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Socioeconomic Status of American Indian Adults in Los Angeles

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**Author**

Ong, Paul M.

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# *Socioeconomic Status of American Indian Adults in Los Angeles*

**June 2004**

## **Introduction:**

This policy brief is part of a series on the socioeconomic status of American Indian and Alaska Natives (AIANs) in the Los Angeles metropolitan region, home to the largest urbanized AIAN population in the country. Within this region, AIANs constitute the fastest growing minority group. The problems facing this community have been documented elsewhere (Price 1969; Champagne et al. 1996; Ong and Houston 2002).

Previous policy briefs in this series presented the demographic and economic patterns and trends based on the 2000 Census, but those publications do not examine what shapes socioeconomic outcomes.

This brief presents findings on the factors that determine educational, employment, and housing outcomes for AIAN adults in the Los Angeles metropolitan area relative to outcomes for non-Hispanic whites (NHW). The analyses are based on individual-level data and econometric models to estimate the independent impacts of observable causal factors. The findings here are consistent with those reported in the previous briefs, although the reported statistics can differ because the briefs use different data sources. The major findings are:

- AIANs are significantly disadvantaged within the educational system.
- Lower education attainment is a barrier to employment and earnings.
- Lower educational attainment and lower income depress home ownership rates and home values.
- AIANs suffer from economic disadvantages that go beyond disparities in education, age, and family characteristics.

## **Determinants of Socioeconomic Status:**

It is far easier to list the litany of socioeconomic problems facing American Indians in Los Angeles than

to unravel the complex forces and societal structures generating the enormous inequality between AIANs and non-Hispanic whites. Much of the disparity is a legacy of the horrific treatment of American Indians and Alaska Natives, the systematic and institutionalized stripping of their physical, social, and cultural resources. The injustices are not just in the past, because contemporary institutions, including the labor and housing markets, are reinforcing and reproducing the inequality.

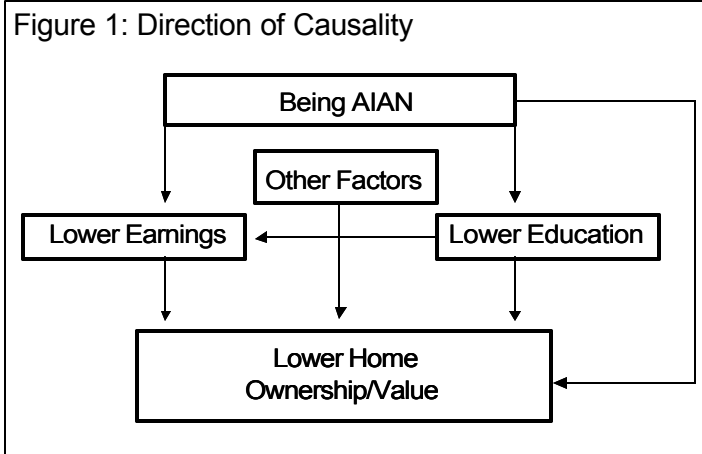
Figure 1 on the next page depicts the direction of causality of the major determinants of the contemporary socioeconomic status of AIANs. Employment outcomes are key to determining the standard of living for the vast majority of all Americans, and home ownership is the most important source of wealth accumulation for minorities.

In our society, economic opportunities are tied to educational attainment, which strongly influences people's ability to find employment and how much they earn. In economic terms, education is human capital, which also includes work experience. Educational attainment also influences the ability to purchase a home and its value, both indirectly through current earnings and directly because it affects access to loans.

There are, of course, other factors that influence socioeconomic status: gender, family situation, and availability of income from other sources. One additional determinant is the role of race. Clearly, race has an indirect impact because of racial disparities in educational attainment and other causal factors. However, race may affect outcomes even after accounting for differences in human capital and demographic characteristics. This is not surprising given the persistence of racial prejudice and institutionalized racism.

The challenge is estimating the independent contribution of the causal factors. This is done by applying statistical techniques developed and refined

Figure 1: Direction of Causality



by labor and housing economists. The results allow us to estimate the independent contribution of schooling and the impact of race after accounting for the other observable factors. The data and analytical methods are described in the appendix.

