

Good News: Native Hawaiians Prosper



Harry Messenheimer, PhD
Director of Research
Summer 2008
GRIH Study #1007

Summary

This paper examines the effects of demographics and earning power on those identifying themselves as Native Hawaiians¹. It finds that Native Hawaiians are as prosperous as everyone else, despite claims to the contrary from some in our community.

On their face, poverty statistics may seem to make claims of bad statistics for Natives plausible. For example, from the “2006 American Community Survey²” I estimate that within Hawai’i, Natives have a poverty rate of 12.2 percent while non-Natives have a poverty rate of 8.6 percent. But this result relies on a critical implicit assumption: either that the population of Native Hawaiians has roughly the same demographic characteristics as non-Natives or that differing demographic characteristics have no effect on rates of poverty.

But the demographic characteristics of the Native and non-Native populations are quite different, and they do affect poverty rates. Once that fact is recognized the seemingly bad statistics for Natives turn out not to be bad after all.

Specifically, the population of Natives has a much higher proportion of mostly non-income-earning youngsters than does the non-Native population, as well as fewer income earners to support them.

Moreover, the earning power of those Natives actually in their prime earning years is predicted to be lower for two reasons. First, they tend to be younger than their non-Native counterparts and thus don’t benefit from the increased earnings that experience begets. Second, and more importantly, they tend to have less formal schooling than their non-Native counterparts and thus don’t benefit from the increased earnings associated with higher levels of education. Predictions of earnings are well in line with observed earnings – Natives are as prosperous as non-Natives.

Unfortunately, some Natives are below the government poverty line just as are some non-Natives, but not more so than non-Natives once we account for demographics and compare predicted and actual earnings profiles.

Introduction

There is a widely shared perception today that Native Hawaiians are disproportionately impoverished. Here are examples from the claims of prominent, self-styled authorities on the matter:

¹ A “Native” as used herein is someone who has self-identified as being “Native Hawaiian,” either alone or in combination with another race or races, in response to the Census survey. A “non-Native” is someone who has not so self-identified.

² This is the Census Bureau’s most recent annual survey and it may be found online at http://factfinder.census.gov/home/saff/main.html?_lang=en. All estimates contained in this paper are based on data contained in this survey.

- The “Apology Resolution of 1993” asserts that “the long-range economic and social changes in Hawaii over the nineteenth and early twentieth centuries have been devastating to the population and to the health and well-being of the Hawaiian people.”³
- According to then Assistant Secretary of the Interior John Berry, subsequent to the Apology Resolution: “The statistics of today for the majority of Native Hawaiians are not good and they unfortunately parallel many of the problems facing the indigenous people of the continental United States.”⁴
- From a 2008 letter distributed by an OHA trustee to state lawmakers: “I could easily have been one of those statistics of those of our race; the majority of whom are in prison, on welfare, in public housing, uneducated, unskilled and homeless.”⁵

The paper begins by explaining demographic differences and why they matter. Then it applies the earnings investigations of leading labor economists to compare the earnings experience of Natives and non-Natives inside and outside of Hawai’i.

The effect of demographics on the calculation of poverty

The demographics of the Native Hawaiian population do not support the perception of disproportionately impoverished citizens. Because of age differences a much larger proportion of Natives relative to non-Natives earn no income, and the proportion of those in their prime income-earning years is smaller for Natives. More non-income-earning people to support combined with fewer income-earners to support them implies a higher proportion of those qualified as being in poverty⁶ as we detail in what follows.

Proportions of the population earning no income in Hawai’i:

As you can see from the following table, the Native population contains roughly 16 percentage points more of youngsters who earn nearly no income than does the non-Native population. Put differently, the Native population contains over 80 percent more non-earners than does the non-Native population. Here are the proportions:

**Proportion of Population Earning Mostly
no Income**

	Non-natives	Natives
Under 5 years	5.7%	11.1%
5 to 17 years	14.1%	24.7%
Totals	19.8%	35.8%

