inequality among individuals and groups within a society, but can also refer to inequality among nations. What this means is we have a group of people who are poor vs. rich or other classes.

Research (Barro, 1999) has shown a clear link between income inequality and social cohesion. In more equal societies, people are much more likely to trust each other, measures of social capital suggest greater community involvement, and homicide rates are consistently lower. This can lead to an "us vs. them" mentality.

In a 2002 paper, Eric Uslander and Mitchell Brown (2002) showed that there is a high correlation between the amount of trust in society and the amount of income equality. They did this by comparing results from the question "would others take advantage of you if they got the chance?" in U.S. General Social Survey and others with



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statistics on income inequality. This makes sense because when you have an" us vs. them" mentality, you are competing. People tend to not trust those they compete against.

Many people accept inequality as a given, and argue that the prospect of greater material wealth provides incentives for competition and innovation within an economy. If you can get paid more to work harder, you will work harder and increase output. The problem arises when the people who can't work are left behind.

Some modern economic theories, such as the neoclassical school, have suggested that a functioning economy requires a certain level of unemployment. These theories argue that unemployment benefits must be below the wage level to provide an incentive to work, thereby mandating inequality.

Several recent economists have investigated the relationship between inequality and economic growth. Robert Barro (1999) wrote a paper arguing that inequality reduces growth in poor countries and helps growth in rich ones. He says this can cause mistrust. An example would be a Middle East oil exporting country believes that the U.S. is exploiting them for their oil.

The reasons that Californians care about trends in income inequality can be organized around three concepts: the well-being of the poor, equal opportunity, and social consequences (Reed, 1999).



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California has been facing rising inequality for the past three decades, as can be seen in the following charts (Charts #1-3 and Table #2).

Chart #1- California's Lorenz Curve (1980-1982)

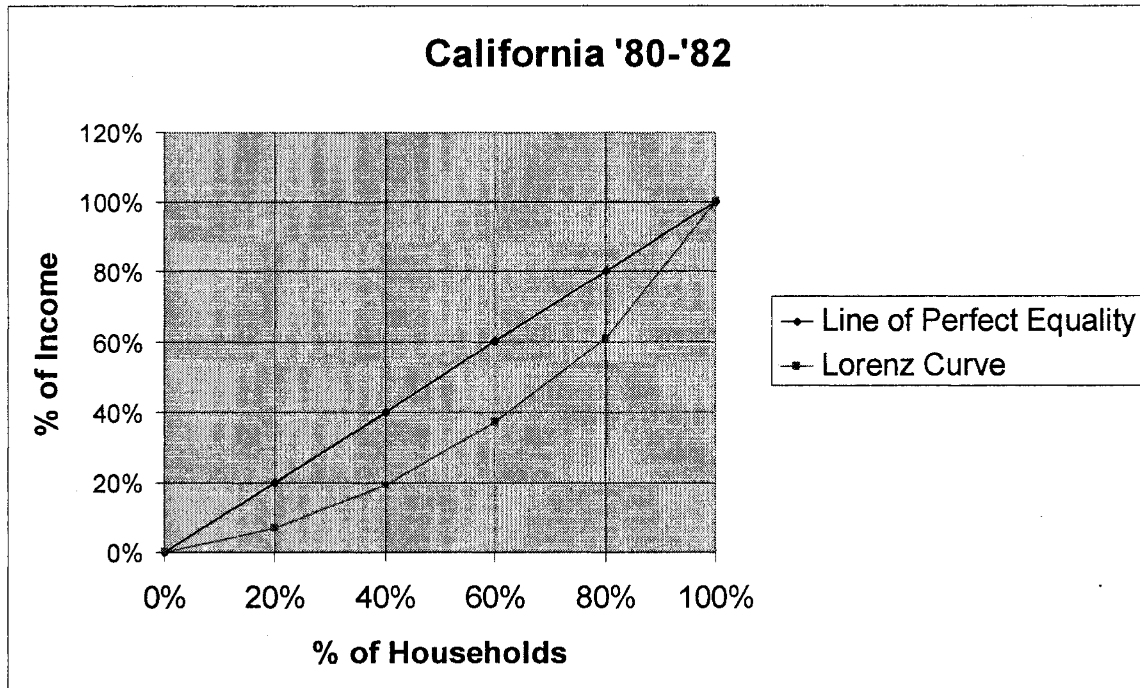




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Chart #2- California's Lorenz Curve (1990-1992)

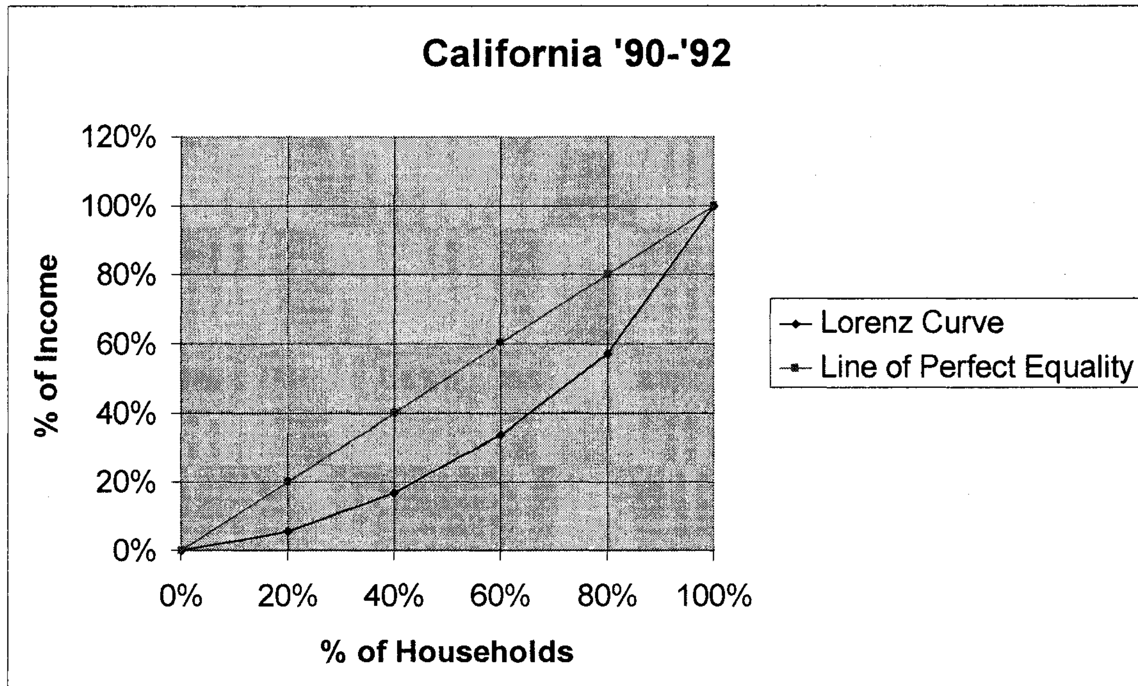


Chart #3- California's Lorenz Curve (2001-2003)

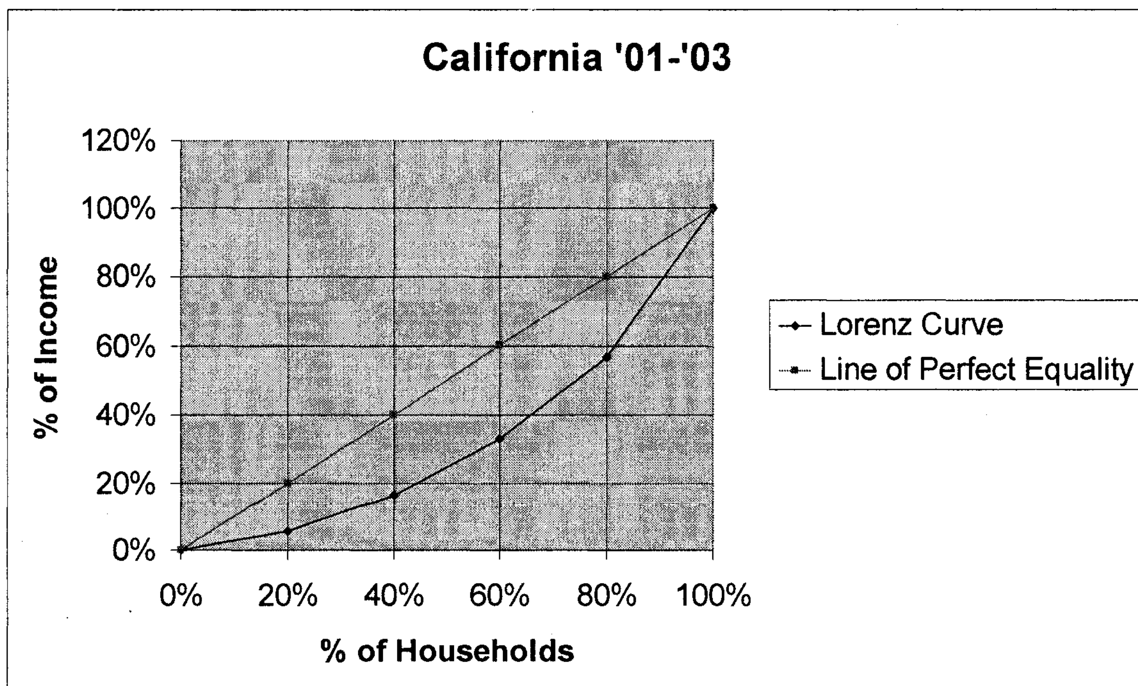




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Table #2- California's Income and Distribution (1980-2003)

| | | Bottom 20% | 2nd 20% | Middle 20% | 4th 20% | Top 20% | Total |
|---|---|---|---|---|---|---|---|
| **$ Amount** | **80-82** | $ 15,053 | $26,862 | $ 38,927 | $52,189 | $ 85,093 | $218,124 |
| | **90-92** | $ 14,483 | $28,149 | $ 41,736 | $59,316 | $108,214 | $251,898 |
| | **01-03** | $ 16,773 | $31,884 | $ 48,108 | $69,116 | $127,564 | $293,445 |
| **%** | **80-82** | 6.90% | 12.32% | 17.85% | 23.93% | 39.01% | 100% |
| | **90-92** | 5.75% | 11.17% | 16.57% | 23.55% | 42.96% | 100% |
| | **01-03** | 5.72% | 10.87% | 16.39% | 23.55% | 43.47% | 100% |
| **Total %** | **80-82** | 6.90% | 19.22% | 37.06% | 60.99% | 100.00% | |
| | **90-92** | 5.75% | 16.92% | 33.49% | 57.04% | 100.00% | |
| | **01-03** | 5.72% | 16.58% | 32.98% | 56.53% | 100.00% | |

* Data from Economic Policy Institute,

http://www.epi.org/content.cfm/studies_pulling_apart_2006

Notice the Lorenz Curve has been pushed outward, showing greater inequality. The poorest 20% had 6.9% of the income in '80-82 but fell to 5.72% in '01-03. The richest 20% had 39.01% in '80-82 and it increased to 43.47% in '01-03. Overall, this shows an increase in income inequality for the past 20 or more years.

To measure the exact amount of inequality for the charts above, the Gini coefficient is useful. The Gini coefficient provides a percentage of how wide the above income inequality curves are. Zero would mean perfect equality and 1 would represent perfect inequality. California's Gini coefficients are as follows:



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| | |
|---|---|
| 1980-1982 | .379 |
| 1990-1992 | .434 |
| 2001-2003 | .441 |

These numbers have increased over the last two decades. This means the California's income inequality has gotten worse.

The following numbers about the state's poverty rate tell a mixed tale (Chart #4 and Table #3):

Chart #4- California's State Poverty Rankings (1980-2003)

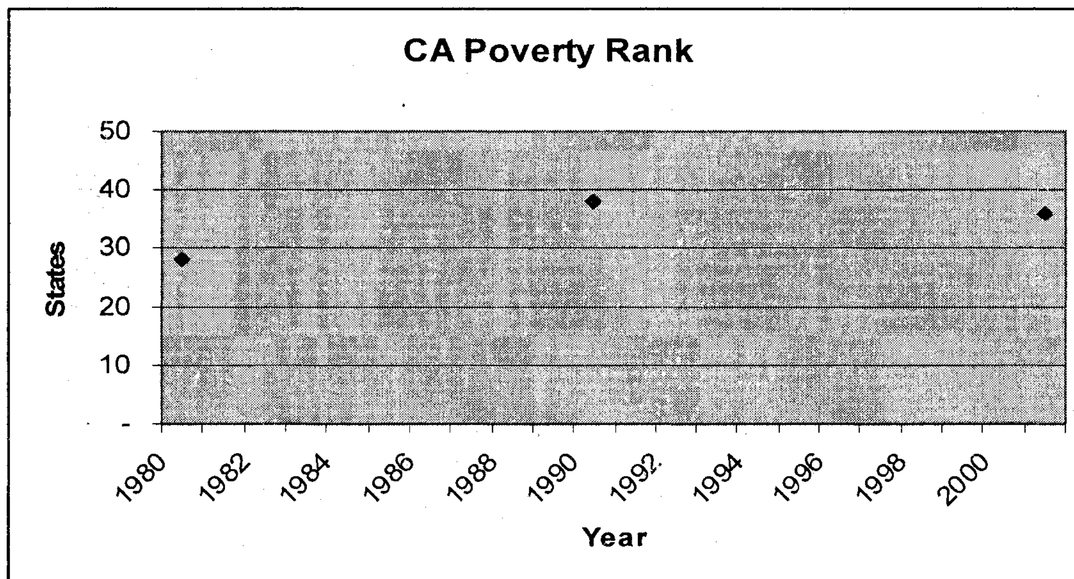




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Table #3- California's Poverty Rate and State Rankings (1980-2003)

| Year | Poverty Rate | U.S. Rank |
|---|---|---|
| 1980 | 11.0% | |
| 1981 | 13.3% | |
| 1982 | 14.1% | 28th |
| **Average** | **12.8%** | |
| 1990 | 13.9% | |
| 1991 | 15.7% | |
| 1992 | 16.4% | 38th |
| **Average** | **15.3%** | |
| 2001 | 12.6% | |
| 2002 | 13.1% | |
| 2003 | 13.1% | 36th |
| **Average** | **12.9%** | |

* Data from U.S. Census Bureau,

http://www.census.gov/hhes/www/poverty/histpov/hstpov21.html

From 1980-1982, California's poverty rate was 12.8% and by 2001-2003 it was 12.9%. The degree of change may not appear significant, until one considers where California ranks among the other states in the U.S. In that same time period, California went from being ranked 28th to being ranked 36th. This shows that other states have found ways to reduce their poverty levels while California has not. It is also worthy to note that most of the gain was in the first decade, when California went up to 38th in the early '90's. As the Economic Policy Institute concluded, "Income inequality has increased in California over the past two decades" (U.S. Census Bureau, 2006).



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The United States was built on the ideal that hard work should pay off, that individuals who contribute to the nation's economic growth should reap the benefits of that growth. Over the past two decades, however, the benefits of economic growth have been skewed in favor of the wealthiest members of society. In California, the incomes of the richest families climbed substantially, while the incomes of the middle- and lower-income families saw only modest increases.

• In the early 2000s, the richest 20 percent of families had average incomes 7.6 times as large as the poorest 20 percent of families. This is up from a ratio of 5.7 in the early 1980s. This growth in income inequality was the $16^{th}$ largest in the nation.

• In the early 2000s, the richest five percent of families had average incomes 12.4 times as large as the poorest 20 percent of families. This is up from a ratio of 8.0 in the early 1980s.

• In the early 2000s, the richest 20 percent of families had average incomes 2.7 times as large as the middle 20 percent of families. This is up from a ratio of 2.2 in the early 1980s. This growth in income inequality was the $23^{rd}$ largest in the nation.

• In the early 2000s, the richest five percent of families had average incomes 4.3 times as large as the middle 20 percent of families. This is up from a ratio of 3.1 in the early 1980s.



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• In the early 2000s, the income gap between the richest 20 percent of families and the poorest 20 percent was 6th largest in the nation. The income gap between the richest 20 percent of families and the middle 20 percent was 10th largest in the nation.

Between the early 1980s and the early 2000s, in dollar terms:

• The average income of the poorest fifth of families increased by $1,721, from $15,053 to $16,773. This is roughly an increase of $80 per year.

• The average income of the middle fifth of families increased by $9,181, from $38,927 to $48,108. This is roughly an increase of $435 per year.

• The average income of the richest fifth of families increased by $42,472, from $85,093 to $127,564. This is roughly an increase of $2,020 per year.

• The average income of the richest five percent of families increased by $87,694, from $119,668 to $207,363. This is roughly an increase of $4,180 per year.

**Crime**

Crime affects a society in a multitude of ways. There are, for instance, expenses incurred to defend against theft (Friedman, 1997). These include private costs — locks, burglar alarms, security guards, and the like — and the public costs of police, courts, and



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prisons. Such costs are much larger than the net gains of theft to thieves, making the total cost of theft more, not less, than the value of all goods stolen.

Friedman goes on to explain that theft is inefficient for the same reason as other forms of rent seeking. Both thieves and victims are competing for possession of the same objects — all of which initially belong to the victims. Expenditures by a thief either result in his getting the loot instead of some other thief or in his getting the loot instead of its owner keeping it. Defensive expenditures by the victims are rent seeking as well —the function of a burglar alarm is to make sure that the property remains in the hands of its original owner.

If property rights are insecure, some individuals have an incentive to spend resources trying to get property transferred to them, while some have an incentive to spend resources keeping property from being transferred away from them. That is true whether the transfer is private or public. Not earning taxable income or not buying taxed goods are (costly) ways of defending against taxation, just as installing a burglar alarm is a (costly) way of protecting against theft. Making campaign donations to a candidate who promises to provide special benefits to you and your friends is an expenditure on transferring property in your direction almost precisely analogous to a burglar's expenditure on tools.

To gauge the relative cost to society, one can rank the different categories according to average cost per reported crime. Cohen (1988) and Miller, Cohen, and



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Rossman (1993) provide estimates of the monetary costs of crime (medical bills, property loss, and lost productivity) and, on the basis of jury awards, the quality-of-life reductions caused by pain and suffering. They estimate that the 1992-dollar cost for the average crime was $17,000 for murder, $1,800 for assault, $2,900 for robbery, $1,200 for burglary, $200 for larceny, and $4,000 for auto theft. Estimates of quality-of-life costs were $2.7 million for murder, $10,200 for assault, $14,900 for robbery, $400 for burglary, and $0 for larceny or for auto theft. The estimates give some idea about the relative values associated with the trends in the different crime rate indexes. Thus, while auto theft and murder are the smallest subcategories in terms of crimes per 100,000 individuals, in value terms they are considerably larger. Similarly, although property crimes make up the bulk of the overall crime rate, in terms of quality-of-life costs violent crimes carry much more weight.

Table #4 shows the total costs of crime, and it comes to either 1.7 trillion including transfers or 1.1 trillion without (Transfers are money that is stolen or obtained from fraud). That amounts to $4,118 per person per year.



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Table #4- Cost of Crime (in trillions)

| | Value ($) |
|---|---|
| *Crime induced production* | *397* |
| *Opportunity (time) costs* | *130* |
| *Risks to life and health* | *574* |
| *Transfers* | *603* |
| *Gross Burden* | ***1,705*** |
| *Net of Transfers* | ***1,102*** |
| | |
| *Source: Table 7 D. A. Anderson, "The Aggregate Burden of Crime,"* Journal of Law and Economics, *XLII(2) 1999.* | |

**Costs of Poverty to a Society**

Poverty does not just hurt those who are below the poverty line. It affects everyone in society. Some of the numbers are staggering. According to the Children's Defense Fund (2006), for every year that 14.5 million American children continue to experience poverty, their lifetime contribution to the economy will decline by an estimated $130 billion, because poor children grow up to be less educated and often less productive workers.

There are many other areas where governments must spend money to help fight poverty. This amounts to billions of dollars each year. Government transfers include payments from the following sources: 1) Unemployment Compensation, 2) State Workers' Compensation, 3) Social Security, 4) Supplemental Security Income (SSI), 5) Public Assistance, including Temporary Assistance for Needy Families (TANF), 6)



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Veterans' Payments, 7) government survivor, disability, and pension payments, and 8) government educational assistance (Children's Defense Fund, 2006).

Government Noncash Transfers (also called noncash benefits) are also very costly. Non-cash transfers include those government benefits that are distributed as services or vouchers, and for which the recipient does not get cash. These include 1) food stamps, 2) housing subsidies, and 3) free or reduced-price school lunches.

As noted earlier, California's Health and Human Services budget is over $32 billion, which is 28.1% of the entire budget of California. The Health and Human Services programs provide essential medical, dental, mental health and social services to many of California's most vulnerable and at-risk residents. These programs touch the lives of millions of Californians and provide access to critical services that promote their health, well-being and ability to function in society. The mission of the Health and Human Services Agency also includes recognizing children as a priority investment, promoting personal responsibility for services, and enhancing program effectiveness and accountability.

A reduction in poverty would be savings that could amount to billions. That money could be spent on many other things like investment or finding cures for diseases. Taxes could be cut; this could leave more money in the public's hands, which could lead to higher consumption. Higher consumption could lead to more demand and more jobs, which would help the state economy.