**Educational Attainment:**

AIANs suffer from low educational attainment because of a systemic failure of the educational system. The results of past practices can be seen among adults (ages 25 and older). In today’s technology-oriented economy, having a college education is key to economic success. Unfortunately, AIAN adults are only half as likely to have at least a bachelor’s degree as NHW adults. This disparity is compounded by the fact that AIAN adults are about two and a half times more likely to have less than a high school education. Those with such a low level of schooling have seen their wages depressed and unemployment increased because of global competition from low-wage developing countries. The low attainment level for AIAN adults is a product of the Bureau of Indian Affairs’ dismal education system as well as the public schools off the reservation.

The disparity in educational attainment is being reproduced in the younger generation. (See Table 1.) Among young adults (18-24 years old) AIANs are considerably less likely to be enrolled in an institution of higher education. Moreover, AIANs are disproportionately underrepresented in top ranked universities. This is due to being less prepared at the high-school level. Among older teens (16-19 years old), AIANs are two to three times more likely to be high-school dropouts. AIANs in high school are performing worse on standardized tests. Although there

are problems with standardized tests, including potential cultural biases, the scores are nonetheless useful for understanding the magnitude of the difference in educational performance in subject matters that will later determine economic opportunities. The average AIAN score is over twenty percentage points lower than that for NH whites. A part of the problem is a relatively low enrollment rate in more rigorous courses, as evident in the math courses in middle schools. In elementary schools, AIAN students are performing worse on standardized tests, with averages that are slightly less than twenty percentage points lower than those for NH whites. Finally, but certainly not the least important, is a relative lack of access to preschool programs among 3 and 4-year-old AIANs.

Taken together, the data show that the educational system has failed and is continuing to fail to adequately prepare AIANs to be competitive in today’s globalized and high-tech oriented economy.

**Employment and Earnings:**

Given the disparity in educational attainment, it is not surprising that AIANs are faring worse than NH whites in terms of employment and earnings. Differences in the amount of schooling, however, is not sufficient to explain the disadvantages experienced by American Indians and Alaska Natives.

The previous policy brief documented the lower labor-force participation rate for AIANs compared with NH whites. In particular, AIANs are two to three times more likely to be unemployed (not working but actively

	<b>AIAN</b>	<b>NH Whites</b>
<b>% w/ BA 25 years and older</b>	19%	38%
<b>College Enrollment (18-24)</b>	36%	49%
<b>High School Drop Out</b>	11%	4%
<b>High School (9<sup>th</sup>-11<sup>th</sup>)</b>		
Average Percentile Ranking–Language	41%	62%
Average Percentile Ranking–Math	41%	64%
<b>Middle School (8<sup>th</sup>-9<sup>th</sup>)</b>		
% Taking Advanced Math Exam	22%	34%
<b>Elementary School (2<sup>nd</sup>-5<sup>th</sup>)</b>		
Average Percentile Ranking–Language	42%	50%
Average Percentile Ranking–Math	61%	69%
<b>Preschool Enrollment</b>	50%	62%

seeking employment), and are less likely to be employed full-time and full year (35 hours or more per week for 50 weeks or more). Another way of defining whether an individual is economically active is to set a minimum earnings threshold of \$1,000 per year. While this is somewhat arbitrary, it is obvious that those who earn less than that amount can be reasonably considered as being marginally or completely unattached to the economy through paid work.

According to this measure, AIANs are considerably more likely to be economically inactive. (See first four bars in Figure 2.) Because of gender-based societal norms and behavior, the percent of women with \$1,000 or less in earnings is higher than the percent for men. In today's society, women are still more likely to be assigned to non-paid household and family duties. Within gender, there are racial differences in the rate of being not economically active. The rate is higher for AIAN women than for NHW women, but the gap is not huge in absolute or relative terms. The AIAN-NHW gap among males, however, is substantial. In a society where working for pay is the expected behavior for men, a disturbingly high number of AIAN males are outside that norm.

