

## Why Does California Have The Nation's Highest Poverty Rate?

*Forbes, by Chuck DeVore, Contributor, Sep 28, 2016 @ 06:59 p.m. (Opinions expressed by Forbes Contributors are their own.)*

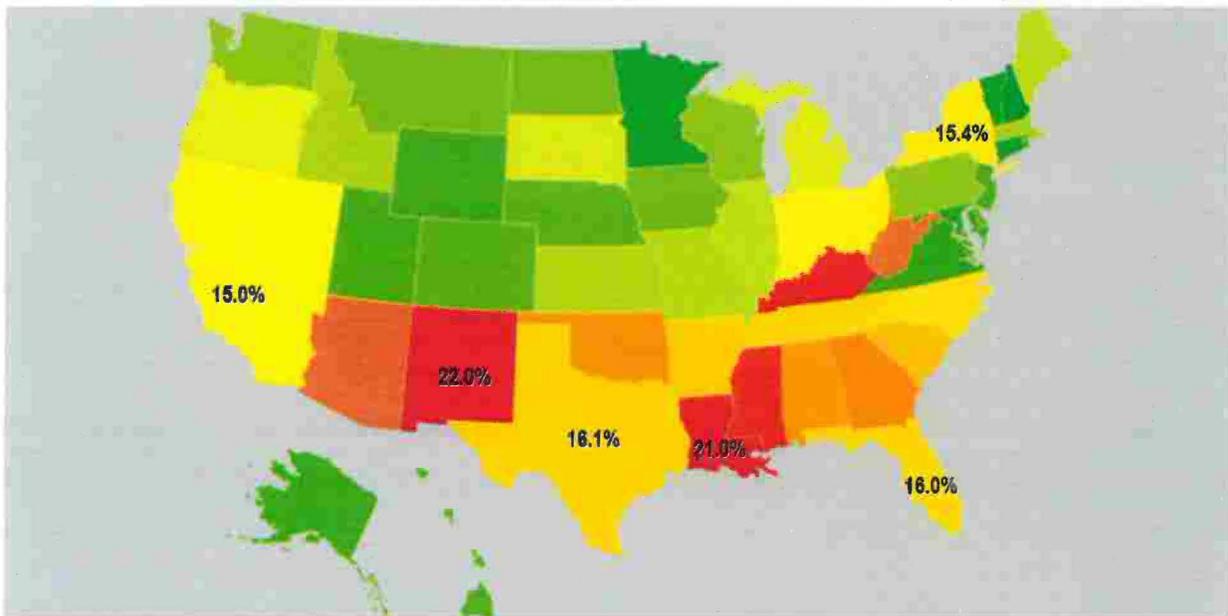
- California's true poverty rate is an eye-popping 20.6 percent—the highest in the nation.
- Proportionately, California's Supplemental poverty rate is 38 percent higher than Texas'—something that should be a source of embarrassment for the home of Hollywood, the Silicon Valley and the nation's highest marginal income tax rate.

As averaged from 2013 to 2015, California had America's 17<sup>th</sup>-highest poverty rate, 15 percent, according to the U.S. Census Bureau. But, by a newer, more comprehensive Census accounting, California's true poverty rate is an eye-popping 20.6 percent—the highest in the nation.

What poverty measure a politician or an organization uses can be very informative.

Because the Official Poverty Measure excludes the high cost of living on the coasts, it undercounts poverty in California and New York while exaggerating poverty throughout much of the South and Midwest. This leads to a gross misunderstanding of poverty, much of it willful, by those who advocate for higher taxes and more government spending.

U.S. CENSUS BUREAU OFFICIAL POVERTY MEASURE BY STATE USING 3-YEAR AVERAGE OVER 2013, 2014, AND 2015



THE OFFICIAL POVERTY MEASURE DOES NOT ACCOUNT FOR REGIONAL HOUSING COSTS OR NONCASH GOVERNMENT BENEFITS

*The Census Bureau's Official Poverty Measure doesn't account for the cost of housing.*

In fact, three factors, the cost of living, labor force participation, and demographics, together explain most of America's poverty rate at the state level.