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## II- How Proper Fiscal Policy Can Reduce Poverty Levels

Bernanke (2004) defines fiscal policy as "Decisions that determine the government's budget, including the amount and composition of government expenditures and government revenues." CA's budget for 2006-2007 is $97,902,000,000. Fiscal policy at the State level is what dictates how and where this money will be spent. The purpose of this section is to discuss ways in which proper use of fiscal policy has led to decreases in poverty levels. That knowledge, once gained, could be applied to the problems of California.

Governments spend money on a wide variety of areas, from the military and police to services like education and healthcare, as well as transfer payments such as welfare benefits. This expenditure can be funded in a number of different ways:

- Taxation of the population
- Borrowing money from the population, resulting in a fiscal deficit.

Governments often use their fiscal policy to try to influence the economy towards economic objectives such as low inflation and unemployment. According to Keynesian economics, high government spending, funded by a deficit, can be beneficial to the



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economy by stimulating aggregate demand and decreasing unemployment, during a recession (Bernanke & Frank, 2006).

A corollary of this is that, during a period of inflation, a reduced deficit (or a budget surplus), can reduce inflation by reducing aggregate demand. This is a result of the Phillips curve, which describes the link between inflation and output/unemployment (Bernanke & Frank, 2006).

The nature of fiscal policy has other economic effects, which are emphasized by other schools of economic thought. In particular:

- Government borrowing is held to reduce private-sector borrowing and investment because of crowding out.

- The linkage between deficits and inflation via the Phillips curve is controversial

- Ricardian equivalence suggests that, since any fiscal deficit must ultimately be repaid, government borrowing will not affect the economy (Bernanke & Frank, 2006).

All these factors suggest that the long-run effect of borrowing is much less beneficial than the short-run effect. To stop governments over-borrowing to meet short-term objectives, some nations have adopted fiscal policy rules, like the Golden Rule and the Stability and Growth Pact. These types of rules try to keep governments from spending



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too much money which is financed by debt. Long-term debt can be a burden if the interest payments become too high.

The fiscal policy of a government can counter the monetary policy. Government borrowing competes for the same loanable funds as other investment, so an increased deficit may result in a rise in interest rates. Government debt also represents a form of money in the broad definition, increasing the money supply.

Fiscal policy can also pay an important role in fighting poverty. Andrew McKay (2002), in a study of the impact of fiscal policy on poverty states:

> "Fiscal policy measures are a key means by which governments can influence distribution and poverty, but in fact the relationships between fiscal policy and poverty are not well understood. The most commonly used technique for assessing the distributional impact, benefit incidence analysis, is straightforward, but applied by itself it suffers from a number of serious limitations. Assessment of the impact of fiscal policy needs to be developed in various directions, including allowing for behavioral responses and incorporating a broader range of information. In parallel with this careful attention needs to be paid to more effective monitoring of the poverty impact of fiscal policy." (McKay, 2002)

Two of the ideas expressed above stand out. One is the fact that relationships between poverty and fiscal policy are not well understood. It seems most people believe



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that if you spend more money, you will automatically reduce the problem. That is not necessarily the case. Sometimes spending more money leads to things you weren't planning on. The second point is: since we don't know how effective fiscal policy really is, we need to find better ways to monitor it. If we have better studies of fiscal policy and poverty, we can better see what is working or not. From that, we can make more educated policy decisions.

There are many issues in assessing the impact of fiscal policy on poverty (McKay, 2002).

- Poverty is multi-dimensional in nature, and its different aspects may be influenced by different factors.

- Fiscal policy covers many different types of public expenditure and different ways of financing this. And even when attention is focused on one component of fiscal policy (say expenditure on primary education) and one aspect of poverty (say primary school enrolment), the channels through which one affects the other are generally not straightforward.

- The experiences of poor communities themselves, as well as theoretical representations of living standards in terms of capabilities (Sen 1985, 1999), confirm the multidimensional nature of poverty and deprivation. These important dimensions include human development (health, education), nutrition, consumption, income levels, vulnerability and powerlessness. In general these different dimensions need to be



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considered and measured separately (that is, no satisfactory single measure of capabilities is currently available). This is desirable anyway given that different dimensions are not always closely correlated within countries (Appleton and Song 1999), and may be influenced by different factors.

- In the present context, a given fiscal policy measure may affect different aspects of poverty in different ways.

- In assessing the poverty impacts of fiscal policy, it is equally important to consider both public spending measures and the way they are financed, whether based on tax revenue or deficit financing. The financing method will have poverty impacts just as will the spending it finances. Hence it is incorrect and therefore meaningless to consider for instance the impact of an increase in the overall level of public spending without considering how this is to be financed; the poverty impact is the combination of the two effects which may (probably will) operate in opposite directions. Of course this issue does not arise in considering the impact of changing the composition of public spending for a given overall level, for example increasing spending on primary education while making a matching reduction on spending on higher education. Again, though, different components of such a re-allocation may operate in opposite directions.

- Changes in fiscal policy can take many different forms, each of which can have impacts on some or all dimensions of poverty. Consider, for instance, an increase in public spending. If this is financed through increased taxation, it raises the issue of who



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bears the burden of this; with deficit financing the issue of who bears its consequences (increased inflation or interest rates, an increased debt burden) arises. The poverty impact also depends on the nature of the spending. Increases in spending on basic health and education are widely viewed as having beneficial impacts on human development of the poor – though this needs to be considered in each specific case; if so this may be complemented by other long-term or externality benefits.

- Increased spending on public transfers or in-kind transfers (such as food subsidies) can have beneficial impacts on income, nutrition, etc. among the poor if these transfers effectively reach them.

- Other types of increased public spending can also have strong poverty impacts, but the effects are more indirect. This could apply for example to infrastructure development in poor areas, to spending to uphold the legal process where this fails to benefit the poor, or from measures to ensure security in former conflict zones. Such effects may be indirect, but this does not necessarily mean that their poverty impact is small, or necessarily less than that of the more direct effects.

- Much existing analysis of the distributional impact of fiscal policy focuses on Identifying who receives the benefits of existing public spending in an area and/or pays different taxes. Such studies do not really identify why some groups do or do not benefit.



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- Further (though related), this type of analysis usually does not consider behavioral responses, in other words, how does behavior change as a result of the public spending, taxes, higher interest rates and so on? Some studies though have addressed these questions; in general they require an approach based on modeling.

McKay's paper (2002), is a good study but there were no policy conclusions or recommendations. His paper focused much more on its impact on distribution, an issue which has been insufficiently considered in most countries. A very interesting point was "The fact that the poor may not benefit proportionately from an existing level of public spending in a given area (say health care) does not imply that they would not suffer (benefit) disproportionately from a reduction (increase) in the level of spending." It makes sense. If you put more money in to an area, it may not necessarily help. If you cut, it may hurt at a higher percentage than the gain. This is something for politicians to consider when cutting programs.

Further, McKay's analysis does not model how beneficiaries and non-beneficiaries respond to changes in fiscal policy, an important factor in considering its distributional incidence; this can though be modeled based on survey data. Important as household survey data are for assessing the distributional impact of fiscal policy, they alone are insufficient to understand why the pattern is as it is, and what might be done about it. Alternative sources of information, especially those based at the local level, and including participatory poverty assessments, service delivery surveys and expenditure tracking surveys have an important role to play. Non-provision of services or poor quality



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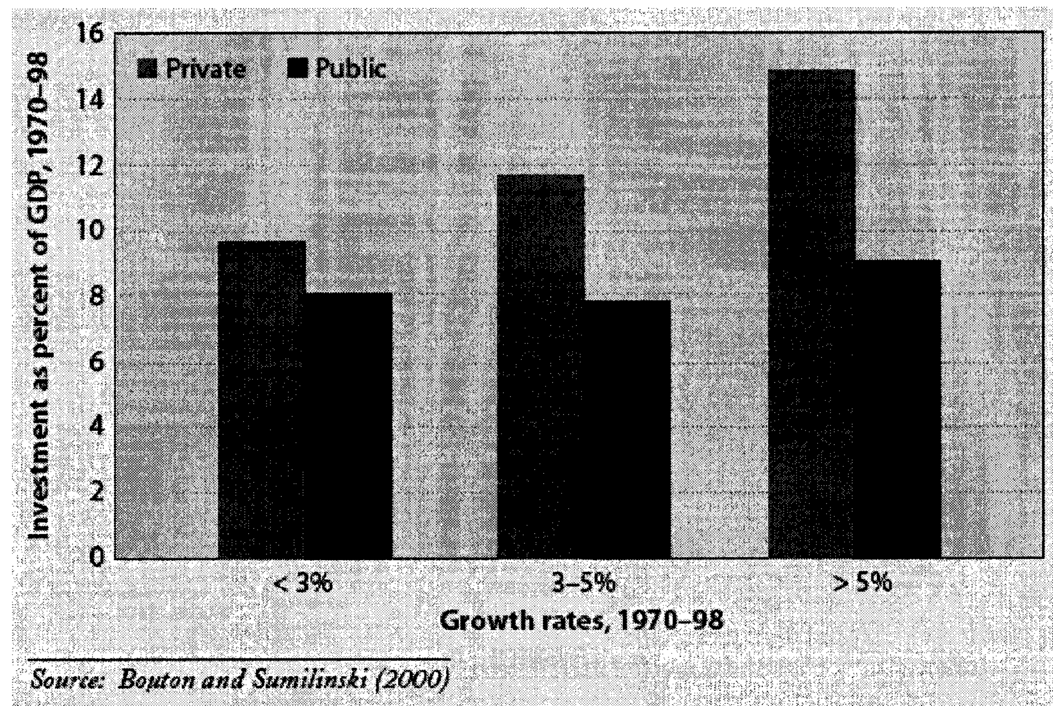
is likely to play an important role in explaining the observed distributional patterns. This issue is equally important in seeking to monitor the impact of fiscal policy on poverty.

Besides government fiscal policy, there is the private sector, community based organizations, and Non-Government Organizations (NGO's) which assist in alleviating poverty. This study does not discuss these groups but it is worthwhile pointing out that they do exist. These groups consist of many organizations which represent many causes. Many of the causes are poverty related; some examples are child poverty in foreign countries for missions or helping with homelessness as churches do.

Chart #5- Investment as a Percent of GDP for Private and Public Sectors (1970-1998)




*Source: Bouton and Sumilinski (2000)*



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Chart #5 above (Bouton and Sumilinski, 2000) shows the growth rate for the private and public sectors. In all cases, the growth rate of the private sector is higher than the public sector. This gives the private sector more wealth which could lead to more assistance for poverty related issues. This assistance could come in the forms of donations (food and money), job creation, and time devoted to charity work. Here are some examples of successes worldwide (Unleashing Entrepreneurship, 2002):

- Cemex, the Mexican cement firm, has become one of the world's leading producers and innovators in the industry, employing thousands.

- Casas Bahia in Brazil has developed a unique business model providing efficient retail services aimed at poorer customers.

- Infosys, an Indian information technology services firm, grew from less than $10 million in sales in the early 1990s to become a leading global player with almost $800 million in sales today. Along the way, it has also been setting international standards for corporate governance and creating a new partnership for development with local and central government.

- ICICI Bank, also in India, is applying technology and a comprehensive approach to the full range of its client base- particularly in rural markets and to small and medium enterprises and micro entrepreneurs.



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- In Cambodia hundreds of small private providers offer services ranging from battery recharging to fully metered electricity provision for entire communities. These providers now serve an estimated 115,000 customers- more than one-third of electricity customers nationwide.

- Fierce competition between private locally owned mobile phone companies in Somalia has driven costs on international phone calls to less than $1 a minute, about a sixth that in many other African countries. This, in a country where there is no official banking or postal system and where many do not have regular running water or electricity.

- In Guatemala the Confederation of Agricultural Cooperatives formed a joint venture with a Canadian firm. The enterprise now exports vegetables worth more than $3 million a year to Canada, providing steady income for 100 indigenous women and supporting more than 1,000 farmers.

- In Mozambique a farmer bought an oilseed press on credit. Now as the owner of four presses, he has organized nine other press operators into a small cooperative association, bargaining with local banks and customers as a group.

- In India small-scale soybean farmers use a village Internet kiosk to check spot prices for their products on the Chicago Board of Trade's website, bypassing local intermediaries and getting better prices.



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The private sector can help alleviate poverty by:

1- Contributing to economic growth.

2- Empowering poor people by providing them with services and consumer products, increasing choices and reducing prices.

3- Donating time and money to causes which alleviate poverty.

The first creates employment and income growth. The second improves the quality of life for the poor. And the greater interaction between the poor and the private sector creates opportunities for direct involvement in the market economy. The third helps with poverty directly.

Research by the National Center for Children in Poverty (NCCP) and others documents that many nations have far lower child poverty rates than the United States, and many individual states have been particularly successful in reducing their child poverty rates since 1993. It is possible to learn from these success stories and implement public and private sector strategies that will improve economic conditions for low-income children and their families. Policymakers and community leaders need to do more to give low-income families the tools they need to improve their economic well-being. NCCP's research suggests that a multi-track approach is necessary.



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One track would direct special attention to expanding supports for the large majority of low-income families that are already in the labor force. These families can increase their incomes through policies like state earned income tax credits (see NCCP's research brief, Untapped Potential: State Earned Income Credits and Child Poverty Reduction) or reduce their work-related expenses through child care and after school care programs. At the same time, it is important to remember there are hundreds of thousands of additional vulnerable children in families without work. These families need a second-track approach of more intensive services to help them get the education and job-related skills they need to enter and remain in the work force. Or they may need intensive services to deal with issues such as physical disability, mental health problems, or substance abuse. Finally, greater efforts are needed to help make affordable health insurance and housing available to the many low-income children in both working and jobless families who are without these basic resources. In states with large immigrant populations it is particularly important to develop and implement policies that are attentive to cultural and linguistic differences. A combination of the strategies described above can make a profound difference in improving the lives of millions of California's children.

This conclusion is very solid. This study points out that there is not just one way to reduce poverty. They acknowledge it is a very complex issue and recommend a multi-level solution which focuses on different area of poverty.



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To briefly summarize this literature review and conclude. The first part of Section I makes the case of why Poverty in California is an Economic Concern. It backs the case up with some detailed numbers. Particularly, poverty in California in 2004 is higher than in the rest of the nation: 13.3 percent versus 12.7 percent. The second part of Section I shows the effects Poverty has on the people of California. The three major areas discussed are:

- Economic and social inequality
- Crime
- Costs of poverty to a society

Section II reviews how proper fiscal policy can reduce poverty levels. It starts by defining fiscal policy and how it is used to fight poverty. It was shown that there are many issues in assessing the impact of fiscal policy on poverty. One major point is the fact that relationships between poverty and fiscal policy are not well understood. It seems most people believe that if you spend more money, you will automatically reduce the problem. That is not necessarily the case. Sometimes spending more money leads to unexpected consequences. The second point is very important. Since we don't know how effective fiscal policy really is, we need to find better ways to monitor it. If we have better studies of fiscal policy and poverty, we can better see what is working or not. From that, we can make more educated policy decisions.

No specific studies have been found that examine California's fiscal policies and poverty, as this dissertation intends to do. What has been found are many studies of



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poverty for certain groups (children, Hispanics, blacks, etc.). This review has also found studies on how fiscal policy affects economies and society in general. Studies of regions other than the State of California are common as well. There have also been many studies on certain areas of poverty (welfare, crime, etc.). This dissertation will be unique because there is no current study of California's poverty which focuses on fiscal policy.



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# Research Problem: Hypotheses and Methodology

## Research Problem

Poverty is a major problem in California, just as it is everywhere else in the world. From 1969 to 1988, California had a lower poverty level than the rest of the United States (US). Since 1988, however, CA has had a higher poverty level than the US as a whole. At over 13 percent, the poverty rate in 2004 remained well above levels typical of the late 1960s and the 1970s. As we have seen in prior sections of this study, there are many problems poverty can cause for an economy. Some are direct and some are indirect.

The United States was built on the ideal that hard work should pay off, that individuals who contribute to the nation's economic growth should reap the benefits of that growth. Over the past two decades, however, the benefits of economic growth have been skewed in favor of the wealthiest members of society. In California, the incomes of the richest families climbed substantially, while the incomes of the middle- and lower-income families saw only modest increases.

Fiscal policy is defined as "Decisions that determine the government's budget, including the amount and composition of government expenditures and government revenues" (Bernanke and Frank, 2004, page 493). The government, from the federal level to the local municipalities, receives money mainly through taxes. These entities spend the money in many different areas, from roads to poverty programs, to try to do what is best



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for the area they are elected to oversee. Because money is scare and not unlimited, the government must make hard choices when allocating dollars. It always seems like every group wants more money and is never satisfied. Besides allocating money to various groups, governments can choose how to tax people to encourage or discourage certain behaviors. For example, giving a tax deduction for charitable donations will encourage more people to give their money to charities; high taxes on cigarettes will encourage some to quit smoking.

Fiscal policy at the state level is what dictates how and where this money will be spent. We have elected officials in CA just like we do in Washington. We have a governor and legislature, along with a State Supreme Court. This government has the responsibility to make the economy run as well as it can. This means reducing poverty, and trying to eliminate it in the long run. The question this study will try to answer is, "Is California's government correctly using fiscal policy to reduce poverty in the State of California?"

**Hypothesis**

Hypothesis

California's income inequality and poverty level's are deteriorating at a higher rate than the United States as a whole.



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## Methodology

This methodology section will describe how the research will be done. The major sub-sections are subjects, measures, procedures, and data analysis.

## Subjects

The people of CA will constitute a major subject area, both those in and out of poverty, because poverty affects all of us in various ways. CA will also be compared to the people in the United States generally, to see how CA has been doing relative to the rest of the country. The beginning of this study demonstrated that California has a poverty problem.

From prior sections, we see that economic inequality has grown in California; the rich are taking more of the share over the last few decades. Economic inequality is the disparity in the distribution of economic assets and income. This term typically refers to inequality among individuals and groups within a society, but can also refer to inequality among nations. What this means is we have a group of people who are poor vs. rich or other classes.

Research (Uslander and Brown, 2002) has shown a clear link between income inequality and social cohesion. In more equal societies, people are much more likely to



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trust each other, measures of social capital suggest greater community involvement, and homicide rates are consistently lower. This can lead to an "us vs. them" mentality.

There are four major areas in California which poverty effects. They are education, health, crime, and job creation. Job creation is very important. For an economy to thrive, people need to be able to work. People are motivated to better themselves through education when they know they can make more money. If there are fewer higher paying jobs, where is the incentive to invest in yourself? If people don't invest in themselves, the US could lose many of its competitive and absolute advantages over other nations.

Education and educational opportunities are extremely important for future investment. People need to learn the basics of reading, writing, and math to compete for jobs in our economy. Once they do that, they need an education which will help them along the way when they are employed. This could be a general degree (Bachelor of Arts at a 4-year college) or something specialized like a trade (plumbing, for example). In a competitive job market, having skills is very important if you want to progress along the salary scale during your working career. If you don't have an education, it is much harder to do so. When you are not making enough money, it can lead to crime and poverty.

The overall health of an economy is very important. If the economy is doing well, more jobs are created. Tax revenues will rise and expenses will fall. This can be due to more people paying taxes and less people drawing unemployment. If the economy of a



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state is doing well, people and businesses tend to migrate there. People can find jobs and business can find employees with the skills they need. People and business grow in economic booms and this means more money and benefits for just about everyone. When an economy is shrinking, there are many layoffs and unemployment goes up. This is not a good situation for business and employees. It also leads to deficit spending by the government to try to reverse this trend.

**Measures**

There are several major questions which need to be answered in order to prove or disprove this study's major hypothesis:

"California's income inequality and poverty level's are deteriorating at a higher rate than the United States as a whole."

These major questions are:

- What were the U.S. fiscal policies which could have contributed to greater inequality?
- What were California's fiscal policies which could have contributed to greater inequality?



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- The U.S. and California fiscal policies need to be isolated so we can find out which one may, or may not have, lead to greater income inequality.

- There needs to be a test to see if these fiscal policies correlate to the increase in the income gap and poverty levels.

- U.S. fiscal policy accounts for 69% of California's income inequality. There needs to be an examination of what is different in California to explain the other 31%.

- Fiscal policies which are proven to work need to be studied. These policies have the potential to be future recommendations.

In the "Results" chapter, the results of each of these major points will be presented. After the results are presented, the "Discussion and Recommendations" chapter will conclude this paper. The conclusion will present a summary of the study's findings and make recommendations for the State of California.

**Procedures**

Information was obtained from the U.S. Census Bureau and the State of California. Also, there were many scholarly articles which helped clear the way for this study. These articles examined poverty through fiscal policy.



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The hypothesis was to be proven by using income inequality as a major gauge of whether fiscal policy was a contributing factor. Once this has been established,, the results section will follow.

The results section has six major points which need to be proved to support the hypothesis. They are listed in the preceding section titled "measures". Once all six have been proven or disproved, fiscal policies which are proven to work will be discussed. This will be done much like the literature review. Proven fiscal policies in a number of areas will be examined:

- Education
- Health Care
- Tax Policies
- Immigration
- Crime
- Misc
    - Minimum Wage
    - Enforcing Minimum Wage for Illegal Immigrants
    - Job Creation

After it has been shown that CA has weaknesses, this study will "recommend" what can be done to solve them. Other states, countries, counties and cities across the world will be surveyed to find out who is implementing fiscal policy which helps the



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poor (income gap). Once successful policies have been identified, modifications to California's policies can then be recommended. There will also be limitations to this research, which will be noted at the end under "research limitations".