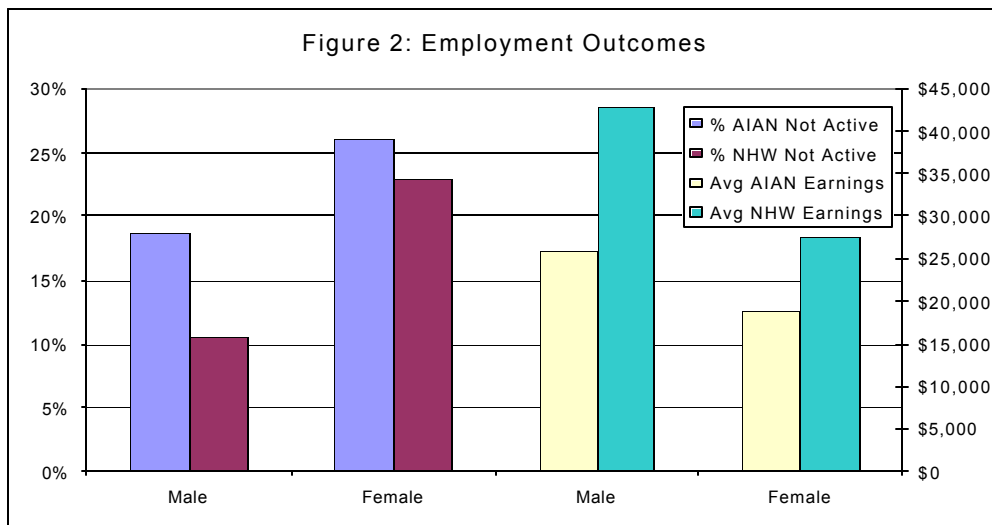
Among those active in the economy, there is a huge difference in the annual earnings for AIANs and NH whites, and this holds for both sexes. This can be seen in the last four bars in Figure 2, which reports the geometric means of annual earnings. (The geometric mean is used because earnings are not normally distributed.) Again, the gender gap is evident, with

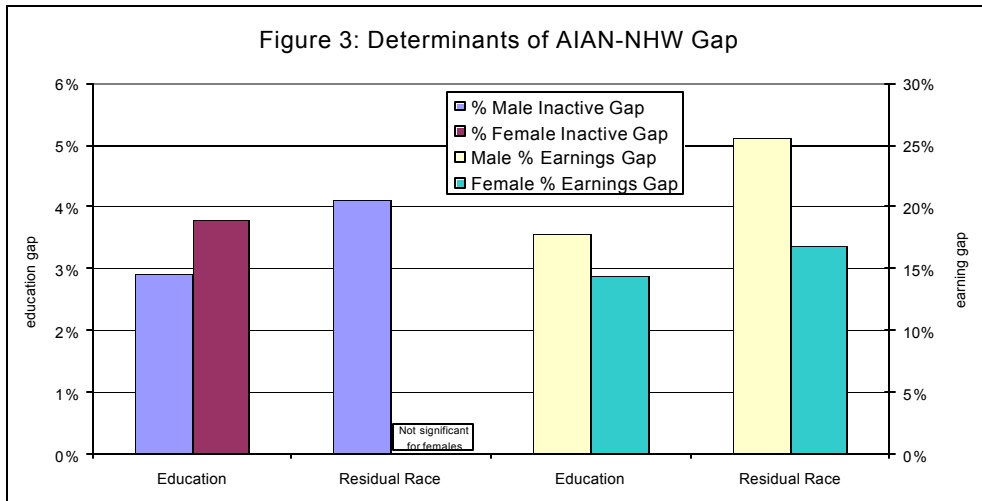
women earning less than men, roughly at the rate of 64 cents to every dollar earned by a man. There is also a racial gap within each gender. The average for AIAN women is nearly one-third lower than the average for NHW women. Among men, the gap is even larger, roughly two-fifths.

Education accounts for about a third to a half of the racial disparities in employment and earnings, with some notable variation by gender. Differences in schooling account for about 3 percentage points of the 8-percentage-point gap between the percent of AIAN males and the percent of NHW males not economically active. (See Figure 3.) Among females, lower educational attainment increases the AIAN percentage by about 4 percentage points, which is greater than the unadjusted difference of about 3 percentage points.

Disparities in schooling also contribute to the racial gap in annual earnings. Given their lower educational attainment, AIAN females earn about 14% less than NHW females, which accounts for nearly half of the total racial gap in earnings. Among males, educational differences lower AIAN earnings by about 16%, comprising two-fifths of the total gap.