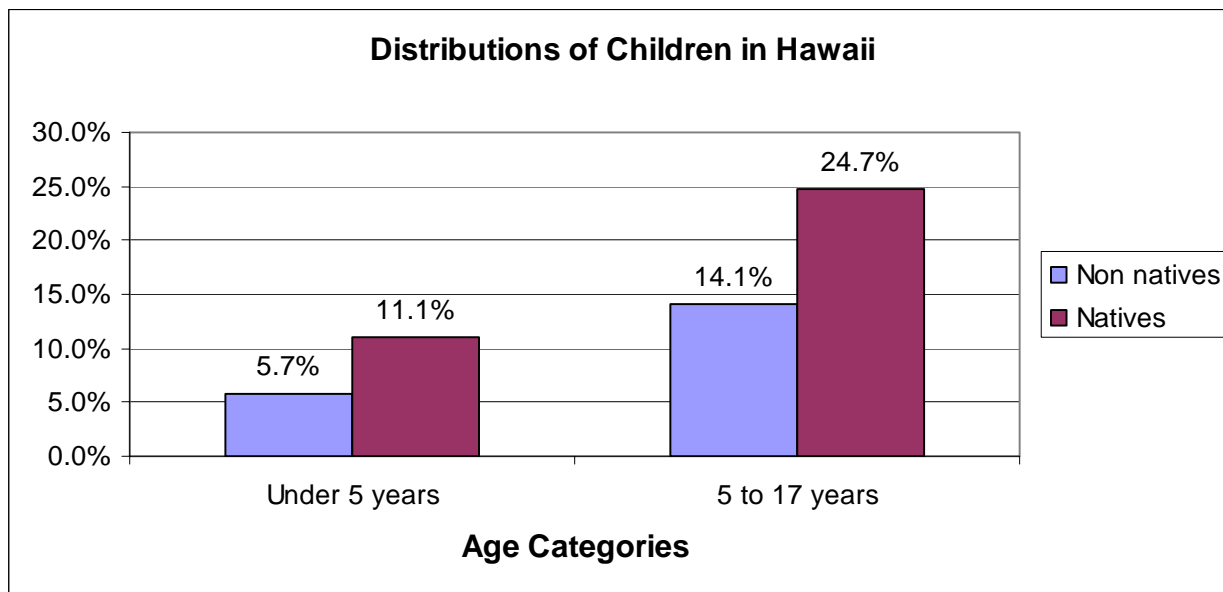
³ Quoting one of the whereas statements in the Apology Resolution

⁴ Speech at Iolani Palace Bandstand in December 1999.

⁵ OHA Trustee Oswald Stender in letter distributed to Hawai’i state lawmakers at the capitol on January 18, 2008.

⁶ This follows from the arithmetic rules that determine who is under or over the poverty line. The specific rules for poverty calculation by the Census Bureau may be found at <http://www.census.gov/hhes/www/poverty/definitions.html>.

You can visualize the difference between Native and non-Natives in the following chart:



A larger proportion of non-income-earning youngsters⁷ among Natives implies a much higher rate of poverty for them compared to non-Natives. In addition, those identifying themselves as Native Hawaiians have a much higher proportion of births to single mothers⁸ than do non-Natives, thus further inflating the government-calculated rate of poverty for Natives.

Proportions of the population in their prime income earning years:

Moreover, fewer Natives (57.3%) are in their prime earning years compared to non-Natives (64.3%), and that misleadingly implies a higher rate of poverty among Natives. Here is the breakdown of income earners by age category:

Proportion of Population in Income Earning Years

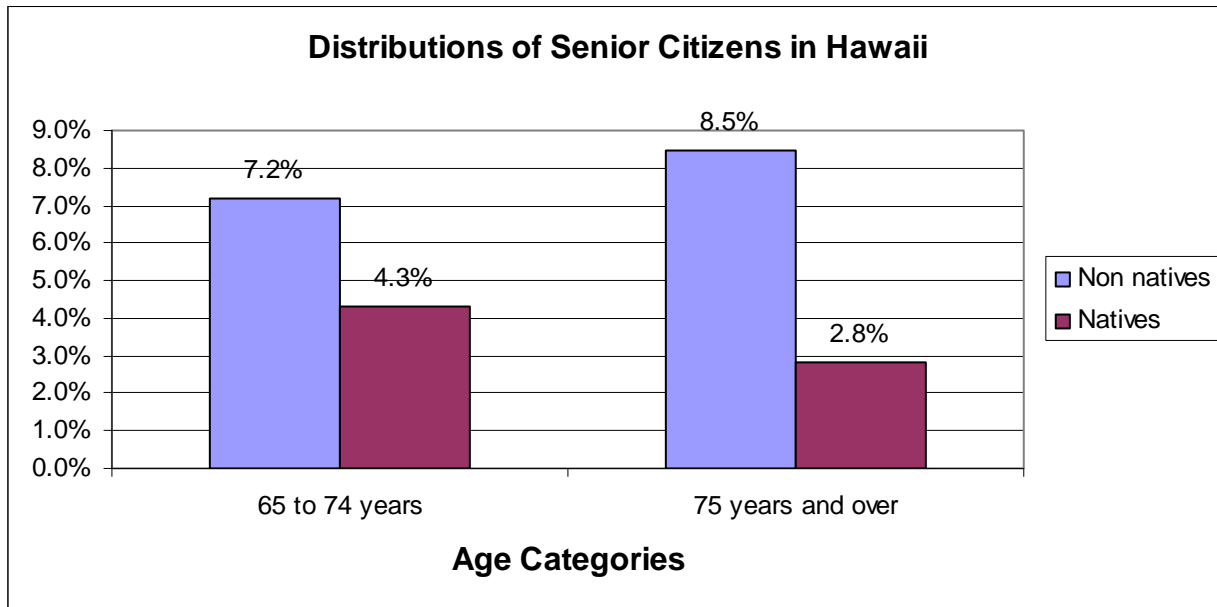
Age Group	Non-Natives	Natives
18 to 24 years	9.4%	10.8%
25 to 34 years	13.4%	14.7%
35 to 44 years	14.5%	12.7%
45 to 54 years	14.9%	11.5%
55 to 64 years	12.1%	7.6%
Total	64.3%	57.3%