**Data Analysis**

Data analysis will be done is several ways throughout this paper. The Literature Review section tried to determine if the Lorenz curve is worsening in California. The Lorenz curve is what shows income distribution. Data points for three time periods, over about twenty years, were being plotted. Using the Gini coefficient, it was possible to see if the curve is expanding or not. The Lorenz curve used existing data section off certain income level ranges and compare them over twenty years, thus demonstrating that there has been a significant change in income distribution. This supports the hypothesis:

"California's income inequality and poverty level's are deteriorating at a higher rate than the United States as a whole."

Having determined that there is a change in the income gap levels, it was necessary to separate CA from the United States as a whole and compare them. The reason for this was to isolate CA's fiscal policies from the rest of the U.S. The first step is to make a Lorenz curve like the one that was done for CA. Comparing them, it was shown CA is doing worse than the nation as a whole. It is fair to assume that there is something that CA's fiscal policy is probably doing that has led to that difference.



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After we can show that CA's fiscal policies are making CA fall behind the rest of the nation, we can move on the some major issues, which. are:

- What were the U.S. fiscal policies which may have contributed to greater inequality?
- What were California's fiscal policies which may have contributed to greater inequality?
- The U.S. and California fiscal policies need to be isolated so we can find out which one may, or may not have, lead to greater income inequality.
- There needs to be a test to see if these fiscal policies correlate to the increase in the income gap and poverty levels.
- U.S. fiscal policy accounts for 69% of California's income inequality. There needs to be an examination of what is different in California to explain the other 31%.
- Fiscal policies that are proven to work need to be studied. These policies have the potential to be future recommendations.



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This part of the study will be a mix of qualitative and quantitative type of research. The first two issues will require historical research which will show what major fiscal policy changes have taken place over the twenty years covered by this study. Once the major changes have been identified, one can examine the results of what actually happened after these new policies were implemented.

Once generally effective solutions have been identified, solutions which may help CA specifically can be sought out. This will be done by searching for proven solutions which have worked all across the world. These solutions will be proven in various ways which may include, but not limited to, regression, qualitative, and/or quantitative research. The proven solutions can then be used to make certain recommendations for CA.



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# Results

The first part of the research was done in the Literature Review section, which showed that income inequality in CA was getting worse. It showed that California has been facing rising inequality for the past three decades. The Lorenz Curve has been pushed outward, showing greater inequality. The poorest 20% had 6.9% of the income in '80-82 but fell to 5.72% in '01-03. The richest 20% had 39.01% in '80-82 and it increased to 43.47% in '01-03. Overall, this showed an increase in income inequality for the past 20+ years. This is not a direction in which the government of California wants to be headed.

From 1980-1982, California's poverty rate was 12.8% and by 2001-2003 it was 12.9%. This is not significant, as it has remained the same, except for a spike to 15.3% in the early 90s. The disturbing tale is where CA ranks among the other states in the U.S. In that same time period, CA went from being ranked 28th to being ranked 36th. This shows that other states have found ways to reduce their poverty levels while CA has not. It is also worthy of note that most of the gain was in the first decade, when CA went up to 38th in the early '90s.

**What were the U.S. fiscal policies which could have contributed to greater inequality?**



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The Kemp-Roth Tax Cut of 1981 (Pub. L. No. 97-34, 95 Stat. 172 (August 13, 1981)), or "ERTA," reduced marginal income tax rates in the United States by approximately 25% over three years (the top rate falling to 50% from 70%, while the bottom rate dropped to 11% from 14%) and indexed them for inflation (though indexing was delayed until 1985). Its sponsors, Representative Jack Kemp and Senator William Roth, had hoped for more significant tax cuts.

Critics blame the tax cuts for the deficits in the budget of the United States government in the 1980s and early 1990s. Supporters credit them with helping the 1980s' economic expansion. Supporters of the tax cuts also argue, using the Laffer curve, that the tax cuts increased government revenue. This is hotly disputed – critics contend that, although government income tax receipts did rise, it was due to economic growth, not the tax cuts, and would have risen more if the tax cuts had not occurred. Supporters see the growth as caused by the tax cuts. Ironically, President Ronald Reagan signed Kemp-Roth a day after IBM came out with its first line of personal computers – a device credited with improving office administration and business operations. Controversy still remains as to whether the tax cuts of 1981 increased revenues.

The Tax Equity and Fiscal Responsibility Act of 1982, a United States federal law, rescinded some of the effects of the huge Kemp-Roth Tax Cut passed the year before. The scheduled increases in accelerated depreciation deductions were repealed, a 10 percent withholding on dividends and interest paid to individuals was instituted, and the Federal Unemployment Tax Act wage base and tax rate was increased. President Reagan



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agreed to the tax hikes on the promise from Congress of a $3 reduction in spending for every $1 increase in taxes. The promised spending reductions never occurred.

The U.S. Congress passed the Tax Reform Act (TRA) of 1986, Public Law No. 99-514, 100 Stat. 2085 (October 22, 1986) to simplify the income tax code, broaden the tax base and eliminate many tax shelters and other preferences. Although often referred to as the second of the two "Reagan tax cuts" (the Kemp-Roth Tax Cut of 1981 being the first), the bill was actually officially sponsored by two liberal Democrats, Richard Gephardt of Missouri in the House of Representatives and Bill Bradley of New Jersey in the Senate.

The top tax rate was lowered from 50% to 28%, while the bottom rate was raised from 11% to 15% – the only time in the history of the U.S. income tax (which dates back to the passage of the Sixteenth Amendment in 1913) that the top rate was reduced and the bottom rate increased concomitantly. In addition, capital gains faced the same tax rate as ordinary income. Moreover, interest on consumer loans such as credit card debt, and state and local sales or income taxes, was no longer deductible. An existing provision in the tax code, called Income Averaging, which reduced taxes for those only recently making a much higher salary than before, was eliminated. The law, however, increased the personal exemption and standard deduction.

The Tax Reform Act of 1986 also increased incentives favoring investment in owner-occupied housing relative to rental housing, by increasing the Home Mortgage



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Interest Deduction. The imputed income an owner receives from an investment in owner-occupied housing has always escaped taxation, but TRA86 changed the treatment of imputed rent, local property taxes, and mortgage interest payments to favor home ownership, while phasing out many investment incentives for rental housing. Since low-income people are more likely to live in rental housing than in owner-occupied housing, this would have decreased the new supply of housing accessible to them. The Low-Income Housing Tax Credit was hastily added to TRA86 to provide some balance and encourage investment in multi-family housing for the poor.

By removing tax shelters, especially for real estate investments, the Act significantly decreased the value of many such investments which had been held more for their tax-advantaged status than for their inherent profitability. This contributed to the end of the real estate boom of the early to mid-'80s, as well as to the Savings and Loan crisis. However, most economists consider the net long-term effect of eliminating tax shelters and other distortions to be positive for the economy, by redirecting money to the most inherently profitable investments.

The 1986 Act also officially changed the name of the Internal Revenue Code of 1954 to the Internal Revenue Code of 1986. Although the 1986 Act made numerous amendments to the Code, it was not a substantial re-codification or reorganization of the overall structure of the Code.



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The Omnibus Budget Reconciliation Act of 1990 (or OBRA-90) was designed to reduce the United States' federal budget deficit. It increased income taxes by creating a new 31 percent individual income tax rate, but capped the capital gains rate at 28 percent. Personal exemptions were temporarily phased out through 1995. The tax limit cap on Medicare taxes was raised from a $53,400 income to $125,000 in income. Itemized deductions were temporarily limited through 1995. The gasoline tax was temporarily extended and increased through September 30, 1995. Air transportation excise taxes were extended and increased through 1995. The telephone excise tax, put into place in 1898 as a tax on the rich, was permanently extended. It was signed into law by President George H.W. Bush on November 5, 1990, contrary to his 1988 campaign promise to not raise taxes. This became an issue in the presidential election of 1992.

The Omnibus Budget Reconciliation Act of 1993 (or OBRA-93) was passed by the 103rd United States Congress and signed into law by President Bill Clinton. It has also been referred to as the "Deficit Reduction Act of 1993." It created 36 percent and 39.6 tax rates for individuals, and created a 35 percent tax rate for corporations. The cap on Medicare taxes was repealed, transportation fuels taxes were hiked by 4.3 cents per gallon, and the taxable portion of Social Security benefits was raised. The phase-out of the personal exemption and limit on itemized deductions were permanently extended.

The Taxpayer Relief Act of 1997 (Public Law 105-34) reduced several federal taxes in the United States. Subject to certain phase-in rules, the top capital gains rate fell from 28% to 20%. The 15% bracket was lowered to 10%. Starting in 1998, a $400 tax



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credit for each child under age 17 was introduced, which was increased to $500 in 1999. This credit was phased out for high income families. The act exempted from taxation profits on the sale of a personal residence of up to $500,000 for married couples filing jointly and $250,000 for singles. The $600,000 estate tax exemption was to increase gradually to $1 million by the year 2006. Family farms and small businesses could qualify for an exemption of $1.3 million, effective 1998. Starting in 1999, the $10,000 annual gift tax exclusion was to be corrected for inflation. The act also provided tax relief for education savings and retirement accounts. Some expiring business tax provisions were extended. It was signed into law by President Bill Clinton on August 5, 1997.

The Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16 (June 7, 2001), was a sweeping piece of tax legislation in the United States. It is commonly known by its abbreviation EGTRRA, often pronounced "egg-tra" or "egg-terra", and sometimes also known simply as the 2001 act (especially where the context of a discussion is clearly about taxes). The Act made significant changes in several areas of the US Internal Revenue Code, including income tax rates, estate and gift tax exclusions, and qualified and retirement plan rules. In general the act lowered tax rates and simplified retirement and qualified plan rules such as for Individual retirement accounts, 401(k) plans, 403(b), and pension plans. The changes were so large and numerous that many books and analysis papers were published regarding the changes and how to best take advantage of them. Many of the tax reductions in EGTRRA were designed to be phased in over a period of up to 9 years. Many of these slow phase-ins were accelerated by the



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Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), which removed the waiting periods for many of EGTRRA's changes.

The Job Creation and Worker Assistance Act of 2002, Public Law No. 107-147, increased carryback of net operating losses to 5 years (through September 2003), extended the exception under Subpart F for active financing income (through 2006), and created 30 percent expensing for certain capital asset purchases (through September 2004). The act was signed into law by President George W. Bush on March 9, 2002.

The Jobs and Growth Tax Relief Reconciliation Act of 2003, Public Law No. 108-27, 117 Stat. 752, was passed by the United States Congress on May 23, 2003 and signed by President Bush on May 28, 2003. Among other provisions, the act accelerated certain tax changes passed in the Economic Growth and Tax Relief Reconciliation Act of 2001, increased the exemption amount for the individual Alternative Minimum Tax, and lowered taxes on income from dividends and capital gains.

There was considerable controversy over who benefited from the tax cuts. Bush's supporters and proponents of lower taxes claimed that the tax cuts increased the pace of economic recovery and job creation. His opponents charged that the cuts favored the wealthy and special interests. Supporters argued that the economy was already slowing down when Bush took office and that little of the economic downturn of 2002 was due to Bush's agendas when considering lag time in the effects of policy changes on the economy. Critics argued that the tax cuts disproportionately benefited the wealthy,



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although this was also controversial. The tax code remained progressive, although slightly less so, on a rate basis. Income became differentiated into greater categories (such as for "qualified" dividends compared to other dividends, and different types of capital gains), which increased complexity in the tax code.

The Congressional Budget Office estimated that the tax cuts would increase budget deficits by $60 billion in 2003 and by $340 billion by 2008. Supporters of the president argue that this analysis ignores the potential growth that the act could encourage. Supporters also argue that this would be further supported by analyzing the effect of the economic shock of the terrorist events of September 11, 2001. The fears of terrorism, resulting reduction in travel and consumer expenditure, and increased security expenditures, they say, are a prime example of an economic cost shock, and they suggest that the recession of 2001 and 2002 would have been drastically worse had no attempts at promoting economic growth by reducing taxes been made, though there is no empirical evidence to support this claim (nor could there be). The lag between policy making and economic impact suggests the possibility to be remote.

**What were California's fiscal policies which could have contributed to greater inequality?**

Voters adopted Proposition 13 (CA State Capitol, 2006), an initiative promoted by Howard Jarvis and Paul Gann to slash property taxes by more than half. It rolls real-estate assessments back to 1975 market values, sets property taxes at 1 percent of those



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values and caps assessment increases at no more than 2 percent yearly until property is sold or undergoes new construction. Nearly identical properties eventually will be taxed differently, depending on when they are bought and sold, an approach ultimately upheld by the U.S. Supreme Court. Proposition 13, a constitutional amendment approved by 64.8 percent of voters, also requires a two-thirds vote of the Legislature for tax increases, and two-thirds approval by local voters for increases in local special taxes. The Legislature and Governor Jerry Brown respond by channeling the state's multibillion-dollar surplus to cities, counties, special districts and schools, which had depended primarily on property taxes for revenue, to help offset losses. As future economic downturns squeeze the treasury, the state's funding emphasis remains on schools and local governments grow increasingly strapped. Meanwhile, voters approved a series of constitutional refinements in Proposition 13 proposed by the Legislature. Homeowners can transfer their residences to heirs without triggering reassessments (1986); those over 55 can transfer their locked-in assessment values to new homes of equal or lesser market value in the same county (1988) or to homes in other counties with those counties' approval (1993).

In 1996, state lawmakers responded by dedicating the first budget surplus of an improving economy to a landmark plan for reducing public school class sizes (Public Policy Institute of CA, 2004). At a cost of nearly $1 billion, the state sought to limit class size in the first four years of elementary school to a maximum of 20 students – a one-third reduction from the average at the time. In the glowing media coverage that followed, one educator said it was “clearly a watershed” and another called it “the start of a renaissance” for public education.



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Many more education reforms followed. But years later, California public schools still struggled financially and academically. The reasons are complex, but an ongoing research effort by PPIC has challenged earlier assumptions and illuminated many of the root difficulties.

One study, looking directly at class size reduction in the state's elementary schools, uncovered a wide range of experiences. Overall, the study found a positive effect on low-income student performance. But in Los Angeles, test scores in low-income schools actually dropped when classes were made smaller. Elsewhere, scores increased as much as 15 percent. These differences underscore the importance of other conditions besides class size for quality education. Because of the huge jump in demand for teachers created by class size reduction, many low-income schools found themselves with many inexperienced, uncredentialed teachers.

On August 23, 1996, President Clinton signed a sweeping overhaul of the nation's 61-year old guarantee to help the nation's poorest children. His bill eliminated the open-ended program of federal cash grants known as Aid to Families with Dependent Children. In its place, the bill gave states far more control and responsibility for poverty programs and limited the amount of time that indigent adults could receive assistance.

In early 1997, when the California legislature opened debate about its own version of the new welfare program, PPIC provided lawmakers and other interested



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parties with a detailed profile of the state's poor population that challenged traditional assumptions. The study by Stanford economists Margaret O'Brien-Strain and Thomas MaCurdy found that welfare was not a way of life for the vast majority of the state's recipients, who had work income as well as cash assistance. It also revealed that the largest racial category was non-Hispanic white women and that most recipients had high school degrees.

The study offered encouraging news about the prospects of moving a large portion of the welfare population into the workforce. But it also warned that about 432,000 recipients were "highly dependent" on their welfare income. Two years later, PPIC researchers Hans Johnson and Sonya Tafoya looked at the barriers for moving welfare recipients into the workforce and found that 80 percent of the population had low or very low basic skills in such things as reading a bus schedule or completing an employment application. The study also warned that the problem was greater in California than elsewhere.

At the time, welfare reform was receiving widespread credit for helping reduce the population dependent on financial aid. At the end of the decade, California's total caseload had dropped by more than a third since President Clinton signed the landmark overhaul. Still, a slowing economy and the approaching time limits pointed to significant hurdles ahead.



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While California's welfare caseload had dropped, every other large state except New York had seen larger reductions. A PPIC study revealed some causes: California's version of welfare reform was more generous than elsewhere. Unlike the other large states, California continued cash assistance for indigent children even after their parents exceeded their time limit or were sanctioned for not complying with program rules. The state's monthly cash grants were also among the largest, and recipients were allowed to earn more income from work without a cut in their public benefits.

In January 2003, five years after the effective date of California's welfare reform plan, the first recipients reached their lifetime limit for cash assistance. Already, more than 1.4 million people had moved off California's welfare rolls. In an extensive survey that interviewed former welfare recipients over a period of months, PPIC found more encouraging news, reporting that 90 percent of California families that leave public assistance continued to have a working adult one year later. Also, in nearly 70 percent of the single-parent households that left welfare, the working income was enough to raise the family above the poverty line.

The study also found that many of California's indigent aren't aware of the benefits available to them. Inexplicably, some leave welfare and don't return even when they are eligible. Instead, they sometimes live in crowded or substandard housing. "One of the questions raised by our findings is how to help needy families who have made a break from the welfare system – and who don't want to go back," said co-author Margaret O'Brien-Strain.



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**The U.S. and California fiscal policies need to be isolated, to determine which one may, or may not have, led to greater income inequality.**

It was showed in the Literature Review section that CA's top 20% are taking a greater share of the income. The top 20% took 43.47% of the income in 2001-2003; in 1980-1982 they only had 39.01% of the income. This is a gain of about 4.5% for the richest 20%. The bottom 40% went from having 19.22% of the income in 1980-1982 to only having 16.58% in 2001-2003.

Table #5- California's Income Distribution (1980-2003)

| California | | Bottom 20% | 2nd 20% | Middle 20% | 4th 20% | Top 20% |
|---|---|---|---|---|---|---|
| % of income | 80-82 | 6.90% | 12.32% | 17.85% | 23.93% | 39.01% |
| | 90-92 | 5.75% | 11.17% | 16.57% | 23.55% | 42.96% |
| | 01-03 | 5.72% | 10.87% | 16.39% | 23.55% | 43.47% |
| | | | | | | |
| Total % of income | 80-82 | 6.90% | 19.22% | 37.06% | 60.99% | 100% |
| | 90-92 | 5.75% | 16.92% | 33.49% | 57.04% | 100% |
| | 01-03 | 5.72% | 16.58% | 32.98% | 56.53% | 100% |

The goal of this paper is to try to separate fiscal policy for CA from that of the U.S. government. One way to do this is to measure what the U.S. did as a whole with the income gap like the one shown above (Table #5) for the State of California.



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Table #6- United State's Income Distribution (1980-2003)

| U.S. | | Bottom 20% | 2nd 20% | Middle 20% | 4th 20% | Top 20% |
|---|---|---|---|---|---|---|
| % of income | 80-82 | 6.99% | 12.93% | 18.14% | 23.80% | 38.14% |
| | 90-92 | 6.17% | 11.83% | 17.21% | 23.60% | 41.18% |
| | 01-03 | 5.93% | 11.28% | 16.56% | 23.09% | 43.15% |
| | | | | | | |
| Total % of income | 80-82 | 6.99% | 19.92% | 38.06% | 61.86% | 100% |
| | 90-92 | 6.17% | 18.01% | 35.22% | 58.82% | 100% |
| | 01-03 | 5.93% | 17.20% | 33.76% | 56.85% | 100% |

Now that both sets of data are established (Tables #5 and 6), it can be seen how CA did relative to the rest of the U.S. We can do this because the fiscal polices of the Federal Government would affect all the states, including CA. If CA is better or worse off then the trend of the rest of the U.S., it may have been CA's fiscal policy which led to this disparity. The below table takes the differences from the U.S. and California's income disparities (see two tables above). The results will show if California's income gap has increased or decreased relative to the United States generally (Table #7 and Chart #6).



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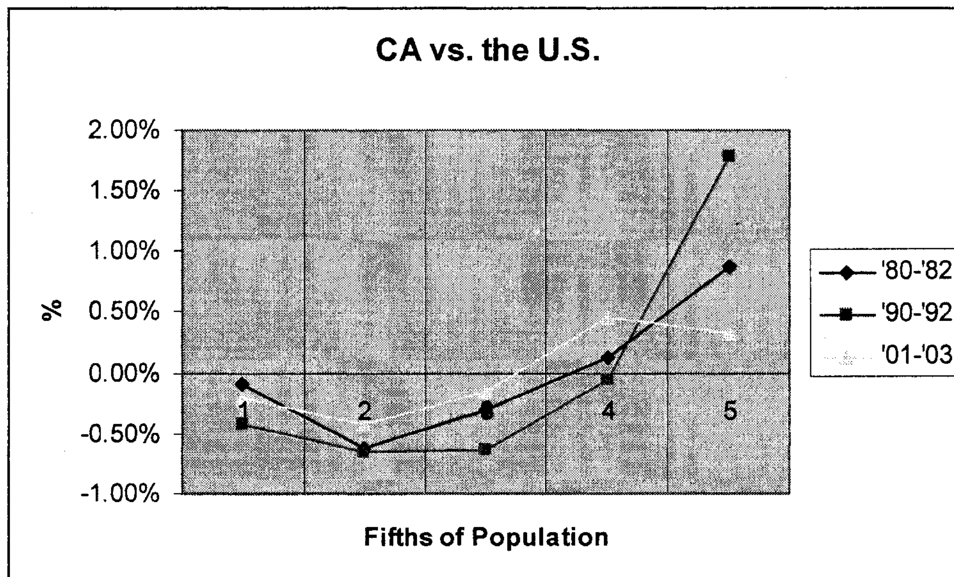
Table #7- Differences between U.S. and California's Income Distribution (1980-2003)

| CA vs. US | | Bottom 20% | 2nd 20% | Middle 20% | 4th 20% | Top 20% |
|---|---|---|---|---|---|---|
| % of income | 80-82 | -0.08% | -0.62% | -0.30% | 0.12% | 0.88% |
| | 90-92 | -0.42% | -0.66% | -0.64% | -0.05% | 1.78% |
| | 01-03 | -0.21% | -0.41% | -0.16% | 0.46% | 0.33% |
| | | | | | | |
| Total % of income | 80-82 | -0.08% | -0.70% | -1.00% | -0.88% | |
| | 90-92 | -0.42% | -1.08% | -1.72% | -1.78% | |
| | 01-03 | -0.21% | -0.62% | -0.79% | -0.33% | |

Chart #6- Differences between U.S. and California's Income Distribution (1980-2003)




Negative numbers mean that CA is worse than the rest of the U.S. as a whole. Looking at the numbers above, it can be seen that the bottom 60% of income earners in CA are worse off than the rest of the U.S. This can lead to the conclusion that CA could be doing something wrong, or not doing enough, with its fiscal policies.