Race remains a factor in employment and earnings disparities even after accounting for variations in factors that are normally associated with socioeconomic outcomes: schooling, potential years of labor market experience, family structure, and household income from other sources. The residual race effect accounts for about 4 percentage points of the gap between the percent of AIAN males and the percent of NHW males not economically active. This is larger than the impact





of lower educational attainment discussed above. Among females, there is no measurable residual race effect, indicating that gender is more salient than race when it comes to being excluded from paid work. There are also sizeable residual race effects in annual earnings, lowering AIAN earnings relative to NHW earnings by nearly 26% among males and by nearly 17% among females.

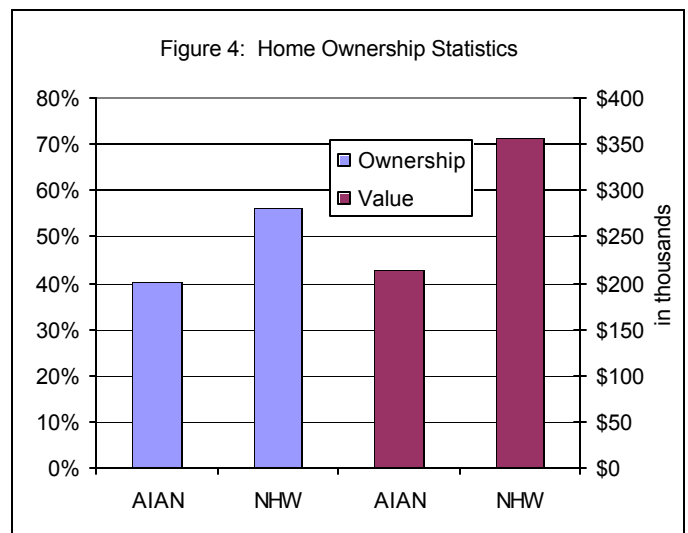
**Home Ownership and Value:**

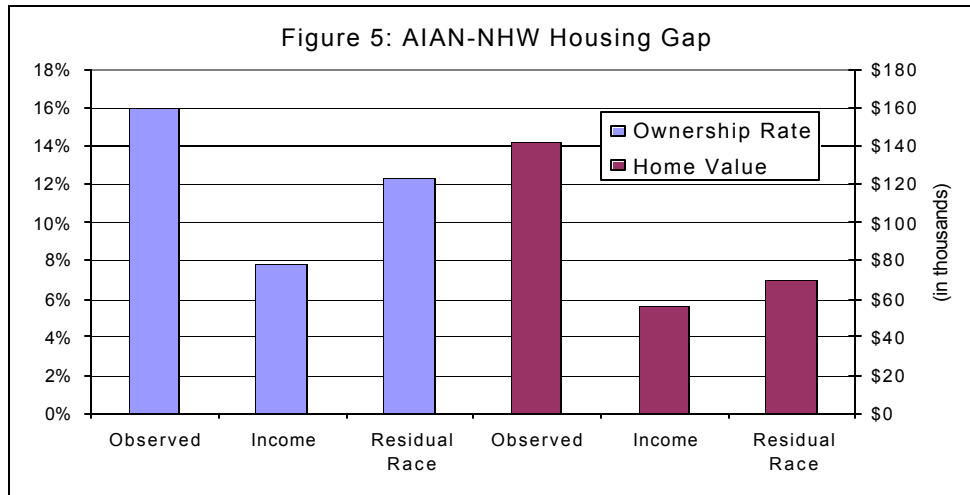
Poor earnings contribute to low wealth accumulation among American Indians and Alaska Natives, but other factors also contribute to this outcome. This can be seen in the findings for the analysis of home ownership and home values. As discussed earlier, a home is the major asset held by most households. The comparative statistics for AIAN and NHW households (defined by the race of the head of household) are summarized in Figure 4.

Compared with NHW households, AIAN households are considerably less likely to be home owners (40% versus 56%). Not only is the ownership rate lower, but so are the value of homes owned by AIANs. The average AIAN home is less than two-thirds of the average NHW home (\$214 thousand versus \$356 thousand). The statistics show that the total gross assets held by AIANs in the form of personal real estate are adversely affected by both the lower ownership rate and lower home values. For all households regardless of tenure, the average housing wealth for AIAN households is only two-fifths of that for NHW households. The disparity may be greater when equity (value of homes minus mortgage principle) is

considered, but unfortunately, there is no readily available data on equity by race.