The U.S. Census Bureau's Official Poverty Measure, more than a half-century old, is showing its age. Originally derived from a U.S. Department of Agriculture Household Food Consumption Survey in 1955, Census determines the yardstick poverty threshold by multiplying the subsistence food budget by three while only counting income and cash assistance. As a

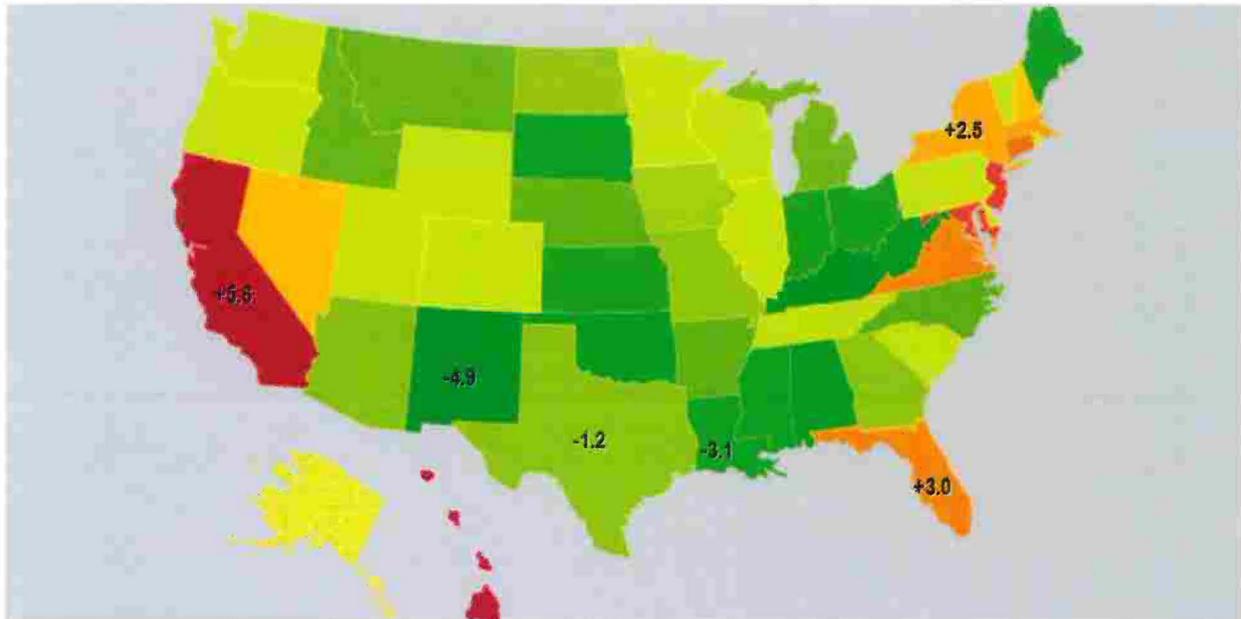
result, the official measure doesn't consider food assistance provided by the Supplemental Nutrition Assistance Program (SNAP—formerly known as Food Stamps) because it isn't technically cash, though it spends the same at a supermarket. It also doesn't include housing subsidies. Most importantly, the official poverty rate doesn't account for regional cost of living differences, most of which is determined by the price of housing.

Concerned about the lack of a regional cost of living poverty calculation, Congress called for a report in 1974. Ever since, the issue has been studied, with increasingly detailed reports showing that, in fact, the cost of living matters a lot to Americans' standard of living. For instance, according to one readily available cost of living calculator that uses Census data, for every dollar earned in Abilene, Texas, it takes \$1.51 to achieve the same standard of living in Los Angeles, California, a 51 percent difference. But, the official poverty threshold makes no account of this.

Changing the official poverty calculation to include regional living costs would be very difficult politically because only a handful of high-cost, mostly liberal states would benefit, while large swaths of Middle America would see a loss of federal dollars.

While it doesn't count in the granting of government assistance, five years ago the U.S. Census Bureau developed the Supplemental Poverty Measure to address many of the shortcomings in the long-used poverty measure. Census' latest Supplemental Poverty Measure report was issued on September 13.