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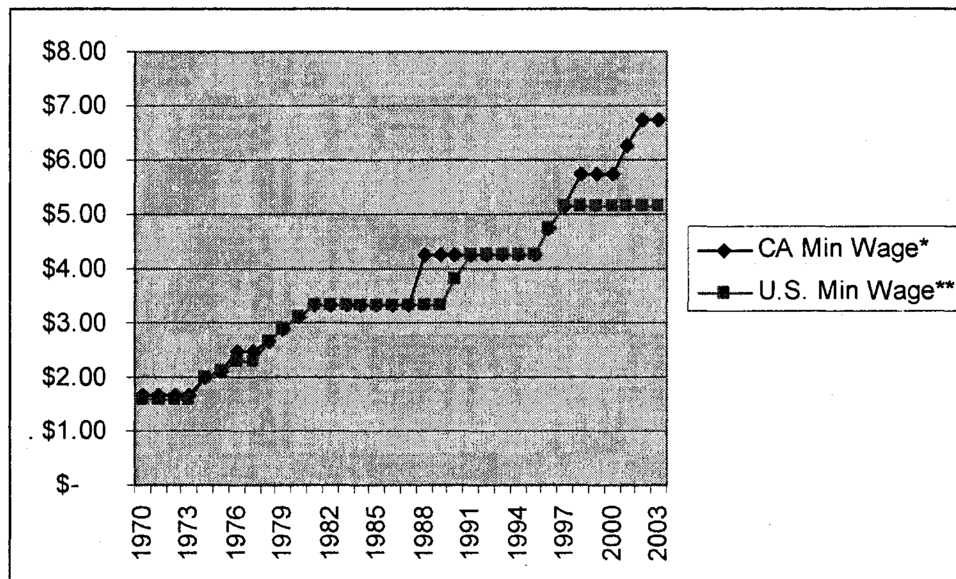
Minimum wage is an important factor which could help the poor keep up or not fall behind as much. There is a federal minimum wage which CA must have, at minimum. Chart #7 shows that, since 1998,, CA has had a higher minimum wage than the U.S. government requires.

Chart #7- California and U.S. Minimum Wage (1970-2003)




*http://www.dir.ca.gov/IWC/MinimumWageHistory.htm
**http://usgovinfo.about.com/library/blminwage.htm
See Appendix 1 for dollar amounts.

It is important to note that some cities and counties in CA have higher minimum wage's than CA does. This is sometimes referred to as a "living wage".

**There needs to be a test to see if these fiscal policies correlate to the increase in the income gap and poverty levels.**



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The last section demonstrated how income disparity in CA compared to the rest of the U.S. CA is worse off then the trend of the rest of the U.S. and it may be CA's fiscal policy which have led to this disparity. As can be seen from the prior section, the bottom 60% was a little worse off than the U.S. as a whole. This can lead to the conclusion that CA could be doing something wrong, or not doing enough, with its fiscal policies.

How can it be determined whether State or Federal fiscal policies are the cause of the increase in the income gap and poverty levels? More importantly, how can it be demonstrated that California's fiscal policy is to blame for making California's income gap between the rich and poor grow?

Fiscal policy is the economic term which describes the actions of a government in setting the level of public expenditure and how that expenditure is funded. The State of California spends money on many areas (education, crime, poverty, health care, etc.). It covers just about anything which affects the economy as a whole. Thus, it can reasonably be concluded that CA's fiscal policy is the major reason why CA is falling behind the rest of the US in regards to the income gap.

Does California's poverty rate correlate with the United State's poverty rate? This can be determined by performing a regression analysis test on the two sets of poverty rates. The y-variable (dependent) in this regression test is the annual poverty rate of California and the x-variable (independent) is the U.S. poverty rate for the corresponding



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years. The time span is from 1988 to 2003. Using a 95% confidence ratio, here are the results:

**United States poverty rates compared to California's**

SUMMARY OUTPUT

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.842600832 |
| R Square | 0.709976161 |
| Adjusted R Square | 0.689260173 |
| Standard Error | 0.631728241 |
| Observations | 16 |

ANOVA

| | *Df* | *SS* | *MS* |
|---|---|---|---|
| Regression | 1 | 13.67724701 | 13.67724701 |
| Residual | 14 | 5.587127986 | 0.39908057 |
| Total | 15 | 19.264375 | |

| | *Coefficients* | *Standard Error* | *t Stat* |
|---|---|---|---|
| Intercept | 5.944499363 | 1.246207509 | 4.770071854 |
| X Variable 1 | 0.483861305 | 0.082651709 | 5.854220188 |

This test, at 95% confidence, shows an R Square of .71 and an Adjusted R Square of .689. This shows that the U.S. and California's poverty rates do correlate and are reliable predictors of each other. This shows that what the U.S. does via fiscal policy greatly affects California. If a fiscal policy measure is passed at the federal level, it will affect California just as it does the rest of the country. With an Adjusted R Square of .689, we know that the United States fiscal policy can explain about 69% of the poverty rate. With federal fiscal policy and the overall unemployment rate at 69% correlation, that leaves us with 31% which can not be explained. There could be several major factors to



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explain the other 31%, such as natural disasters or major demographic shifts. These two have not happened in California during the time period of this study.

Since it is impossible to isolate variables to prove fiscal policy is solely responsible for CA's increased income gap, it may be concluded that fiscal policy could be responsible for this trend. Since fiscal policy could be responsible for CA's higher income inequality, recommendations which the State of California can use must be found to help solve this problem. But first, this study will examine the 31% which can not be explained by U.S. fiscal policy.

**U.S. fiscal policy accounts for 69% of California's income inequality. There needs to be an examination of what is different in California to explain the other 31%.**

There are certain situations which may lead to income disparity and cannot be attributed to fiscal policy. They are:

- Natural disasters (hurricanes, earthquakes, droughts, etc.)
- Demographic trends (high birthrates, abnormal immigration, etc.)

The only significant events of this type that CA has experienced during the 80's and 90's were a couple of earthquakes, one being in the Los Angeles area and the other in the San Francisco bay area. Both of these affected the area of the quake but did not affect the overall State economy to a point where there is some abnormal disparity.



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There are certain factors which may explain California's growing income inequality. Fiscal policy would have a major factor in affecting these areas. These areas are immigration, education, and health. Below, this study will investigate each of them in detail.

Education

The level of ones education determines how much a person will earn over a lifetime. Table #8 below shows the median income for people 25 years and older working full-time, year-round.

Table #8- Median Income by Education Level (2002)

| Median Income for People 25 and Older Year-round, Full-time Workers | | | | |
|---|---|---|---|---|
| | No High School Diploma | High School Diploma | Some College | Bachelor's Degree |
| Men | $25,095 | $34,303 | $40,337 | $56,334 |
| Women | $17,919 | $24,970 | $28,697 | $40,415 |

SOURCE: DIGEST OF EDUCATION STATISTICS, 2002.

The differences are substantial. A man will about $9,000 per year more if he finishes high school. For the same person, the difference is about $31,000 if he has a Bachelor’s degree. Women’s averages are much less than men. A woman with a Bachelor’s degree makes about the same as a man with some college.



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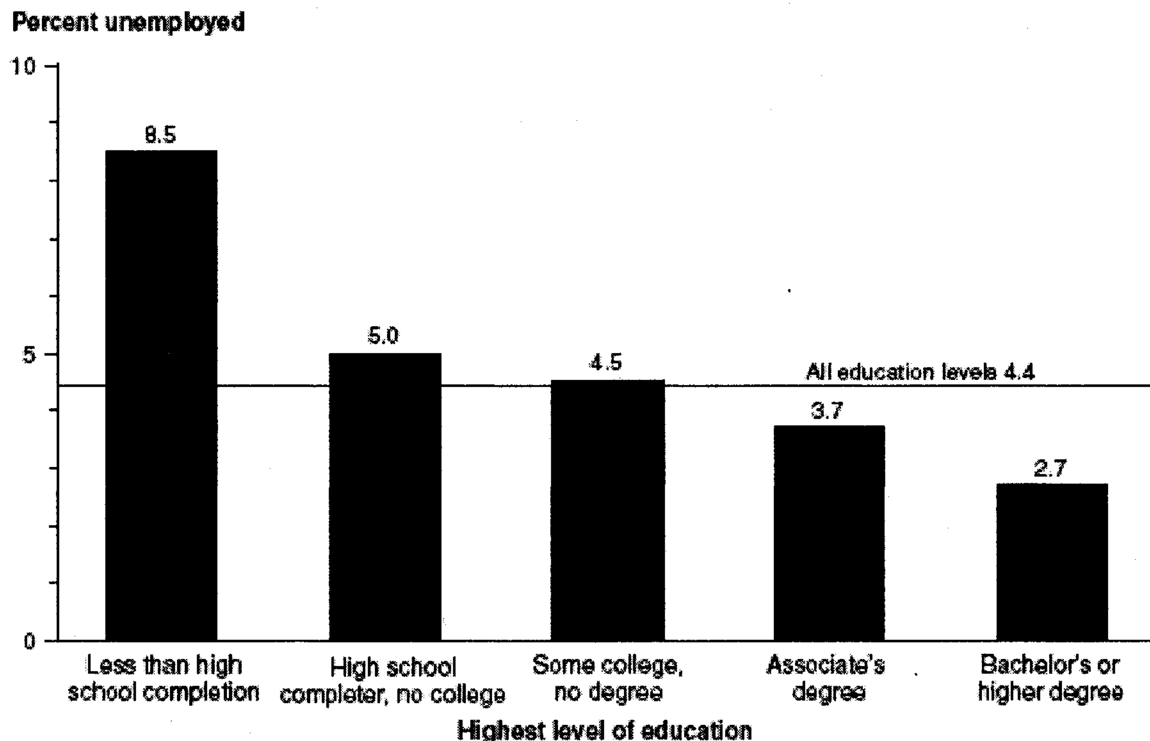
We see from the above data that you will make more per year with higher education levels. Diagram #2 shows how likely you are to find a job at various education levels. This chart shows the unemployment rates for various levels of education. The lower the unemployment rate, the better off you are.

Diagram #2- Unemployment Rates by Education Level (2004)

**Figure 22. Unemployment rates of persons 25 years old and over, by highest level of education: 2004**




SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Office of Employment and Unemployment Statistics, Current Population Survey (CPS), 2004.

A person who had not completed high school will have an unemployment rate of about 8.5%. A person with a Bachelor's or higher degree has an unemployment rate of



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2.7%. In between those two, the more education you have, the lower your unemployment rate is.

The next step is to compare California to the rest of the U.S. This will give us an indicator of how well, or not well, California has been faring. Below are two ranking agencies and the rank of California compared to the rest of the country. Being ranked 1st would mean you have the best State education system overall in the U.S.

2005 36th
2004 36th
2003 38th

Source: American Legislative Exchange Council, 2006, http://www.alec.org/task-forces/education

| STATE | 06-07 | 05-06 | 04-05 | 03-04 | 02-03 |
|---|---|---|---|---|---|
| California | 47 | 46 | 43 | 44 | 29 |

Source: Morgan Quitno Press, State and City Ranking Publications, (2006), http://www.morganquitno.com/edpri06.htm

The rankings are not good for California. California is well below the half way point (25th) in both rankings. These two rankings show that California's education system is well below the average of where the other State are.



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Immigration

California was home to the largest number (291,191 or 27.4 percent) of the 2002 immigrants (Gage, California Department of Finance, 2002). For the past three decades California, New York, Florida, Texas, New Jersey, and Illinois have been the primary destinations for legal immigrants. In 2002, these six states attracted nearly two-thirds of all immigrants. California attracted as many immigrants as New York, Florida and Texas combined. Forty-nine percent of the State's 2002 immigrants were born in Latin America and the Caribbean, primarily Mexico, and almost 40 percent were born in Asia. From the below table (#9), we see that California has taken in about 32% of the nations immigrants.

Table #9- Percent of Refugees and Asylees to California and the U.S. (1984-1994)

**Refugees and Asylees to California and the US, 1984–1994**

| FFY | US | California | CA/US (%) |
|---|---|---|---|
| 1984 | 92,127 | 27,499 | 29.8 |
| 1985 | 95,040 | 30,142 | 31.7 |
| 1986 | 104,383 | 32,680 | 31.3 |
| 1987 | 91,840 | 23,907 | 26.0 |
| 1988 | 81,719 | 27,423 | 33.6 |
| 1989 | 84,288 | 36,136 | 42.9 |
| 1990 | 97,364 | 38,507 | 39.5 |
| 1991 | 139,079 | 45,594 | 32.8 |
| 1992 | 117,037 | 38,261 | 32.7 |
| 1993 | 127,343 | 39,516 | 31.0 |
| 1994 | 121,434 | 29,284 | 24.1 |
| **Total** | **1,151,654** | **368,949** | **32.0** |

Source: State of California, Department of Finance, Legal Immigration to California, 1984-1994: A Summary, January 1997, Sacramento, California.



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With California's immigration about 1/3 of the entire nation, it would mean that immigration will affect California's economy at a much higher level. Borjas (Borjas, 2002) found that the immigrants who entered the country between 1980 and 2000 lowered wages of native-born workers by an average of 3.7 percent. "There are 16 million foreign-born workers in the United States right now," Borjas said. "What does that do to the marketplace? It creates more competition, particularly for low-skilled workers."

The reduction in earnings occurred regardless of whether the immigrants were legal or illegal, Borjas found. When immigrants enter the United States, they typically lack skills, such as proficiency in the English language, that American employer's value. Hence, it is not surprising that new immigrants earn less than native workers. As immigrants acquire these skills, however, their economic status catches up to that of natives. But because the recent waves of immigrants are relatively less skilled than earlier ones, the wage disadvantage of newly arrived immigrants has worsened over time. Immigrants who arrived in the late fifties earned 12 percent less than natives at the time of arrival. This wage disadvantage upon arrival increased to 15 percent in the late sixties, to 25 percent in the late seventies, and to 27 percent in the late eighties. Because recent immigrants start so far behind, they cannot attain wage parity with natives even after two or three decades in the United States

In 1980 newly arrived immigrants from India or Iran earned 20 percent less than natives; newly arrived Mexican or Haitian immigrants earned 50 percent less. Compare



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this to immigrants from Sweden or the United Kingdom, who earned about 20 percent more than natives.

Ethnic groups in the U.S. differ greatly in their education levels (Rector, 2006). Hispanics, both immigrants and native-born, have low levels of education compared to the rest of the U.S. population. Some 55 percent of first-generation Hispanic immigrants and family members live in households headed by persons without a high school diploma; among non-immigrant Hispanics, the figure is 27 percent. By contrast, only 11.4 percent of Asian immigrants live in households headed by high school drop-outs; among non-immigrant Asian-Americans, the figure is 10.2 percent. Hispanics' low levels of education contribute to their high level of poverty.

Does California's poverty rate correlate with the percent of immigration it takes compared to the U.S.? This can be determined by performing a regression analysis test on the two sets of data. The y-variable (dependent) in this regression test is the annual poverty rate of California and the x-variable (independent) is the percent of immigrants which come to California as a total of U.S. immigration. The time span is from 1984 to 1994. Using a 95% confidence ratio, here are the results:



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**California's Poverty Rate vs. Immigration (1984-1994)**

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.3075 |
| R Square | 0.0946 |
| Adjusted R Square | -0.0060 |
| Standard Error | 2.1387 |
| Observations | 11 |

ANOVA

| | *df* | *SS* | *MS* |
|---|---|---|---|
| Regression | 1 | 4.2999 | 4.2999 |
| Residual | 9 | 41.1674 | 4.5742 |
| Total | 10 | 45.4673 | |

| | *Coefficients* | *Standard Error* | *t Stat* |
|---|---|---|---|
| Intercept | 18.5313 | 4.1613 | 4.4533 |
| X Variable 1 | -0.1234 | 0.1272 | -0.9696 |

This test, at 95% confidence, shows an R Square of .09 and an Adjusted R Square of -.006. This shows that the U.S. and its immigration do not correlate and are not reliable predictors of each other. A R Square of .09 means that immigration will have very little significance in predicting what California's poverty will do. Although the number is very small, it will be used in multiple regression tests in the next section. The t Stat is -.9696, using 95% confidence, we find that it is not out of the critical region (which is -1.812 to 1.812), and therefore it can not be assumed that immigration has no effect on poverty.

In order to see how immigration affects poverty in California, we need to examine immigration in more detail. Diagram #3 below shows that immigrants have a much lower percent when it comes to some college and the various levels below high school. It also shows that immigrants have the same percent of Bachelor degrees or higher.



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Diagram #3- Percent of Educational Attainment for Natives and Immigrants

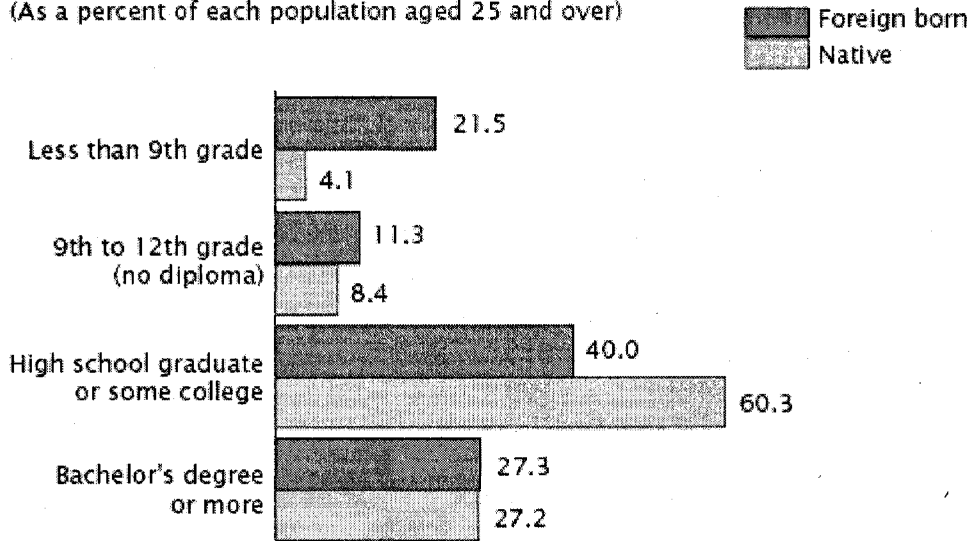


Diagram #4 below shows that 87.5% of native born citizens have at least a high school degree. Immigrants only have 67.2% of their population at that level.



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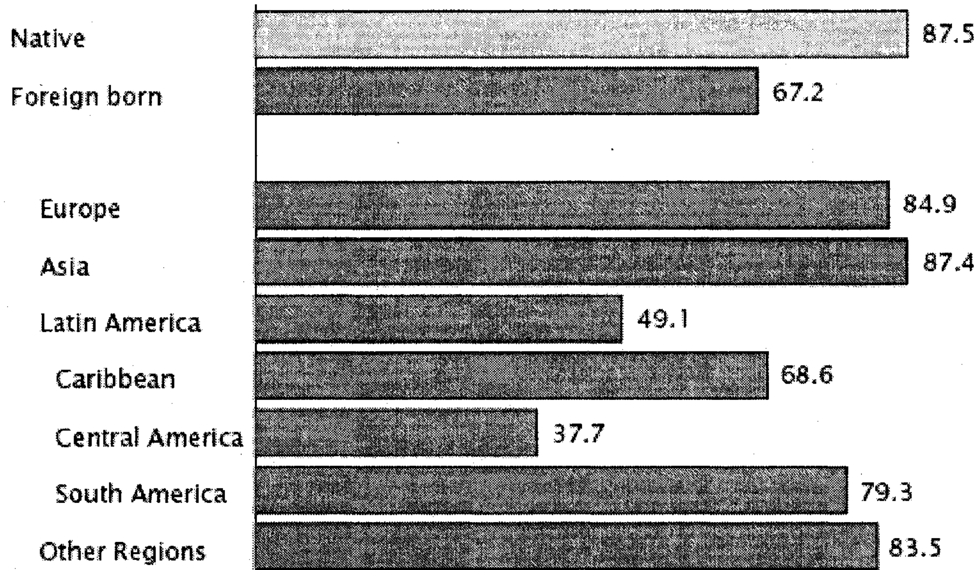
Diagram #4- Percent of Native and Foreign Born Citizens with a High School Degree or Higher (2003)




[1]Each bar represents the percent of individuals aged 25 and over, who were born in the specified area, who have at least a high school education.
Source: U.S. Census Bureau, Current Population Survey, 2003 Annual Social and Economic Supplement.