AIANs fare worse in the housing market because they have poorer access to financial institutions. Figure 6 summarizes the analysis of home loans. Parity indices are used to compare AIANs and NH whites. A parity index of 1 indicates that the value for AIANs is the same as that for NH whites, which means that there is no racial disparity. An index less than 1 indicates that the value for AIANs is less than for NHWs, and an index of greater than 1 indicates the opposite. The first bar is based on the observed number of loan applications per hundred households, and the index indicates that AIAN application rates are about half of the NHW application rates. (For the study period, approximately 22 out of 100 NHW households applied for a home loan.) A part of this is due to differences in household income, but even after adjusting for this





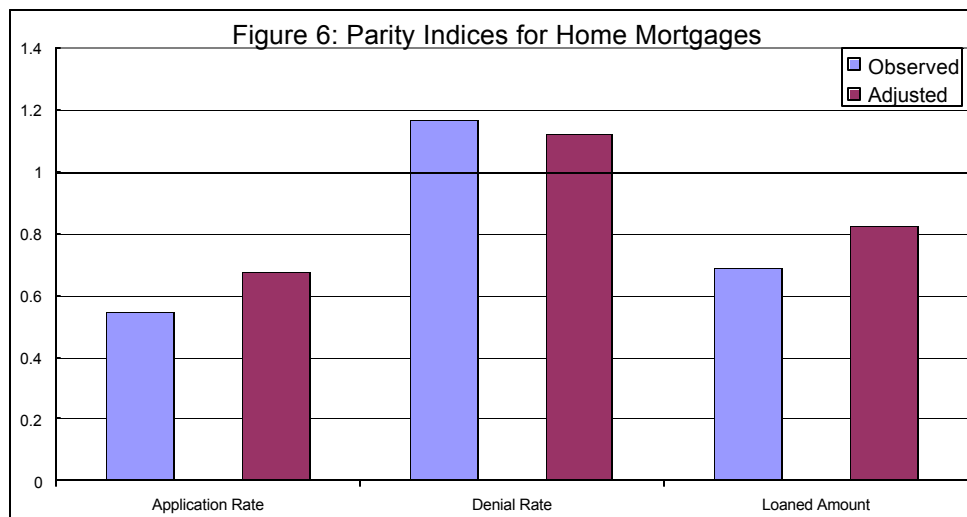
factor, AIAN households are less than three-quarters as likely to apply for home loans. AIAN applicants are slightly more likely to be denied. Roughly 11 out of 100 NHW applicants were denied. This holds even after accounting for observable factors (income, applicant’s gender, the amount requested, the presence of co-applicant). Finally, the amount lent to AIANs is only two-thirds of what is lent to NH whites. Accounting for the observable factors reduces but does not eliminate the disparity. The average AIAN loan is only four-fifths of that for the average NHW loan, *ceteris paribus*.

**Conclusion:**

The findings presented here, along with those in the previous policy briefs, document the nature and magnitude of the socioeconomic problems and barriers facing American Indians and Alaskan Natives in Los

Angeles. Today’s outcomes are the cumulative results of a history of racial oppression. While AIANs had inhabited this region long before the arrival of Europeans, Los Angeles experienced a significant in-migration starting in the mid-1950s, driven in large part to the Bureau of Indian Affairs’ Employment Assistance Program, which relocated American Indians from reservations to urban centers. One stated goal was to provide access to better employment opportunities. A half century later, the evidence shows only limited success. AIANs remain at the margins of the economy.

AIANs are systematically disadvantaged in multiple arenas – within the educational system, labor market and housing market. Schools have failed to prepare AIANs to be competitive in an increasingly globalized and technologically oriented



economy, and this failure contributes to low income and wealth. The significant residual racial effects (that is, the remaining disparities not explained by observable causes) indicate that other race-based factors exclude AIANs from the economic mainstream, including racial discrimination. Tragically, the evidence indicates that the marginalization of AIANs will be reproduced in the next generation.

The cycle of inequality across generations must be broken, and this requires ending this nation's shameful treatment and neglect of its indigenous people. AIAN problems and concerns should be at the top of the social and economic agenda. We as a society have an obligation to work through our government with AIANs to formulate policies and develop programs that improve their socioeconomic status.