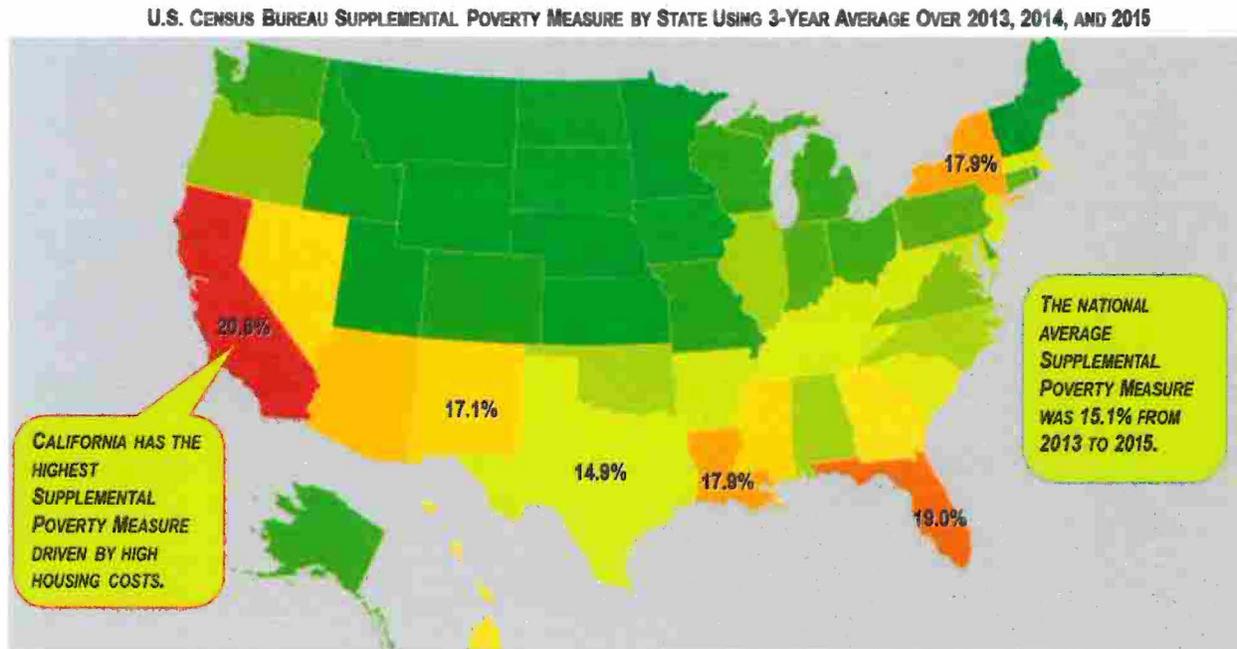
CHANGE IN THE POVERTY MEASURE WHEN SWITCHING FROM OFFICIAL TO SUPPLEMENTAL



**AMERICA'S POVERTY MAP CHANGES WHEN ACCOUNTING FOR THE COST OF HOUSING AND WHEN INCLUDING THE VALUE OF NONCASH ASSISTANCE**  
*The nation's poverty map changes significantly when using the newer Supplemental Poverty Measure.*

Unlike the traditional poverty calculation in use for 50-plus years, the U.S. Census Bureau's Supplemental Poverty Measure accounts for many of the costs incurred by poor families, such as rent, employment-related childcare expenses, and payroll taxes, but not food,

clothing, or other costs not directly related to employment. The Supplemental Poverty Measure also accounts for the value of noncash benefits, such as housing vouchers and food assistance. The nation's poverty map changes significantly between the Official and Supplemental measures, with poverty migrating from the low-cost South to high-cost California and New York.



AMONG THE STATES, CALIFORNIA HAS THE NATION'S HIGHEST SUPPLEMENTAL POVERTY MEASURE

*The Census Bureau's Supplemental Poverty Measure is a more comprehensive measure of poverty in America*

And, what makes California, New York, and other high-cost areas high cost? Mostly land-use restrictions that create artificial scarcity in the housing market by preventing builders from bringing the sorts of houses and apartments to market when and where people want them.

Lastly, a word on demographics. Demographers say that America will be a minority-majority nation by 2055. Today, four states are already there: California, Hawaii, New Mexico and Texas. Of these four states, Texas has by far the lowest Supplemental Poverty Measure, 14.9 percent. This compares to 16.8 percent in Hawaii, 17.1 percent in New Mexico, and 20.6 percent in California. Proportionately, California's Supplemental poverty rate is 38 percent higher than Texas'—something that should be a source of embarrassment for the home of Hollywood, the Silicon Valley and the nation's highest marginal income tax rate.

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