Diagram #5 shows how much income individual natives and immigrants earn annually by region. The poorest region is Central America; this includes Mexico which borders California.



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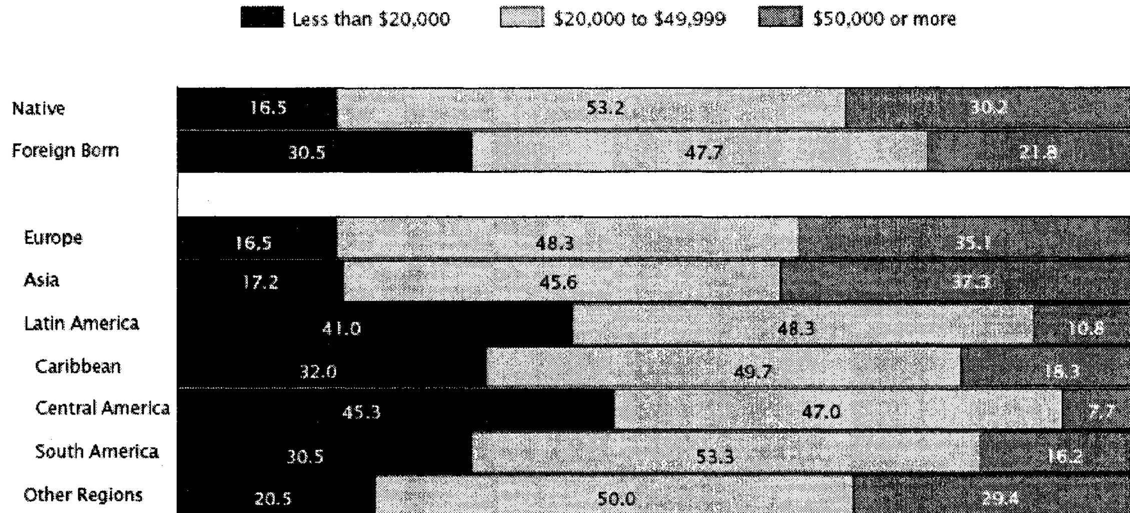
Diagram #5- Annual Individual Earnings by Region (2002)



Source: U.S. Census Bureau, Current Population Survey, 2003 Annual Social and Economic Supplement.

Diagram #6 shows which immigrants live in poverty by region. Central America has the highest poverty rate 23.6%.



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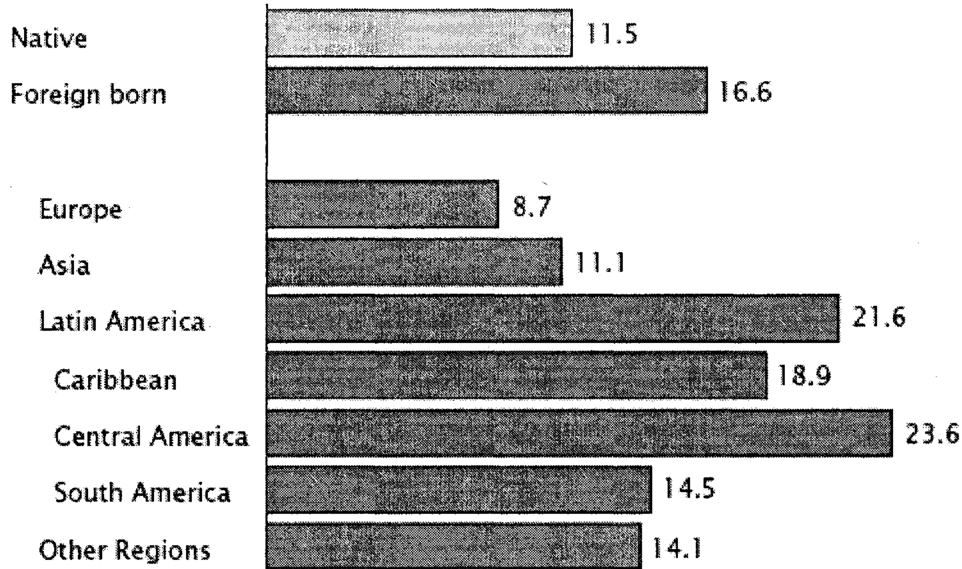
Diagram #6- Poverty Rate by Region (2002)




[1] Each bar represents the percent of individuals, who were born in the specified area, who were living in poverty.
Source: U.S. Census Bureau, Current Population Survey, 2003 Annual Social and Economic Supplement.

This data shows that most immigrants from Central America are not doing as well as U.S. citizens and other immigrants when it comes to poverty and income. This could be due to their lack of education. Central America is a very important region since Mexico borders the U.S. and many immigrants come from there (both legally and illegally)



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Health Care

Health and health care are important for a variety of reasons. A major reason is high costs. To get health care, you either have to pay for it out of pocket or your company covers some of the costs. When you, or a company, pays for health care, it takes away money which could be spent on other things. This has a significant impact on the percent of the population which does not make as much money. This section will explore where California stands in health compared to the rest of the U.S.

The below tables (#10 and 11) are from the United Health Foundation. These two chars show were California ranks in many areas compared to the rest of the U.S.



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Table #10- California's Health Rankings (1990-2004)

| Rankings 2004 | Rankings 2003 | Rankings 1990 | | Measurement Data 2004 | Measurement Data 2003 | Measurement Data 1990 |
|---|---|---|---|---|---|---|
| | | | **Risk Factors - Personal Behaviors** | | | |
| 2 | 2 | 4 | Prevalence of Smoking (Percent of population) | 16.8 | 16.4 | 25.6 |
| 14 | 15 | 21 | Motor Vehicle Deaths (Deaths per 100,000,000 miles driven) | 1.3 | 1.3 | 2.3 |
| 27 | 11 | 6 | Prevalence of Obesity (Percent of population) | 23.2 | 19.2 | 9.8 |
| 32 | 31 | 41 | High School Graduation (Percent of incoming ninth graders) | 69.6 | 68.7 | 68.5 |
| | | | **Risk Factors - Community Environment** | | | |
| 41 | 43 | 48 | Violent Crime (Offenses per 100,000 population) | 593 | 617 | 918 |
| 42 | 45 | 43 | Lack of Health Insurance (Percent without health insurance) | 18.4 | 18.2 | 17.9 |
| 41 | 42 | 46 | Infectious Disease (Cases per 100,000 population) | 28.2 | 29.8 | 70.6 |
| 35 | 32 | 36 | Children in Poverty (percent of persons under age 18) | 18.5 | 16.4 | 22.0 |
| 3 | 7 | 16 | Occupational Fatalities (Deaths per 100,000 workers) | 3.4 | 3.6 | 8.4* |
| | | | **Risk Factors - Health Policies** | | | |
| 40 | 35 | - | Percent of Health Dollars for Public Health (Percent of health exp.) | 2.4 | 4.1 | - |
| 41 | 33 | - | Per Capita Public Health Spending ($ per person) | $21 | $33 | - |
| 12 | 16 | 31 | Adequacy of Prenatal Care (Percent of pregnant women) | 81.0 | 79.9 | - |
| | | | **Outcomes** | | | |
| 46 | 38 | 27 | Limited Activity Days (Days in last 30 days) | 2.5 | 2.2 | 4.1 |
| 30 | 30 | 22 | Cardiovascular Deaths (Deaths per 100,000 population) | 340.8 | 347.8 | 388.5 |
| 8 | 11 | 30 | Cancer Deaths (Deaths per 100,000 population) | 193.2 | 191.9 | 202.6 |
| 19 | 18 | 25 | Total Mortality (Deaths per 100,000 population) | 823.9 | 825.8 | 876.6 |
| 5 | 4 | 12 | Infant Mortality (Deaths per 1,000 live births) | 5.0 | 5.4 | 9.0 |
| 11 | 15 | 25 | Premature Death (Years lost per 100,000 population) | 6,470 | 6,506 | 8,453 |
| **22** | **22** | **33** | **Overall** | **3.6** | **5.8** | **-3.4** |



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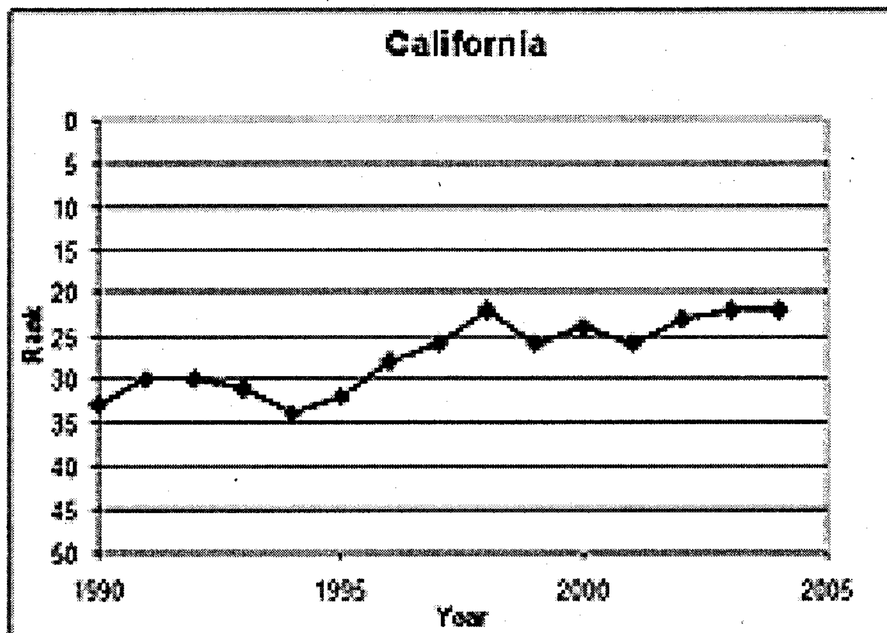
Table #11- California's Health Rankings (1990-2004)




Source: United Health Foundation, America's Health: State Health Rankings 2004, http://www.unitedhealthfoundation.org/shr2004/states/California.html

Overall, from 1990 to 2004, California went from being ranked 33rd to 22nd. This is a big improvement. This improvement has come at a high cost though:

1. California ranks 41st in Per Capita Public Health Spending ($ per person).
2. California ranks 40th in Percent of Health Dollars for Public Health (Percent of health exp).
3. California ranks 42nd in Lack of Health Insurance (Percent without health insurance).
4. California ranks 35th in Children in Poverty (percent of persons under age 18).



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California is clearly spending more money and losing people and companies which buy health insurance. When people and business stop buying health insurance, the State will have to eventually pick up the tab.

Does California's poverty rate correlate with its overall U.S. health care ranking? This can be determined by performing a regression analysis test on the two sets of data. The y-variable (dependent) in this regression test is the annual poverty rate of California and the x-variable (independent) is the overall health care ranking of California in the U.S. The time span is from 1990 to 2004. Using a 95% confidence ratio, here are the results:

**California's Poverty Rate vs. its Health Care Ranking (1990-2004)**

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.6145 |
| R Square | 0.3776 |
| Adjusted R Square | 0.3297 |
| Standard Error | 1.6066 |
| Observations | 15 |

ANOVA

| | *df* | *SS* | *MS* |
|---|---|---|---|
| Regression | 1 | 20.3556 | 20.3556 |
| Residual | 13 | 33.5538 | 2.5811 |
| Total | 14 | 53.9093 | |

| | *Coefficients* | *Standard Error* | *t Stat* |
|---|---|---|---|
| Intercept | 7.8902 | 2.59828 | 3.03669 |
| X Variable 1 | 0.2668 | 0.09500 | 2.80829 |



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This test, at 95% confidence, shows an R Square of .38 and an Adjusted R Square of .33. This shows that the U.S. and its health care ranking do not correlate and are not reliable predictors of each other. An adjusted R Square of .33 means that California's health care rankings will have little significance in predicting what California's poverty will do. Although the number is very high, it will be used in multiple regression tests in the next section.

Multiple Regressions

Does California's poverty rate correlate with its overall U.S. health care ranking and the U.S. poverty rate? This can be determined by performing a regression analysis test on the three sets of data. The y-variable (dependent) in this regression test is the annual poverty rate of California and the x-variables (independent) are the overall health care ranking of California in the U.S. and the U.S. poverty rate. The time span is from 1990 to 2003. Using a 95% confidence ratio, here are the results:



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**California's Poverty Rate vs. the U.S. Poverty Rate and Health Care Ranking (1990-2003)**

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.8781 |
| R Square | 0.7711 |
| Adjusted R Square | 0.7295 |
| Standard Error | 1.0208 |
| Observations | 14 |

ANOVA

| | *Df* | *SS* | *MS* |
|---|---|---|---|
| Regression | 2 | 38.607 | 19.304 |
| Residual | 11 | 11.462 | 1.042 |
| Total | 13 | 50.069 | |

| | *Coefficients* | *Standard Error* | *t Stat* |
|---|---|---|---|
| Intercept | -3.9319 | 3.1933 | -1.2313 |
| X Variable 1 | -0.0524 | 0.0925 | -0.5664 |
| X Variable 2 | 1.5576 | 0.3411 | 4.5659 |

This test, at 95% confidence, shows an R Square of .77 and an Adjusted R Square of .73. This shows that the California's poverty rate does correlate with the U.S. poverty rate and California's health care ranking. An adjusted R Square of .73 means that, when used together, California's health care rankings and the U.S. poverty level are good predictors to what California's poverty will do. The adjusted R Square of this test is higher than any of the other tests so far.

Using SAS to standardize the data, a regression test for California's poverty rate vs. the U.S. poverty rate, California's health care and immigration was performed.



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**Linear Regression**
**Results**
**The REG Procedure**
**Model: Linear_Regression_Model**
**Dependent Variable: CA's Poverty Rate CA's Poverty Rate**

| Analysis of Variance | | | | | |
|---|---|---|---|---|---|
| Source | DF | Sum of Squares | Mean Square | F Value | Pr > F |
| Model | 3 | 11.90319 | 3.96773 | 12.22 | 0.2066 |
| Error | 1 | 0.32481 | 0.32481 | | |
| Corrected Total | 4 | 12.22800 | | | |

| | | | |
|---|---|---|---|
| Root MSE | 0.56992 | R-Square | 0.9734 |
| Dependent Mean | 16.42000 | Adj R-Sq | 0.8937 |
| Coeff Var | 3.47089 | | |

| Parameter Estimates | | | | | | | |
|---|---|---|---|---|---|---|---|
| Variable | Label | DF | Parameter Estimate | Standard Error | t Value | Pr > \|t\| | Standardized Estimate |
| Intercept | Intercept | 1 | -19.29452 | 20.20005 | -0.96 | 0.5146 | 0 |
| Immigration | Immigration | 1 | -0.10474 | 0.08785 | -1.19 | 0.4443 | -0.32919 |
| Health | Health | 1 | 0.22476 | 0.23097 | 0.97 | 0.5087 | 0.23353 |
| US Poverty Rate | US Poverty Rate | 1 | 2.21677 | 0.82691 | 2.68 | 0.2273 | 0.77847 |

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The R-Square is .9734 and the Adjusted R-Square is .8937. It is also important to point out the Standardized Estimates. The U.S. Poverty Rate is the highest at .7785, second highest is Health at .2335.

**Fiscal policies which are proven to work need to be studied. These policies have the potential to be future recommendations.**

"Don't reinvent the wheel" is a popular phrase. Throughout this paper, it has been shown that California has higher poverty and income inequality than the United States as a whole. Can this problem be remedied through fiscal policy? This section will explore alternatives and find specific areas which could be used as recommendations for CA to implement.

**Education**

Poverty in a given country can be reduced by fostering per capita GDP growth – that is, by increasing the total resources available to the population – and by increasing the share of those resources going to its poorer segments (Cashin, Mauro, and Sahay, 2001). A widely held view is that economic growth can be fostered by a set of policies aimed at promoting macroeconomic stability (low and stable inflation, low budget deficits, and sustainable external debt), openness to international trade, education, and the rule of law. The findings of many studies based upon cross-country evidence are consistent with that view, although the evidence on whether each individual policy



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among those listed above raises economic growth is typically far from conclusive (Levine and Renelt, 1992).

There is also a debate about the policies that improve the well-being of the poorer segments of the population for a given growth rate of GDP per capita, and an even more fervent debate about whether certain policies imply a trade-off between increasing total available resources (increasing growth rates) and improving their distribution. In the latter respect, there seems to be broad agreement that policies aimed at improving basic education and health care can both increase economic growth and improve distribution, but, of course, there certainly is no consensus on the policies that will be most effective in improving education and health care.

California not only has a much higher share of immigrants, but, relative to the rest of the nation, immigrants in the state are also more likely to have low wages (Reed, 1999). In 1989, immigrants were 29 percent of the male workforce in California and only 8 percent in the rest of the nation. In 1997, immigrants were 36 percent in California and 12 percent elsewhere. In California, 67 percent of immigrants were in the lower half of the wage distribution in 1997 (70 percent in 1989). The degree of overrepresentation in the lower half of the distribution was smaller in the rest of the nation at 64 percent in 1997 (59 percent in 1989).

To address these concerns and questions, the results suggest several policy directions related to the major causes of income inequality that have been identified:



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rising returns to skill and immigration. These policy directions all involve education and training:

· Improve the opportunity to finish high school and enter college;

· Improve training for people who do not go on to college; and

· Promote the economic progress of immigrants through education and training.

There was a Clinton initiative in 1997 (U.S. Department of Education, 1997) which would allow individuals to borrow money form the government. They would then repay the loan by working for the government after have finishing school, an example of which would be the Peace Corps. Working for the government was not an obligation if the recipient simply paid off the loan. This would provide people with jobs right after college and would let more people attend college who could not normally afford it. It would give a sense of confidence that you could pay off your loan easier if you have guaranteed employment.



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## Health Care

According to The World Health Report- 2000 (World Health Organization, 2000), four out of the top 10 countries with the best overall health care have some type of universal health care (See appendix #3). These countries are:

1. France
2. Italy
7. Spain
9. Austria

Universal health care systems vary with respect to what services are covered completely, covered partially, or not covered at all. Some of these services may include medically necessary services from physicians, physical therapy, occupational therapy, mammography screenings, immunization services, treatment of sexually transmitted diseases, HIV testing, optometry and opticianry services, alcohol and drug abuse treatment and rehabilitation services, mental health services, gambling addiction services, dentistry services, prescription drugs, medical supplies and appliances, podiatry services, chiropractic services, emergency medical transportation, nursing home care, and home care services.

The majority of universal health care systems are funded primarily by tax revenue. Some nations, such as Germany and France, employ a multi-payer system in which



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health care is funded by private and public contributions. Japan also employs a multi-payer system. "Single-payer" describes a type of financing system in which a single entity, typically a government-run organization, acts as the administrator (or "payer") to collect all health care fees, and pay out all health care costs. Some advocates of universal health care assert that single-payer systems save money that could be used directly towards health care by reducing administrative waste. Denmark, Sweden, and Canada are some of the countries that employ single-payer financing of health care.

The country with the best health care system is France. It uses a form of universal health care. This study will examine France's health care system in more detail, to find recommendations which can be then used for California.

**France vs. U.S. - Similarities**

As in the U.S., autonomous physicians dominate ambulatory health care in France (Dutton, 2003). Patient choice of physician, direct access to specialists, patient payment of fees (with subsequent reimbursement), physicians' freedom of diagnosis and prescription, fee for service, and ultra-high levels of medical confidentiality remain well-entrenched features of French medicine. Also, as in the U.S., French workers and their employers pay for the bulk of their medical care through premiums assessed on gross wages. French employers and their employees pay wage levies of approximately 20%; employers contribute 13% and workers 7%.



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Simple comparisons with U.S. expenditures are difficult because of the wide array of medical insurance plans whose premiums vary considerably according to firm size. Also, U.S. health insurance is priced not as percentage of wages, as in the French case, but in flat dollar premiums. A large employer, such as the state of Arizona, which provides coverage that approximates French medical insurance, pays $9,348 per year for each enrollee with dependents and leaves $1,704 per year to the employee. Hence, for a moderate-income earner ($40,000 annually), medical insurance costs are significantly higher than the French case –approximately 27% of gross wages.

In France, insurance premiums flow into one of several quasi-public insurance funds that are jointly administered by employer and employee representatives. These insurance funds negotiate national medical fee schedules with the leading French physician associations. These conventions, as they are called, form the basis of physicians' remuneration. Although over 25% of French physicians charge fees above the convention rates, their patients' reimbursement – usually 70% of expenses in ambulatory care – is tied to it. Thus, as in the U.S., where private insurers and Medicare employ "normal and customary" fee schedules to determine payments to physicians, French doctors' fees are ultimately constrained by insurers' willingness to pay. It was for changes to this convention that French doctors recently rallied successfully in Paris.