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**Author:** Paul M. Ong

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**Appendix: Data Sources and Analytical Methods**

This policy brief draws from several data sources. Testing data on educational outcomes for public school students in Los Angeles County come from the California Department of Education's 2003 results for its STAR (Standardized Testing and Reporting) program. The Department uses a combined hybrid race and ethnic classification that includes the major single race groups plus Hispanic. The AIAN statistics are based on all AIAN students. The non-Hispanic white statistics are based on those for whites, which does not include data for those in the Hispanic category. The statistics on educational enrollment and educational attainment of adults come from aggregated data reported in the Summary Files for the 2000 Census. The reported aggregated statistics for AIANs are for those who are at least part AIAN but not those who are Latin American Indians. The aggregate statistics for NH whites are for single race whites not of Hispanic origins.

The analysis of employment and housing outcomes uses individual-level data from the Public Use Micro Samples (PUMS), which contain a 5% sample of the population. This data set contains detailed demographic, housing, and socioeconomic data obtained from the "long form" survey. The data set also contains matching information on families and households. The AIAN sample includes both single-race and multi-race AIANs born in the United States, and the NHW sample includes single-race non-Hispanic whites born in the United States. The samples are restricted to those between the ages of 18 to 64 (the prime working age range) and those not enrolled in school.

Logit regressions are used to model whether an individual is economically active, which is defined as having at least \$1,000 in earnings. The causal factors includes potential years of labor-market experience (and its squared value), years of schooling, having at least a bachelor's degree, having a disability, presence of younger children, presence of older children, household income other than personal earnings, and being AIAN. Separate regressions are estimated for each sex since societal norms and barriers affect males and females differently. OLS regressions are used to estimate a modified human-capital model for earnings, which is in log form, for those with at least \$1,000 in earnings. The independent variables are the same as

those for the logit regressions, and separate earnings regressions are also estimated for each sex.

The analyses of home ownership and home value are limited to the heads of household of prime working age and not in school. Logit regressions are used to model the dichotomous outcome of whether a person is a home owner. The causal factors include the person's earnings, other household income, age, gender, the size of the household, educational attainment by degree, and being AIAN. OLS regressions are used to estimate home values for home owners, and the same set of independent variables is used.

The analysis of access to home mortgages is based on analyzing records from HMDA (Home Mortgage Disclosure Act) for 1999, 2000, and 2001. That data set contains useful but limited information on applicants: the race and gender of the applicant, co-applicant, the amount requested, income, location of property, and application outcomes. The data set uses the hybrid single race categories plus Hispanic origins. The analysis uses all AIAN applicants and white applicants.

The parity index to measure overall access to home loans is based on the ratio of the number of loan applications to the households reported in the 2000 Census. Because HMDA uses single races only and the Census allows for one or more self-reported races, the number of AIAN households is defined as the number of single-race AIAN households plus one-half of the number of multi-race AIAN households. PUMS data are used to adjust the parity index for racial differences in the distribution of household income.

Logit regressions are used to model the dichotomous outcome of whether an application is denied. The causal factors include the income, gender, ratio of amount of the loan requested to income, year of application, and being AIAN. OLS regressions are used to estimate the amount of successful loans, and the same set of independent variables is used. To minimize problems with miscoding of data and extreme outliers, the multivariate models use a sample that excludes observations with extreme income or loan values, defined as the top and bottom 1% of the distributions. The analysis also excludes those with no reported income and those with ten million plus income.



# *The Socioeconomic Status of American Indian Adults in Los Angeles*

## **United American Indian Involvement, Inc. (UAI)**

The UAI is a non-profit 501(c)(3) organization that provides services to the Los Angeles American Indian Community. Its mission is to provide quality educational programs, primary health, mental health, housing, economic development and social services to American Indians residing in Los Angeles County in a manner that is sensitive and respectful to cultural, tribal and spiritual values. Activities include program development through community surveys and forums and provide emergency housing vouchers through a Community Services Block Grant from Los Angeles County. Services include medical, dental, optometry, and pharmaceutical as well as alcohol and other drug recovery treatment and prevention, mental health counseling.

Corrine R. Hicks, MPA  
United American Indian Involvement, Inc.  
1125 West Sixth Street, Suite 103  
Los Angeles, California 90017  
Phone: (213) 202-3970

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