France also possesses a significant private not-for-profit and for-profit medical insurance sector (over three hundred companies) that, while competing against each other, work in complementary fashion with the quasi-public insurance funds. Indeed, fully 84%



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of the population benefits from supplementary insurance coverage that pays all or part of the medical fees that are not covered by their health insurance fund. In 1996, these supplementary providers financed 12% of all health care expenditures, while 13% of what Americans would term deductibles or co-payments was left to households.

U.S. private insurers account for nearly three times the share of total expenditures that their French counterparts do (35% versus 12%), and Americans pay more out of their own pockets than the French (17% versus 13%) for personal health care spending. The federal and state governments in the U.S. play a substantial role in health care, mostly through Medicare and Medicaid (43%). But even this large fraction is dwarfed by France's quasi-public insurance funds, which account for almost three-quarters of total health care spending.

**France vs. U.S. - Differences**

Medical practice and health care in France and the United States are also marked by deep differences in hospital practices, efficiency, and access to preventative and curative care. French hospitals lie mostly in the public sector and their physicians, about one third of the country's total, are salaried. As in the U.S., regional medical centers are closely associated with medical education and research, and therefore benefit from the relatively low-paid services of interns and residents.



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The French health care system is one of the most expensive in the world and cost containment is an imperative for the government and insurers alike. Yet French costs remain far outpaced by the U.S. France spends $2,047 per capita on health care, compared to America's $4,095.[6] One of the major factors behind the relative expense of the U.S. system is the higher earnings of health professionals. The average American physician earns over five times the average U.S. wage while the average French physician makes only about two times the average earnings of his or her compatriots. That said, French physicians have remained more firmly attached to fee-for-service medicine, albeit at lower rates, than their American colleagues and continue to enjoy a very high level of prescriptive freedom. Their services are prospectively approved for payment through the national conventions and are rarely questioned by insurers. This is in great contrast to the increasingly strict post-service payment reviews that American doctor's face from American insurers and Medicare.

The relatively low income of French physicians is allayed by two factors. Practice liability is greatly diminished by a tort-adverse legal system and medical schools, although extremely competitive to enter, are essentially free. Thus, French physicians enter the market with little if any debt and pay much lower malpractice insurance premiums.

Different degrees of efficiency also distinguish the American and French health care systems. The development of managed care providers in the U.S., especially since the late 1980s, resulted in a rapid spread of productivity enhancement measures



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throughout American health care. The French have been slow to apply such measures. Many French practitioners view the new productivity measures as a threat to their prescriptive freedom and have hampered a thorough implementation. Also, the new techniques require computerized information gathering and processing systems, an area where French health care lags well behind the U.S.

At the same time, the French system exhibits enviably low administrative costs: 5% of total expenditures versus 14% in the U.S. U.S. physician fee increases are increasingly driven by doctors' efforts to recover office personnel and non-physician payroll expenses, which have risen at a compounded annual growth rate of 7.1% since 1986. These increases far exceed hikes in liability insurance premiums (3.5%) and medical supplies (1%) during the same period. Although numerous, French insurance funds adhere to a nationally standardized billing and reimbursement procedure. This practice, along with the fact that physicians' services are preapproved for payment through the national convention, permits French medical offices to operate with relatively few administrative personnel.

Access constitutes the most striking difference between the American and French health care systems. Sixteen percent of the U.S. population lacks health insurance altogether and many possess insurance with such high deductibles that they forego medical needs for financial reasons. A large number of uninsured puts additional strains on a health care system. In order to recapture the costs of uncompensated care, providers raise the price of services for the insured, thereby creating a vicious cycle, since higher



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insurance premiums ultimately lead to more uninsured patients. One needs to return to France of the 1960s to find America's current rate of uninsurance. Ninety-nine percent of the French population obtained health insurance by 1980, either through the above-mentioned work-related insurance funds, as a dependent of an insured person, or through special insurance funds for the unemployed. A 2000 law extended coverage to the remaining 1% who somehow fell between the cracks of these health insurance funds.

**France vs. U.S. - Learning from Each Other**

American policy makers would do well to take note of France's successes, especially in the reduction of administrative costs of insurance and the country's achievement of universal coverage. Breakthroughs in medical science and pharmacology have made possible dramatic improvements in health in France and the United States. But those improvements remain in peril without an effective containment of rising medical costs, especially as populations' age and require more and increasingly expensive medical care. Under these stresses, a health care system will depend on the achievement of cost containment, efficiency of delivery, and equity of access.



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## Crime

During the 1990s Maine has remained relatively immune from the hysteria about violent crime that has played a prominent role in political campaigns and driven policy and spending decisions in many states (McEwen and Hanneman, 2000). At one extreme, for example, prison populations in California have expanded by almost 600 percent between 1979 and 1994, while spending for corrections has grown from less than 4 percent of the state budget – roughly Maine's current rate – to more than 10 percent, now outstripping expenditures for higher education. During the same period, California's violent crime rate increased by 66 percent. Maine stands in stark contrast. With a 1994 violent crime rate about one-eighth the size of California's and essentially the same as it was in 1979, Maine's prison population grew by 90 percent during that period but now is relatively stable, unlike California, where the rate is projected to triple during the next decade.

Since crime rates in Maine remain low, criminal justice expenditures appear under control, and prison populations are projected to rise only modestly due to a recent reduction in the amount of "good time" granted to reduce time served, why should criminal justice policy be a priority in that state? One reason is to avoid the policy choices of California, which could bankrupt itself with its prison expansion program. Second, although violent crime rates are relatively low in Maine, they remain of concern to citizens there and cannot be ignored. Third, criminal justice policy is especially challenging because it must bridge the executive, judicial, and legislative branches;



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connect state, county, and town or city government; and be coordinated with other social agencies and policies. Finally, Maine – by the very fact of its modest crime problems – provides an opportunity to think innovatively about criminal justice policy in ways that could help provide a national model.

Criminal justice policy presumably advances two central public purposes – control of crime and justice. Powerful assumptions about how crime can be controlled and about what justice means drive contemporary criminal justice policy, making it increasingly expensive at the same time it proves itself ineffective.

The primary, or even exclusive burden for controlling crime typically is placed on the police, courts, and corrections system. Yet, it is easy to overestimate the power of government intervention to control individual behavior. In fact, a quick glance at some of the experiences nationally and in Maine suggests these limits. In the period from 1979 to 1994, the United States tripled the number of people it imprisoned. Yet, the FBI's annual Crime in the United States shows that the rate of reported violent crime grew by 30 percent during the same period, while the rate of property crime fell by only 6 percent. The dramatic and unprecedented increase in the use of imprisonment – arising from longer prison sentences and greater proportions of offenders sentenced to prison – appears on the surface not to have had a clear downward effect on crime rates. Why not?

If changes in the criminal justice system – defined primarily as making it "tougher" – are to control crime rates, that effect must be achieved largely through



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increases in deterrence or incapacitation. On one hand, punishing criminals presumably "sends a message" to other potential lawbreakers and thus deters future crime. On the other hand, people kept under correctional supervision are not free to engage in criminal activity in the community. Certainly, the presence of a criminal justice system acts both to provide some deterrence and some incapacitation while also teaching and reinforcing moral lessons about right and wrong conduct. But the crucial policy question is not whether the system deters or incapacitates at all, but whether changes in that system significantly increase or decrease deterrence or incapacitation and thus have clear effects on crime rates.

Those who study deterrence generally agree that 1) punishment that is highly likely deters more than punishment that is unlikely; 2) severe punishment deters more than less severe punishment; and 3) punishment that is administered as soon after the act it punishes as possible will deter better than punishment administered at a more distant time (Andenaes, 1974). Of these three, the first – certainty of punishment – is understood as by far the most significant. Unfortunately, it also proves to be the most difficult to change radically. In the United States, for example, only thirty-two of every 1,000 serious crimes lead to conviction (Senna and Siegel, 1995), largely because in 90 percent of felonies the crimes either are not reported to the police or the police cannot identify the offender (Petersilia, 1992). Prosecutors then screen out and dismiss cases with insufficient evidence to offer a reasonable chance of conviction.



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Control of crime rates by marginal increases in deterrence is difficult to achieve, but incapacitation would seem to be a sure thing. The criminal justice system certainly has some downward effect on crime by keeping more and more offenders under correctional control, but the capacity to affect crime rates meaningfully has substantial limits (Zimring and Hawkins, 1995). These limits result largely from the fact that the social forces that help produce and reproduce crime quickly replace many of those people who are removed from communities through imprisonment. The sorts of crime that foster the greatest public concern are largely the work of young men. Boys replace those who are imprisoned almost as fast as they are convicted. Individuals typically do not receive long prison sentences until they are in their early to mid-twenties or older, a period during their life course when many are maturing out of crime as they take on jobs and accept family responsibilities (Petersilia, 1992). Thus, the turn to longer and longer sentences during the past decade results in the lengthy incarceration of many people who are apt to have relatively low offending rates in the future. As a result, incapacitation turns out to be a very expensive strategy with surprisingly little effect on crime rates. Yet its general failure as a long-term crime control strategy does not mean incapacitation is inappropriate or ineffective when used selectively for multiple offenders whose crimes – like drug sales – will not simply be replaced by others.

Unfortunately, retributive justice also has economic and social costs. As Californians are discovering, retribution is very expensive, at $25,000 per person per year. The social costs of retribution are less clear but perhaps even more worrisome in the long run. Retribution enlists the state as an agent of private vengeance and emphasizes the



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imposition of pain as a public good. It turns the collective focus on crime to the contest between the state and the alleged offender over culpability while neglecting efforts to assist individual victims. It highlights the small minority of crimes that lead to an arrest and tends to ignore the much larger number for which no offender is identified. It emphasizes the individual offender to the exclusion of the community and social context of crime. Because most offenders plead guilty without trial, they never have to face their victims or recognize the human costs of their crime. By stigmatizing and alienating offenders, retribution can make their successful return to communities more difficult. Finally, a retributive approach has no built-in limits and easily can lead to an unchecked escalation in severity of punishment.

To begin to assess the causes of crime, comparison between Maine and California is useful, to determine why crime rates in California are so much higher than those in Maine. Before answering that question, it is important to observe that in both Maine and California, the people most likely to find themselves in the criminal justice system are young men with few resources – low income, weak formal education, unemployed or marginally employed, and often unmarried (see, e.g. Perkins, 1994). Significant differences in crime rates between Maine and California, therefore, are likely to reflect differences in the numbers and concentrations of such young people in the states and in the capacity of their communities to involve even these most marginal members in the life of the "mainstream."



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To explain the differences between Maine and California crime rates, it also helps to recognize that the most powerful forces that shape individual behavior are families, communities, friends and peers, schools, and employers. They guide and direct us through rewards of status, security, respect, love, and income, as well as the threat of their loss. In other words, they create a stake in conformity. When they offer or deliver few rewards, however, families, employers, schools, and community institutions have a weaker hold on individuals, who then have a reduced commitment to conformity. Under these circumstances, the lure and acceptability of illegitimate opportunities increase.

Crime occurs most often then when these controls are weakened. Large cities, especially of areas of concentrated poverty, may have the weakest institutions and controls and thus the highest crime rates. One of the biggest differences between Maine and California, therefore, is the concentration of residents in the former state in smaller communities while California has sixteen cities with more than 170,000 residents. When considering the reasons for higher crime rates in California than in Maine, the focus should not be on differences in criminal justice policies in the two states, but rather on distinctive features of community life.

Policy Initiatives Connecting a Restorative Criminal Justice to Communities

Those policies most likely to succeed in controlling crime rates are those that connect the powers of legal control to the even more powerful social controls in communities, families, work, and schools. Policies to promote restorative justice also



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need to involve communities centrally in repairing harm and holding offenders accountable. Recognition of this need to connect criminal justice to communities has begun to reshape police departments across the United States through community policing. This innovative approach to policing provides an important model for other parts of the criminal justice system.

Community policing generally rests on the assumption that active cooperation between community residents and police is essential to effective law enforcement and crime prevention. Thus, community policing practices can help change public understanding about who is responsible for crime control. In community policing, that task is no longer delegated exclusively to the police and criminal justice system but is shared by community residents and organizations. A well- developed community policing system engages local police with community leaders and service providers in designing coordinated and targeted enforcement and preventive responses to local crime patterns. In this model, police de-emphasize routine patrols that have questionable effectiveness in crime control and devote more attention to analyzing crime patterns and finding solutions to the problems that produce them.

The rehabilitative efforts in prisons and jails also should advance restorative justice by highlighting the accountability of offenders to their victims and encouraging them to undertake restitution in some form. Imprisonment in a retributive system demands that the offender pay a "debt to society," but that debt often can be paid passively by "doing time." A restorative justice system would actively encourage



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offenders to make amends, to earn money to pay back victims, and to make contributions to their communities. Reparation could go far to connect offenders positively to communities in ways that may help them reintegrate more successfully upon release.

Finally, if any state is to make serious strides toward crime control, it must plan carefully for general prevention efforts that take place largely outside the purview of the criminal justice system but should be coordinated with it. General prevention focuses either on individuals at risk of offending or on the social processes or structures that produce delinquent and criminal conduct. Prevention programs might include home visits and day care for poor single mothers, training for parents whose young children "act out," and graduation incentives for disadvantaged high school students. A recent study by RAND of such efforts underlines the potential of early crime prevention efforts. It reports limited effects on crime rates of prison building and incarceration and much more substantial impacts for each dollar expended on these sorts of targeted crime prevention programs (Greenwood et al., 1996).



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## Tax Policies

Measured as a share of family income, California's poorest families pay the most in taxes (CA Budget Project, 2006). The poorest fifth of the state's non-elderly families, with an average income of $11,100, spent 11.3 percent of their income on state taxes in 2002. In comparison, the wealthiest 1 percent, with an average income of $1.6 million, spent 7.2 percent of their income on state taxes.

The total tax burden on California's families is a function of the state's highly progressive personal income tax and regressive sales and excise taxes. Higher income households pay more in income taxes. Lower income households pay more in property taxes. Households also bear a share of the burden of taxes imposed on business through higher prices and reduced corporate earnings. Higher income households pay a relatively greater share of the corporate income tax, while lower income households pay a greater share of businesses' sales and excise tax burden.

A single mother with one child will have no 2006 state income tax liability unless she earns over $36,658. A family of four with two children will have no 2006 income tax liability unless their income exceeds $45,658.[2] California's high income tax threshold is attributable to the increases in the dependent credit enacted in 1997 and 1998. The state's high tax threshold also means that low- to moderate-income families receive minimal or no benefits from the state's various credits, deductions, and other tax benefits, since they have little or no tax liability to offset.



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Small businesses pay a very small share of the corporate income tax. While 589,310 corporations filed tax returns in 2003, the 1.7 percent with taxable incomes of $1 million or more paid 82.2 percent of the tax. The most costly corporate tax credit is the Research and Development (R&D) Credit. In 2003, 1,349 corporations claimed $552.2 Million in R&D credits, averaging $409,327 per firm. Overall, relatively few corporations claim the various state tax credits. In 2003, fewer than 3 percent of the state's corporations claimed any of the state's tax credits.

California is a moderate tax state. In 2004-05, California ranked 12th among the 50 states with respect to state taxes as a percentage of personal income. The state ranked 18th with respect to total "own source" revenues – the broadest measure of state and local revenues – raised by state and local governments in 2001-02, the most recent year for which data are available. California ranks relatively high with respect to personal and corporate income tax collections, although the available data fail to take into account the relatively modest growth in revenues in recent years. The state ranks relatively low with respect to property, vehicle fuel, and alcoholic beverage taxes.

Over the past two decades, the burden of funding state services has shifted from corporate to personal income taxpayers. The personal income tax is expected to provide 53.2 percent of General Fund revenues in 2006-07, up from 35.4 percent in 1980-81. Corporate tax receipts are expected to provide 10.9 percent of General Fund revenues in 2006-07, down from 14.6 percent in 1980-81. New, increased, and expanded corporate



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tax breaks and the 1996 corporate rate reduction are responsible for the decline in the share of state revenues provided by the corporate income tax. Tax cuts enacted between 1993 and 2005 alone will reduce 2005-06 state General Fund revenues by $9.9 billion.

In 2003, the most recent year for which data are available, 380,075 taxpayers reported incomes of $200,000 or more. However, 1,659 of these households paid no California personal income tax. How did they do it? The largest tax breaks claimed by "no tax" households include enterprise zone tax breaks, the Manufacturers' Investment Credit, and miscellaneous deductions. The number of high-income, "no tax" returns more than tripled between 1996 and 2003, rising from 510 to 1,659. With the high-income tax payers not paying taxes, it puts more of a tax burden on the rest of the tax base. The rest of the tax base will have to make up for the income lost from the high-income tax breaks. The system is supposed to be regressive, meaning the more you earn, the higher percentage you should pay in taxes. These loopholes do not allow the system to be as regressive as it should be.



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# Discussion and Recommendations

This chapter will conclude this paper. I will discuss the major findings of this paper and what they mean. After we know what we have found throughout the research, we can then make recommendations to the State of California. This chapter will then conclude with research limitations and areas for future research.

## Discussion

### The negative effects of poverty

Poverty is one of the biggest problems, not just in CA, but in the world. Since it is such a big problem, the government must try to fight it to keep a society in balance. When poverty levels are high, governments must put huge amounts of money in to unemployment, food stamps, health, and welfare. Governments try to do this to lower the poverty level and give those in poverty a chance to get out of poverty. Because we have to spend so much on fighting poverty, it means less to spend on other things such as education or finding cures for diseases. The reason for this is because money is limited. When we have limits we have to make choices in how we spend money. Poverty is such a big and important problem, it is always near the top in getting government funding.

When people live in poverty, there are some very dangerous side effects. The first is the rise in crime rates. When people can't find a job, they can lead to crime. This is a



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simple economic term called opportunity costs. If you don't have a job that pays well, you may make the choice to steal, which could pay more. The trade-off is the risk of going to jail but at a certain point, you will choose eating over the risk of going to jail.

The other major problem with poverty is it can cause racial tension. Poverty areas are usually called "ghettos" and, in most cases, are dominated by one race or another.. These are usually minorities. When people live in these conditions, they can adopt an "us vs. them" attitude towards the majority, or another race. This can cause racial tension which leads to a lack of trust. When people don't believe they can work hard to make money, they will give up on the system and become dependent on it. They can be bitter towards the other races and violence can come from that. Economics is blind and we all need to work together to achieve the best economy where everyone is equal.

One of the major reasons for poverty is a lack of education. When people are not educated, they are harder to employ. They also tend to make a lower wage then someone who has more education. As we saw in a previous chapter, a man with no high school diploma makes an average of $25,095 vs. $56,334 for a man with a Bachelor's degree (year 2002). Unfortunately, this can lead to a vicious cycle. People have both short- and long- term needs. Getting an education is a long-term investment in yourself which will pay rewards throughout your life. When you come from a family who is poor, you may stop going to school to work so you can eat. This is short-term thinking but very important; you can't live until the long term if you don't eat. Breaking this cycle is very hard to do and expensive. You need to find a way to educate people while making sure



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they have enough to live on. Because you must make choices with money, this is a challenge and government assistance is needed.

Poverty in a major problem throughout the world. Wars can get started over too much poverty. Racial tension becomes national tension as we see today in our world. The United States is seen by many countries as exploiting them for their oil. This leads to mistrust at the international level just as it does inside of our nation. This study does not focus on poverty the problem but on finding solutions to this problem. If we can learn from others, we can implement their ideas to make California a much better place to live for everyone. If this works in CA, we can try to take our solutions to the national level of the United States and other countries.

Fiscal Policy Should Reduce Poverty

Fiscal policy is governments taking in money and redistributing it. Money is limited, as are resources. Governments can print more money but that is not realistic because it will make the value of the currency unstable. We know poverty is a major problem, but why should the government try to fix it? The reason for that is complex.

In a competitive and free marketplace, such as we have in the US, there will be gaps in what the private sector will accomplish. For the most part, the private sector does well with competition and keeping prices low. But there are times when the private sector won't do something because it doesn't allow a profit. An example would be Welfare; you



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wouldn't start a company which just hands out money to Welfare recipients. It would not be profitable and you would go out of business. Because the private sector can't solve all our problems, the government needs to step in and help. Governments can use economies of scale to pool our resources to provide roads, a military, and take care of our citizens.

Since poverty is a major problem and the private sector won't fix it on its own, the government must find a way to do so. The government can spend money on programs to help those in poverty. Some examples are food stamps, Welfare, training, and Medicare. These programs take enormous amounts of money and do help the poor. The problem is that we still have a major problem so we need to do more for these people.

Since money is finite, when the government decides to spend more on poverty, it must do one of two things: either raise taxes or cut from other areas of spending. Both of these are unpopular. Raising taxes brings in more revenue that can be spent on poverty-fighting programs. The problem with raising taxes is that people who pay the taxes (generally middle class to rich people) don't want to pay more. People want to keep more of what they earn so they can choose how to spend it. This is a self-serving principle which makes the world go around. These people don't realize the all the hidden costs of poverty and the long-run damage we are doing to our country.

Cutting spending in other areas is not politically popular. Whoever gets cut will not be happy. They can make or break a politician if they have a large enough union or following. It all comes down to making choices with the limited amount of money we



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have. Because we can't spend as much money on poverty as we would like, we need to spend it more wisely. We need to find ides which work and use them. We can't afford to spend money on things that don't work because it's just wasting taxpayers' dollars.

Income Inequality is a Major Cause of Poverty

Economic inequality refers to disparities in the distribution of economic assets and income. This term typically refers to inequality among individuals and groups within a society, but can also refer to inequality among nations. What this means is we have a group of people who are poor vs. rich or other classes.

Research has shown a clear link between income inequality and social cohesion. In more equal societies, people are much more likely to trust each other (Uslander and Brown, 2002), measures of social capital suggest greater community involvement, and homicide rates are consistently lower. This can lead to an us vs. them mentality. People tend to not trust those they compete against. We can not make CA a better place to live if people are fighting and do not trust each other. This is one of the major irony's of a free capitalistic society. We are set up to compete with each other but must help each other at the same time for the greater good of our State.

Some people accept inequality as a given, and argue that the prospect of greater material wealth provides incentives for competition and innovation within an economy. If you can get paid more to work harder, you will work harder and increase output. The



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problem arises when the people who can't work are left behind. This is a great economic principle and works well with human nature. To some, it feels good to work hard for success. Sometimes, successful people feel resentful of those who don't work and get handouts. They may feel like they are doing their share of hard work to those who are free loading. Unfortunately, this is the case some of the time but it can give the hard working poor a bad reputation, as well.

Some modern economic theories, such as the neoclassical school, have suggested that a functioning economy requires a certain level of unemployment. These theories argue that unemployment benefits must be below the wage level to provide an incentive to work. This can encourage inequality. At a certain level this is acceptable. If a teenager is working for minimum wage, that is expected. She don't have experience and education yet so it is acceptable for her to make a much smaller amount of money than a person with a college degree. The problem comes when people with college degrees are making minimum wage or we can't find jobs for our people who want to work. Another major problem is when people get stuck in low wage jobs. They can't afford to get an education to make more money since they must think short term to feed themselves each day. How do we break this vicious cycle for some?

California's Poverty and Income Inequality

Earlier in this study, we saw the income inequality of CA has been getting worse (Table #12):



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Table #12- California's Income Inequality by Percentage (1980-2003)

| | | Bottom 20% | 20% | Middle 20% | 20% | Top 20% |
|---|---|---|---|---|---|---|
| **%** | **80-82** | 6.90% | 12.32% | 17.85% | 23.93% | 39.01% |
| | **90-92** | 5.75% | 11.17% | 16.57% | 23.55% | 42.96% |
| | **01-03** | 5.72% | 10.87% | 16.39% | 23.55% | 43.47% |
| **Total %** | **80-82** | 6.90% | 19.22% | 37.06% | 60.99% | 100.00% |
| | **90-92** | 5.75% | 16.92% | 33.49% | 57.04% | 100.00% |
| | **01-03** | 5.72% | 16.58% | 32.98% | 56.53% | 100.00% |

In the early '80's, the bottom 40% had 19.22% of the total income. In the early 2000's the same group only had 16.58% of the total income. That is a reduction of 2.64%. This means that the poor are making even less money relative to the other 60%. To show this point even further, during the same time periods, the richest top 20% of income increased from 39.01% to 43.47%. That is a gain of 4.46%. From this, it can be seen that the rich are taking more of share of the total income available.

To measure the exact amount of inequality for the charts above, the Gini coefficient is used. The Gini coefficient provides a percentage of how wide the above income inequality curves are. Zero would mean perfect equality and 1 would represent perfect inequality. California's Gini coefficients are as follows:

| | |
|---|---|
| 1980-1982 | .379 |
| 1990-1992 | .434 |
| 2001-2003 | .411 |



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These numbers have increased over the last two decades. This means the California's income inequality has gotten worse.

This study did show that California's poverty rate and Gini coefficient do not correlate and are not a reliable predictor of each other. The R Square was .203 and the Adjusted R Square is -.594. The major reason for this was due to limited data sets. With the time horizon this study was using, it may be hard to find any correlation.

California's poverty rank in the United States tells a mixed tale. In 1982, CA was ranked 28th in the US for its poverty rate. Being in the bottom half of the nation is nothing to boast about. In 1992 and 2003, CA's rank was 38th and 36th, respectively. There is a bit of an improvement from the '90's to '03's but not much. Whether it represents a trend but is too early to tell.

The jump from 28th to 38th in the '80s and '90s is huge. Something happened in the '80s which caused CA to lose a lot of ground. As a result, CA's poverty level has gotten much worse over the last 20 years. This should not happen to one of the top 10 economies in the world. If it is to continue, there could be major problems for the state. The solutions from this paper could help reduce this trend and make CA a better place to live for everyone.



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What were the U.S. fiscal policies which could have contributed to greater inequality?

To see which fiscal policies changed at the federal level we need to break it down into two decades, the '80s and '90s. The major changes in the '80s were the lowering of the top income tax bracket to 50% from 70%. When this was passed, the lower income bracket was lowered from 14% to 11%. Also, in this decade more tax cuts were passed. Once again the top bracket was lowered to 28% from 50% but they raised the bottom from 11% to 15%.

Also, during the 1980s, the interest on consumer loans such as credit card debt, as well as state and local sales taxes, were no longer deductible. The home mortgage interest deduction was changed to favor home ownership.

These changes were very unfavorable to those who don't make as much money. If you were in the top level of income, your bracket fell from 70% to 28%. That is an enormous savings. The problem which comes from this is that it can lower the amount of revenue the government receives. When the government receives less money, there is less to spend on poverty programs. In this same time period the bottom tax rate went from 14% to 15%, increasing for those who are near poverty.

Taking away the write-off of interest and making it more beneficial to buy homes also favors the higher income segment of the population. Tax write-offs would have a bigger percent effect on those earning less. Making it better financially to own a home



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would encourage people to buy and not rent. Since low-income people are more likely to live in rented housing than in owner-occupied housing, this would have decreased the new supply of housing accessible to them.

The 1990s started by raising the top income tax bracket to 31%. The tax limit on Medicare was raised to $125,000 of income from $53,400. Later the top bracket went to 39.6% for individuals and 35% for corporations. Late in the decade, the capital gains tax went to 20% from 28%. The child credit was introduced and raised to $500 per child. The tax exemption for selling a house and estate taxes limits were both increased.

We can see the 1980s were a time when being in the lower income brackets didn't do much. If you were in the top tier, your taxes were cut substantially. Just about everything in this decade would lead to the increase of the income and wealth gap. In the 1990s, things were mixed. The top income filers were going to pay more in taxes for income but could save from capital gains, housing write-offs, and estate taxes. Child credits and more corporate taxes would ease the burden of the lower brackets.

Overall, we can see that federal fiscal policy was a factor in the increased income and wealth gap. The lower tax rates for the rich gave them more money and the government would take less in. This makes income distribution harder and less efficient. With less money coming in, there was an increase in the deficit. Because of the bigger deficit, programs had to look for ways to cut spending. This means less to spend on



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education, crime, and health care. The results of this make poverty more of a problem in the US.

What were California's fiscal policies which could have contributed to greater inequality?

Proposition 13 was a major change in CA which affected the State starting in the 1980s. This proposition, which became a law, locks in your property tax rate when you buy a house. This makes it great for people who own homes. They can have their taxes stay the same, even when their income increases substantially. However, it makes buying a home less affordable because you will have to pay 1% of the price you pay when you purchase it.

In 1996, CA tried to limit its public school class sizes, but this didn't work out too well. With the rush to hire new teachers, not all who received jobs were qualified.. The unqualified ones ended up in poorer schools where much more qualified teachers were needed. Unfortunately, CA has not had very good success with education. The state tries to make changes but it's very hard with such a big teacher lobby and a lot of politics.

CA tried to modify the federal welfare program in 1997. CA's caseload did drop but not as much as the rest of the nation. One major reason was that CA was paying out more in welfare benefits and paid it out after the time limits had expired. One of the major problems was educating people about the program. Studies found that people didn't know the benefits available to them or when they would get their eligibility back.



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It was a plan which seemed to be working in much of the nation, but CA was not having the success it should have had. This lack of ability to run a welfare plan as it should was hurting the people who needed it the most, along with wasting tax payer dollars.

<u>The U.S. and California fiscal policies need to be isolated so we can find out which one may, or may not have, lead to greater income inequality.</u>

In prior chapters, we compared CA to the US to see if the income gap was widening. This is a fact from the study. The income gap was growing in CA much faster than it is for the rest of the US in the 1980s and 1990s. We know that a growing income gap is not good for many reasons. The US has a growing gap, which is troublesome, but CA is doing worse than the US as a whole. This means that CA could face more challenges going forward. Because of this, the US government will not be able to help out since what they do affects every state. It will be up to the CA government to solve these problems on their own. These problems get harder to solve the worse they get so the government of CA should work to implement solutions which can address these problems as soon as possible.

We did find that the U.S. and California's poverty rates do correlate and are reliable predictors of each other. This test, at 95% confidence, shows an R Square of .71 and an Adjusted R Square of .689. This is an important find because it does show that fiscal policy at the U.S. government level is very important. What the U.S. government



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does greatly affects California's poverty situation. California has been doing worse which shows that its fiscal policies are having an impact, but not in a positive way.

<u>There needs to be a test to see if these fiscal policies correlate to the increase in the income gap and poverty levels.</u>

How can we tell if State or Federal fiscal policies are the cause of the increase in the income gap and poverty levels? More importantly, how can we show that California's fiscal policy is to blame for making California's income gap between the rich and poor grow?

Since it is impossible to isolate variables to prove fiscal policy is solely responsible for CA's increased income gap, we will have to conclude that fiscal policy is responsible for this trend. Since we know fiscal policy is responsible for CA's higher income inequality, we must find recommendations which the State of California can use to help solve this problem.

<u>U.S. fiscal policy accounts for 69% of California's income inequality. There needs to be an examination of what is different in California to explain the other 31%.</u>

This study has shown that U.S. fiscal policy can explain about 69% of California's poverty. In examining what could be the cause of the remaining 31%, this study finds some relevant information. First, we find that California has not had any abnormal



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demographic trends or natural disasters which could account for this gap. Second, there are three major areas which are explored earlier in this study which help explain some of the gap. These three areas are: education, health, and immigration.

This study showed us the importance of having an education. The higher your education level, the more money you were likely to make and to not be unemployed. California has a very low ranking when being compared to the rest of the U.S. Depending on which ranking used, California was either 46th or 36th in the nation in 2005. These are both well below average and one is near the bottom. If this continues, California might have a problem competing in the global economy if they do not have a talented employee pool.

Immigration has a major effect on California compared to the rest of the U.S. About 1/3 of all immigrants which come in to the U.S. go to California. This has a major impact on California's economy. This study also shows that immigrants have a much lower education level. We saw the importance of education pertaining to the amount of income you receive and employment levels. If many immigrants with lower levels of education come in to California, you would think that would have an effect on income inequality. Regression was tried on the level of immigration vs. California's poverty level but this study only got an R Square of .09, defiantly not a reliable predictor. This regression was only about the percent of immigrants which California received vs. the U.S. though.



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Out of the immigration regression test, a t Stat of -.9696 was obtained. This lead to further investigation of the details of immigration. This study found that immigrants from Central America, which includes Mexico, have a much lower education level than other immigrants and natives of the U.S. They also have a much lower income level and higher poverty rates than natives and other immigrants. Mexico is a very important country since it borders the U.S. and California. With 36.9% of the immigrants coming to the U.S. from Central America alone and 53.3% total from Latin America (U.S. Census Bureau, 2003), this has a very big impact on increasing poverty in California.

The overall health care of California is about in the middle of the U.S. Some of the major problems this study encounters when looking at the data are spending, lack of health care, and children in poverty. Per capita and amounts spent on health care in California are about the lowest in the nation. California is paying just about the most for average health care. Some improvement must be made to make tax dollars better spent. California also ranks near the bottom with people with no health care. The problem of this is that people who pay in to the system end up paying more and the high costs of health care take a greater percentage of a poorer person's income. California is also near the bottom of the state ranking with children in poverty. In this study's regression test on poverty and health care in California, we got an Adjusted R Square of .33. Not a high predictor but California's health care does have an impact on its poverty levels.

To bring all our data together to explain the gap from what the U.S. fiscal policy can explain, this study did two multiple regression tests. The first test used California's



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poverty level vs. the U.S. poverty level and California's health data. From that test, an R Square of .77 and an Adjusted R Square of .73 were obtained. This test showed that by adding in the health care of California, it added to our prior level of prediction by about 4%.

The second multiple regression test used SAS to standardize the data. California's Poverty Rate was the dependent variable. The U.S. Poverty Rate, California's Health and Immigration were the three independent variables. The R-Square is .9734 and the Adjusted R-Square is .8937. These two numbers give the three variables a very high percentage of prediction for California's poverty. It is also important to point out the Standardized Estimates. The U.S. Poverty Rate is the highest at .7785, second highest is Health at .2335. This is important because it shows the importance of the independent variables. By focusing on the higher ones, you will have more of an impact on California's poverty. From this study, California's health care is more important than immigration in terms of helping California's poverty levels.

Have past fiscal policy measures contributed to greater inequality of income and wealth in California.

The short answer to this question is, "yes". Throughout this discussion, we have talked about the results of this study which lead to this conclusion. Poverty is a major problem in the world. It hurts countries, states and neighborhoods. Governments of all levels need to use fiscal policy to combat poverty. The ultimate goal would be to



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eliminate it entirely. For now, we need to reverse the trend of income inequality. Income inequality is the major reason poverty can get worse. It means more people are getting left behind and that is bad news for an economy of any size.

We saw that income inequality in CA is getting worse. It is getting worse at a pace greater than the US as a whole. Most of this inequality has been due to federal use of fiscal policy. Some of it was due to CA's fiscal policy. The bottom line is income inequality is getting worse in CA and it can only be due to fiscal policy since we have ruled out everything else. Now that we know that past fiscal policy measures have contributed to greater inequality of income and wealth in California, we can make some sound recommendations for CA to implement.

**Recommendations**

Fiscal policies which are proven to work need to be studied. These policies have the potential to be future recommendations.

There are four major areas which this paper looked at for being major contributors to poverty. They are education, health care (access), crime, and tax policy. The research looked for the countries and states which were the most successful at implementing successful programs through fiscal policy. Below is listed each of the four areas and their recommendations which CA should use going forward.



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Education

Education is the key to any economy's future. We must constantly invest money in ourselves so that we have a workforce with the skills necessary to do the jobs which are needed. We also will need people who will start companies to provide new innovation and jobs for others. CA has one of the biggest education budgets in the country but the quality of education is very bad. There are three major areas where CA can focus on to make it better for the poor:

1. Improve the opportunity to finish high school and enter college.
2. Improve training for people who do not go on to college.
3. Promote the economic progress of immigrants through education and training.

The bottom line is that we must require everyone to get a high school degree. Many kids drop out of high school and go to work to support their families. This is just hurting their earning potential in the long run. We need qualified teachers with credentials teaching at all levels. Too many times, unqualified teachers end up teaching at poorer schools since others do not want to. The poorer schools are where we need our best teachers.

Parents need to get involved with their children's education. They need to make sure the kids go to school and do their homework. Many parents don't value education because they don't have degrees. They need to be educated on the value of an education



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so they can steer their kids that way. Children should not be moved up a grade until they are ready. Age does not mean education level or grade. I would also consider making getting an A.A. degree from a Community College a requirement.

An idea is to have the government pay for you college upfront. After you graduate, you have the option of not working for the government, as long as you pay off the loan on your own. The other option would be to go to work in a government job until the loan is paid off. This would provide people with jobs right after college and would encourage more people attend college. It would give a sense of confidence that you could pay off your loan if you have guaranteed employment. The tradeoff of guaranteed employment for a higher degree would encourage people to attend college because they know the time spent in college will translate to a guaranteed job and higher life-long income. This will take the uncertainty out of finding a job after college.

Companies need to continuously train their employees. By doing this, it makes the employees more valuable and keeps their skills up-to-date. When people are laid-off, the unemployment department needs to provide training so they can get back in to the workplace. Education and training should be a lifelong thing, so that people don't fall behind. It will take the cooperation of the government (state and federal), parents, kids, and educators to be successful.



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Health Care

The World Health Organization came out with a report in 2000 which ranks the countries in the world for their health care. Number 1 was France and Italy was Number 2. Both of these countries have Universal Health Care systems. This type of system makes sure that everyone in your country has some health care. It is paid for by the government, business, and citizens.

The US and CA's health care systems are the same. There is a major problem going on now in the health care system. More and more people do not have coverage. What happens is called "adverse selection". Adverse selection is when people who don't need the coverage drop it. This leaves only the people needing health care paying for it. These people drive up the costs more and everyone who has health care pays more for it. The more people who drop out of plans, the more expensive it will get. Because hospitals can't turn people away, the costs are still high as people who don't have insurance use the emergency rooms. This trend cannot continue and needs to be fixed or our system will go bankrupt. Here is what we can learn from the French system:

- Cost containment is an imperative for the government and insurers alike. The average American physician earns over five times the average U.S. wage while the average French physician makes only about two times the average earnings of his or her compatriots.



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- French physicians enter the market with little if any debt and pay much lower malpractice insurance premiums.

- The French system exhibits enviably low administrative costs: 5% of total expenditures versus 14% in the U.S.

- French insurance funds adhere to a nationally standardized billing and reimbursement procedure. This practice, along with the fact that physicians' services are preapproved for payment through the national convention, permits French medical offices to operate with relatively few administrative personnel.

- Access constitutes the most striking difference between the American and French health care systems. Sixteen percent of the U.S. population lacks health insurance altogether and many possess insurance with such high deductibles that they forego medical needs for financial reasons. A large number of uninsured puts additional strains on the health care system. In order to recoup the costs of uncompensated care, providers raise the price of services for the insured, thereby creating a vicious cycle, since higher insurance premiums ultimately lead to more uninsured patients.

The recommendation of this study is a universal health care plan for California. It would be a tiered system where someone with higher income would pay a higher amount for a service than someone with a lower income. This would ensure access to medical care for everyone and spread the cost around more evenly. This study also recommends



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finding ways to save money on malpractice insurance for doctors, administrative costs, and education costs for doctors.

Crime

The State of Maine has one of the lowest crime rates in the nation. They constantly examine how they could do better and made some interesting discoveries when comparing their state to California. Here are this study's recommendations for California:

- By providing modest support for increased local training and initiatives to further develop community policing, California policy makers could significantly advance crime control and restorative justice.

- Criminal justice officials must understand their roles more broadly and make connections at a policy-making level to other public officials whose work relates to crime and crime prevention.

- California needs to rely more heavily on intermediate sanctions – punishments between low supervision probation and imprisonment.



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- Courts, prosecutors, and corrections officials in California should expand their support of restorative justice approaches that help to repair harm and respond to the needs of victims.

- California policy makers need to address the serious shortage of rehabilitation and assistance programs for offenders in jails, prisons, and under probation supervision in the community.

- California must plan carefully for general prevention efforts that take place largely outside the purview of the criminal justice system but should be coordinated with it.

Crime is a very complex and expensive problem in the US and California. It needs to be addressed at every level. Police need to work with communities. Communities need to help out each other. Areas with high concentration of poverty need to lifted from that condition as it fosters crime. Money at the government level needs to be spent wisely. Criminals need to be trained so when they are released from jail, they can get jobs and not go back to crime. All these ideas could benefit California and must be implemented together; there is not just one solution to crime.



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Tax Policies

Measured as a share of family income, California's poorest families pay the most in taxes. The poorest fifth of the state's non-elderly families, with an average income of $11,100, spent 11.3 percent of their income on state taxes in 2002. In comparison, the wealthiest 1 percent, with an average income of $1.6 million, spent 7.2 percent of their income on state taxes. This is not a system which would reduce income inequality. It makes it harder for the poor to get ahead.

The total tax burden on California's families is a function of the state's highly progressive personal income tax and regressive sales and excise taxes. Higher income households pay more in income taxes. Lower income households pay more in property taxes. Households also bear a share of the burden of taxes imposed on business through higher prices and reduced corporate earnings. Higher income households pay a relatively greater share of the corporate income tax, while lower income households pay a greater share of businesses' sales and excise tax burden. When people have less money to spend, costs like gasoline and sales taxes take up a bigger proportion of their income.

A single mother with one child will have no 2005 state income tax liability unless she earns over $36,658. A family of four with two children will have no 2005 income tax liability unless their income exceeds $45,658.2 California's high income tax threshold is attributable to the increases in the dependent credit enacted in 1997 and 1998. The state's high tax threshold also means that low- to moderate-income families receive minimal or



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no benefits from the state's various credits, deductions, and other tax benefits, since they have little or no tax liability to offset. From this we can recommend:

1. Certain subsidies which can help the low-to-moderate income families in California.
2. California can implement a negative tax program for low-to-moderate income families. This would give them money back from the State.
3. California can give low-to-moderate income families some sort of tax credit.

**Latest Developments**

While this study was being written, some major proposals have come out of Washington and California's State Capital. The first major one is dealing with health care for Californian's. On January 8, 2007 Governor Schwarzenegger unveiled the most comprehensive health care reform initiative in the nation, which will bring accessible, efficient and affordable health care to every Californian. This is a type of Universal Health care plan which this study has recommended. Under the Governor's proposal (Office of the Governor, 2007):

- All Californians:
  - Must have a minimum level of insurance to ensure that those with insurance no longer pay for the uninsured. Individuals will be responsible



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for securing health coverage for themselves and their children and contributing to paying for their coverage.

  - Have a responsibility to purse good health. The Governor's plan outlines a comprehensive prevention policy that encourages and rewards healthy behaviors; supports new efforts to fight diabetes, smoking and obesity; and reduces medical errors.
  - Will benefit from the reduced hidden tax if all are insured. It is estimated that coverage for all will cut the hidden tax in half.

- Government:
  - Will return $10-15 billion doctors and hospitals by increasing federal reimbursement for Medi-Cal.
  - Will provide subsidies for low-income families to buy health coverage through a new purchasing pool.
  - Will expand Medi-Cal to poor adults and expand Healthy Families/Medi-Cal to all children in families earning less than $60,000 annually.
- Employers:
  - Those with 10 or more employees who choose not to offer health coverage will contribute 4 percent of payroll toward the cost of employees' health coverage. Companies with less than 10 employees—a full 80 percent of businesses in California—are exempt.
  - The 4 percent fee will prevent employers of ten or more from dropping their health care coverage in light of the state's program.
- Health Plans and Insurers:



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- Must guarantee individuals access to coverage in the individual market, spend 85 percent of every premium dollar on patient care and make "Healthy Actions" benefits available to promote healthy behaviors. The Governor's initiative will expand the state's insurance pool by 4-5 million and give insurers fair compensation for their services.

- Doctors and Hospitals:
  - Will be relieved of costs associated with caring for the uninsured and will receive significantly increased Medi-Cal rates—eliminating the need for any cost shifts or hidden tax.
  - Will receive $10-$15 billion—and in turn, will contribute a portion back to universal coverage. Physicians will contribute 2 percent of revenues and hospitals will contribute 4 percent, ensuring some of the savings stays in the system to support total coverage and increased Medi-Cal rates to providers.
  - Have a responsibility to provide affordable, quality care, partner with patients to improve wellness and health outcomes; and share in cost savings.

By engaging individual Californians, businesses, the state and federal government, health care providers and insurers, the Governor's plan will:

- Reduce the hidden tax by containing health-care costs and ensuring the insured no longer pay for the uninsured.



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- Lower costs by fairly compensating hospitals, making health coverage available to every Californian and fighting chronic illnesses.

- Support better care by reducing medical errors, restoring emergency care, and developing innovative health information technology applications.

- Promote a healthier California by ensuring that everyone has access to health coverage, promoting affordability and rewarding good health choices.

In the area of education, Governor Schwarzenegger is constantly working on educational initiatives with the current budget cycle (2007-2008). There are several areas he is focused in on:

- **Career Technical Education Initiative**

The Governor's proposed 2007-08 budget includes $52 million to build and improve Career Technical Education (CTE) programs by enhancing curriculum, streamlining teacher recruitment and training and maximizing bond funds for new facilities. Formerly known as vocational education, CTE integrates core academics with technical and occupational courses to give students a pathway to postsecondary education and careers.



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Governor Schwarzenegger reversed California's chronic under-funding of CTE in his first term, increasing funds by 18 percent and working with Legislative leaders to include $500 million for CTE facilities in the Strategic Growth Plan education bond.

- **Providing New and Ongoing Funding**

$20 million in ongoing funding for CTE instruction in high schools and community colleges. This funding will:

Reform high school CTE coursework through partnerships with community colleges. Reforms include coordinating CTE courses so that when students move on to community college they do not need to repeat classes; broadening curricula to include technical programs in emerging and traditional career paths; and expanding courses to ensure more students gain the skills needed for gainful employment.

$32 million in new funding for CTE instruction and programs. This funding, part of the Proposition 98 settlement, will:

Expand student exposure to career options by building public-private partnerships between key industries and CTE programs to expand apprenticeships, internships and training.



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Increase professional development opportunities for educators by giving teachers and counselors more access to CTE instruction and career counseling training.

Design courses for growth industries by raising the quality and quantity of classes in high-growth sectors and emerging industries, like construction and medical technology.

Build academic relevance by increasing the number of CTE courses that meet "A-G requirements," classes that prospective UC and CSU students must complete while in high school.

- **Maximizing Bond Dollars**

The Strategic Growth Plan education bond includes $500 million in grants for CTE facilities. The quick, efficient distribution and use of these funds is a top priority for the Governor. He has directed the Office of Public School Construction to expeditiously implement the CTE portion of the bonds.

In March 2007 Governor Schwarzenegger will host a CTE summit to give school districts hands-on help in applying for bond funds. In addition, the summit will bring government and industry together to review existing CTE curricula, outline industry needs over the next decade, identify how curricula can meet these needs and evaluate how schools can best prepare students for the workforce.



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- **Streamlining Teacher Credentialing**

Currently there are 175 separate CTE credentials, an inefficient structure that makes credentialing teachers difficult and fails to reflect industry realities. The Governor will propose legislation this year that streamlines the number of CTE credentials to 15, reflecting the major industry sectors and simplifying teacher credentialing.

- **Providing Online, User-Friendly School Information**

California needs an integrated, transparent system that allows parents, the public, educators and policymakers to access useful information about our schools. The Governor has directed his administration to work with the Legislature, Superintendent of Public Instruction and others to make the School Accountability Report Card parent-friendly and include relevant district and site information so that schools can easily be compared to one another. The Administration is also pursuing a public/private partnership to launch an easy-to-use website that will provide parents with online consumer information about schools.

Over the past decade, the state has invested significant resources to collect an increasing amount of data from school districts. From demographic data of students and teachers to student performance and financial expenditures, California school districts collect extensive data and make over 100 reports to the California Department of Education and other state educational agencies to meet state and federal reporting requirements.



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Yet currently, there are few useful informational tools available to easily access this data. The primary reason? Failure to integrate the data into tools that parents, educators, the public and policymakers can use. The Governor's proposal addresses this shortfall.

According to a 2006 poll by Public Opinion Strategies, 92 percent of voters favor "Requiring better and more accessible information so that we can understand where our education tax dollars are being spent."

The debate on immigration has been happening for about a year. For the most part, it has been at the federal level. President Bush proposed the following in his 2007 State of the Union speech in January (The White House, 1/28/2007). It is very unclear how this will develop since the Democrats control the Senate and House of Representatives. Also, each State has a much different stance on how immigration helps or hurts it.

1. The United States Must Secure Its Borders

Border Security Is The Basic Responsibility Of A Sovereign Nation And An Urgent Requirement Of Our National Security.

- To Supplement The Border Patrol As Its Numbers Increase, Approximately 6,000 National Guard Members Have Been Sent To Our Southern Border In Coordination With Governors.



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- The President's Secure Border Initiative (SBI) Is The Most Technologically Advanced Border Enforcement Initiative In American History.
- The Administration Is Increasing Infrastructure Investment At The Border.
- The Administration Has Effectively Ended "Catch And Release" For Illegal Aliens Apprehended At The Borders.
- The Administration Expanded The Use Of "Expedited Removal," Which Allows Us To Send Illegal Immigrants Home More Quickly.
- The Administration Is Working Closely With State And Local Law Enforcement To Stop Illegal Immigration. Immigration and Customs Enforcement (ICE) has the resources to train 1,500 State and local law enforcement officers under the 287(g) program in 2006 and 2007.

2. We Must Hold Employers Accountable For The Workers They Hire

In A Sharp Break From The Past, The Administration Is Addressing The Illegal Employment Of Undocumented Workers With A Tough Combination Of Criminal Prosecution And Forfeitures.

- The Number Of Arrests In Worksite Enforcement Cases Has Increased Dramatically During The President's Time In Office.
- In Fall 2005, The President Signed A Bill Doubling Federal Resources For Worksite Enforcement. In addition, the Administration has launched law enforcement task forces in 11 major cities to dismantle criminal rings that produce fake documents.



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- DHS Has Issued A Proposed "No-Match" Regulation To Assist Employers In Ensuring A Legal Workplace And To Help The Government Identify And Crack Down On Employers Who Knowingly Hire Illegal Workers.

Comprehensive Immigration Reform Must Include The Creation Of A New, Tamper-Proof Identification Card For Every Legal Foreign Worker So Businesses Can Verify The Legal Status Of Their Employees.

3. To Secure Our Border, We Must Create A Temporary Worker Program

America's Immigration Problem Will Not Be Solved With Security Measures Alone. As We Tighten Controls At The Border, We Must Also Address The Needs Of America's Growing Economy.

To Provide A Lawful Channel For Employment That Will Benefit Both The United States And Individual Immigrants, The President Has Called For The Creation Of A Temporary Worker Program.

The Temporary Worker Program Should Be Grounded In The Following Principles:

- American Workers Must Be Given Priority Over Guest Workers.
- The Program Must Be Truly Temporary.
- Participation Should Fluctuate With Market Conditions



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4. We Must Bring Undocumented Workers Already In The Country Out Of The Shadows

Comprehensive Immigration Reform Must Account For The Millions Of Immigrants Already In The Country Illegally.

The President Opposes An Automatic Path To Citizenship Or Any Other Form Of Amnesty.

The President Supports A Rational Middle Ground Between A Program Of Mass Deportation And A Program Of Automatic Amnesty.

- No Amnesty.
- In Addition To Paying A Meaningful Penalty, Undocumented Workers Must Learn English, Pay Their Taxes, Pass A Background Check, And Hold A Job For A Number Of Years Before They Will Be Eligible To Be Considered For Legalized Status.
- Any Undocumented Worker Seeking Citizenship Must Go To The "Back Of The Line."

5. We Must Promote Assimilation Into Our Society By Teaching New Immigrants English And American Values

Those Who Swear The Oath Of Citizenship Are Doing More Than Completing A Legal Process – They Are Making A Lifelong Pledge To Support The Values And The Laws Of America. New Citizens Need Guidance To Succeed.



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**Federal Reserve Chief Comments**

On February 6, 2007, Ben Bernanke, the current Federal Reserve Chief, had some interesting comments. In an Omaha speech, Federal Reserve chairman said policy can't eliminate inequality, but can spread opportunity. He said Policy-makers should seek to expand worker skills but refrain from restricting trade or labor flows in efforts to narrow income disparity.

"The challenge for policy is not to eliminate inequality per se but rather to spread economic opportunity as widely as possible". "Policies that focus on education, job training, and skills and that facilitate job search and job mobility seem to me to be promising means for moving toward that goal," he added.

**Future Research**

This paper has shown that California has a problem with poverty and income inequality. There have been recommendations which CA can use to reduce this problem. The next step would be to outline exactly how these recommendations could be applied to CA. They would need to be put before the politicians in the State for debate and approval. Along with this, the cost and savings aspect would have to be thoroughly examined. Because money is limited, money would have to come from somewhere to pay for these recommendations. Hopefully, in the long run, these recommendations would pay for themselves with a thriving economy with little poverty.



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## Research Limitations

There are two research limitations to this study. The first one is about the complexity of California. CA is one of the top ten economies in the world. There is a lot of diversity and it is just as complicated as most major countries. Because of this, some of the recommendations may have to be modified to fit CA. The second limitation could be funding. CA relies on federal funding, or federal fiscal policy, to support many areas of its economy. Some of the changes might need federal funding or approval. This could prove difficult because federal decisions affect all 50 states. What may be good for CA might not be good for the nation as a whole. I do think that just about every state could learn something from this study and the recommendations, though.



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# Appendixes

## 1 - California and the United States Minimum Wages per year

| | CA Min Wage* | | U.S. Min Wage** | |
|---|---|---|---|---|
| 1970 | $ | 1.65 | $ | 1.60 |
| 1971 | $ | 1.65 | $ | 1.60 |
| 1972 | $ | 1.65 | $ | 1.60 |
| 1973 | $ | 1.65 | $ | 1.60 |
| 1974 | $ | 2.00 | $ | 2.00 |
| 1975 | $ | 2.10 | $ | 2.10 |
| 1976 | $ | 2.50 | $ | 2.30 |
| 1977 | $ | 2.50 | $ | 2.30 |
| 1978 | $ | 2.65 | $ | 2.65 |
| 1979 | $ | 2.90 | $ | 2.90 |
| 1980 | $ | 3.10 | $ | 3.10 |
| 1981 | $ | 3.35 | $ | 3.35 |
| 1982 | $ | 3.35 | $ | 3.35 |
| 1983 | $ | 3.35 | $ | 3.35 |
| 1984 | $ | 3.35 | $ | 3.35 |
| 1985 | $ | 3.35 | $ | 3.35 |
| 1986 | $ | 3.35 | $ | 3.35 |
| 1987 | $ | 3.35 | $ | 3.35 |
| 1988 | $ | 4.25 | $ | 3.35 |
| 1989 | $ | 4.25 | $ | 3.35 |
| 1990 | $ | 4.25 | $ | 3.80 |
| 1991 | $ | 4.25 | $ | 4.25 |
| 1992 | $ | 4.25 | $ | 4.25 |
| 1993 | $ | 4.25 | $ | 4.25 |
| 1994 | $ | 4.25 | $ | 4.25 |
| 1995 | $ | 4.25 | $ | 4.25 |
| 1996 | $ | 4.75 | $ | 4.75 |
| 1997 | $ | 5.15 | $ | 5.15 |
| 1998 | $ | 5.75 | $ | 5.15 |
| 1999 | $ | 5.75 | $ | 5.15 |
| 2000 | $ | 5.75 | $ | 5.15 |
| 2001 | $ | 6.25 | $ | 5.15 |
| 2002 | $ | 6.75 | $ | 5.15 |
| 2003 | $ | 6.75 | $ | 5.15 |

*http://www.dir.ca.gov/IWC/MinimumWageHistory.htm
**http://usgovinfo.about.com/library/blminwage.htm



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## 2 - State Poverty Rates for 2004

| Poverty Rate by State (2004) | % |
|---|---|
| New Hampshire | 5.40 |
| Minnesota | 7.00 |
| Vermont | 7.90 |
| New Jersey | 8.00 |
| Hawaii | 8.40 |
| Delaware | 9.10 |
| Alaska | 9.20 |
| Massachusetts | 9.20 |
| Virginia | 9.30 |
| Nebraska | 9.40 |
| North Dakota | 9.70 |
| Maryland | 9.80 |
| Idaho | 9.90 |
| Utah | 9.90 |
| Wyoming | 9.90 |
| Colorado | 10.00 |
| Connecticut | 10.00 |
| Iowa | 10.80 |
| Oklahoma | 10.80 |
| Nevada | 10.90 |
| Pennsylvania | 11.30 |
| Kansas | 11.40 |
| Rhode Island | 11.50 |
| Washington | 11.50 |
| Florida | 11.60 |
| Indiana | 11.60 |
| Maine | 11.60 |
| Ohio | 11.60 |
| Oregon | 11.70 |
| Illinois | 12.20 |
| Missouri | 12.20 |
| Wisconsin | 12.30 |
| **Average** | **12.70** |
| Georgia | 13.10 |
| California | 13.30 |
| Michigan | 13.30 |
| South Dakota | 13.40 |
| Montana | 14.10 |
| West Virginia | 14.20 |
| Arizona | 14.40 |



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| | |
|---|---|
| North Carolina | 14.60 |
| South Carolina | 14.90 |
| New York | 15.00 |
| Arkansas | 15.10 |
| Tennessee | 15.90 |
| New Mexico | 16.50 |
| Texas | 16.50 |
| D.C. | 16.70 |
| Louisiana | 16.70 |
| Alabama | 16.90 |
| Kentucky | 17.70 |
| Mississippi | 18.60 |

*Source: U.S. Census Bureau*
*http://www.census.gov/hhes/www/poverty/histpov/hstpov21.html*



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### 3 - Country Ranking's in the World Health Report for the year 2000

The World Health Report- 2000

| Member State | Overall Health System Performance |
|---|---|
| Afghanistan | 173 |
| Albania | 55 |
| Algeria | 81 |
| Andorra | 4 |
| Angola | 181 |
| Antigua and Barbuda | 86 |
| Argentina | 75 |
| Armenia | 104 |
| Australia | 32 |
| Austria | 9 |
| Azerbaijan | 109 |
| Bahamas | 94 |
| Bahrain | 42 |
| Bangladesh | 88 |
| Barbados | 46 |
| Belarus | 72 |
| Belgium | 21 |
| Belize | 69 |
| Benin | 97 |
| Bhutan | 124 |
| Bolivia | 126 |
| Bosnia and Herzegovina | 90 |
| Botswana | 169 |
| Brazil | 125 |
| Brunei Darussalam | 40 |
| Bulgaria | 102 |
| Burkina Faso | 132 |
| Burundi | 143 |
| Cambodia | 174 |
| Cameroon | 164 |
| Canada | 30 |
| Cape Verde | 113 |
| Central African Republic | 189 |
| Chad | 178 |
| Chile | 33 |
| China | 144 |
| Colombia | 22 |
| Comoros | 118 |
| Congo | 66 |
| Cook Islands | 107 |



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| | |
|---|---|
| Costa Rica | 36 |
| Côte d'Ivoire | 137 |
| Croatia | 43 |
| Cuba | 39 |
| Cyprus | 24 |
| Czech Republic | 48 |
| People's Republic of Korea | 167 |
| Republic of the Congo | 188 |
| Denmark | 34 |
| Djibouti | 157 |
| Dominica | 35 |
| Dominican Republic | 51 |
| Ecuador | 111 |
| Egypt | 63 |
| El Salvador | 115 |
| Equatorial Guinea | 171 |
| Eritrea | 158 |
| Estonia | 77 |
| Ethiopia | 180 |
| Fiji | 96 |
| Finland | 31 |
| **France** | **1** |
| Gabon | 139 |
| Gambia | 146 |
| Georgia | 114 |
| Germany | 25 |
| Ghana | 135 |
| Greece | 14 |
| Grenada | 85 |
| Guatemala | 78 |
| Guinea | 161 |
| Guinea-Bissau | 176 |
| Guyana | 128 |
| Haiti | 138 |
| Honduras | 131 |
| Hungary | 66 |
| Iceland | 15 |
| India | 112 |
| Indonesia | 92 |
| Iran, Islamic Republic of | 93 |
| Iraq | 103 |
| Ireland | 19 |
| Israel | 28 |
| **Italy** | **2** |
| Jamaica | 53 |
| Japan | 10 |



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| | |
|---|---|
| Jordan | 83 |
| Kazakhstan | 64 |
| Kenya | 140 |
| Kiribati | 142 |
| Kuwait | 45 |
| Kyrgyzstan | 151 |
| Lao People's Republic | 165 |
| Latvia | 105 |
| Lebanon | 91 |
| Lesotho | 183 |
| Liberia | 186 |
| Libyan Arab Jamahiriya | 87 |
| Lithuania | 73 |
| Luxembourg | 16 |
| Madagascar | 159 |
| Malawi | 185 |
| Malaysia | 49 |
| Maldives | 147 |
| Mali | 163 |
| Malta | 5 |
| Marshall Islands | 141 |
| Mauritania | 162 |
| Mauritius | 84 |
| Mexico | 61 |
| Micronesia | 123 |
| Monaco | 13 |
| Mongolia | 145 |
| Morocco | 29 |
| Mozambique | 184 |
| Myanmar | 190 |
| Namibia | 168 |
| Nauru | 98 |
| Nepal | 150 |
| Netherlands | 17 |
| New Zealand | 41 |
| Nicaragua | 71 |
| Niger | 170 |
| Nigeria | 187 |
| Niue | 121 |
| Norway | 11 |
| Oman | 8 |
| Pakistan | 122 |
| Palau | 82 |
| Panama | 95 |
| Papua New Guinea | 148 |
| Paraguay | 57 |



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| | |
|---|---|
| Peru | 129 |
| Philippines | 60 |
| Poland | 50 |
| Portugal | 12 |
| Qatar | 44 |
| Republic of Korea | 58 |
| Republic of Moldova | 101 |
| Romania | 99 |
| Russian Federation | 130 |
| Rwanda | 172 |
| Saint Kitts and Nevis | 100 |
| Saint Lucia | 68 |
| St Vincent & the Grenadines | 74 |
| Samoa | 119 |
| San Marino | 3 |
| Sao Tome and Principe | 133 |
| Saudi Arabia | 26 |
| Senegal | 59 |
| Seychelles | 56 |
| Sierra Leone | 191 |
| Singapore | 6 |
| Slovakia | 62 |
| Slovenia | 38 |
| Solomon Islands | 80 |
| Somalia | 179 |
| South Africa | 175 |
| Spain | 7 |
| Sri Lanka | 76 |
| Sudan | 134 |
| Suriname | 110 |
| Swaziland | 177 |
| Sweden | 23 |
| Switzerland | 20 |
| Syrian Arab Republic | 108 |
| Tajikistan | 154 |
| Thailand | 47 |
| Macedonia | 89 |
| Togo | 152 |
| Tonga | 116 |
| Trinidad and Tobago | 67 |
| Tunisia | 52 |
| Turkey | 70 |
| Turkmenistan | 153 |
| Tuvalu | 136 |
| Uganda | 149 |
| Ukraine | 79 |



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| | |
|---|---|
| United Arab Emirates | 27 |
| United Kingdom | 18 |
| United Republic of Tanzania | 156 |
| **United States of America** | **37** |
| Uruguay | 65 |
| Uzbekistan | 117 |
| Vanuatu | 127 |
| Venezuela | 54 |
| Viet Nam | 160 |
| Yemen | 120 |
| Yugoslavia | 106 |
| Zambia | 182 |
| Zimbabwe | 155 |



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