⁷ The 2006 snapshot of the population cannot tell us why the Native Hawaiian population tends to be younger. It appears likely that increasing intermarriage, combined with the first opportunity in the 2000 census for people to actually identify themselves as part Native Hawaiian, would lead to that result. I thank Jim Growney for alerting me to this.

⁸ For example, according to OHA’s “2006 Databook” births to single mothers in 2004 were 3,548 for Natives and 2,745 for non-Natives while births to married mothers were 1,481 for Natives and 10,465 for non-Natives. See <http://www.oha.org/pdf/databook/2006/DataBook2006Demographics.pdf> the data source.

We can summarize why we expect much higher Native poverty rates because of demographics. Within Hawai'i Natives have a poverty rate of 12.2 percent while non-Natives have a poverty rate of 8.6 percent – Natives' poverty rate is over 42 percent higher than that of non-Natives. *But among Natives there are 80 percent more youth (earning practically no income) and 11 percent fewer adults in their prime income earning years to support them.* Even without assessing earning differences between the two groups, we have already accounted for most of the higher, government-calculated poverty rate among Natives.

Before moving on to assess earning differences, however, consider the effect senior citizens may have on rates of poverty. Native senior citizens have a 10.1 percent rate of poverty, and non-Native senior citizens have a 9.0 percent rate. But the proportion of non-Natives who are senior citizens is much higher than Natives (15.6 percent to 7.1 percent). Here is the picture:



Compare that to the distribution of senior citizens on the mainland. There we find that senior citizens constitute only 12.4 percent of the non-Native population, some 20.7 percent lower than in Hawai'i. Assuming that a large percentage of that differential have moved to Hawai'i for retirement and thus do not qualify for poverty status, then the Natives are certainly doing no worse among senior citizens than are non-Natives (and Natives may even be doing better!). For that reason I am comfortable setting senior citizens aside (as I have done above) for the purpose of comparing sources of government-calculated rates of poverty among Natives and non-Natives.

So far we have assessed government-calculated rates of poverty while ignoring income-earning differences between Natives and non-Natives. Are there differences as asserted by the “Natives are downtrodden” crowd? If so, is there any evidence that the differences are “devastating” to Natives?

What determines earnings?

Investigations by leading labor economists have found that lifetime earnings tend to increase with increased experience (albeit at a decreasing rate) and education.⁹ The combination of *experience* and *education* is known as the worker's "investment in human capital." The greater the worker's investment in human capital, the greater her earnings. See, for example, the following tables of weekly earnings for men in the U.S. in 2000 (age is indicative of experience):¹⁰

Average Weekly Earnings in 2000

Ages	Men
16-24	\$ 409
25-34	\$ 745
35-44	\$ 1,016
45-54	\$ 1,137
55-64	\$ 1,115

Education	Men
< 8years	\$ 498
1-3 yrs high school	\$ 551
4 yrs high school	\$ 668
1-3 yrs college	\$ 838
4 yrs+ of college	\$ 1,453

Economists have estimated the *simultaneous effects* of experience and education on lifetime earnings, and we can apply those estimates to the earnings experience of Natives and non-Natives in Hawai'i. We can also apply those estimates to the earnings experiences of Natives and non-Natives on the mainland and to the earnings experiences of Natives in Hawai'i and Natives on the mainland.

The applied estimates are from Polachek's summary¹¹ of the "Mincer Earnings Function" for earnings in the U.S. from 1986 to 2006. A worker's earnings tend to increase from nine to 13 percent for each year of schooling. A worker's earnings also tend to increase with experience but at a decreasing rate.¹²

The earnings estimates below are not precise, due to potential econometric misestimates and sampling error, and are therefore given in predicted ranges. A heuristic examination of these sources suggests that the estimates contained throughout this paper may have an error of one to

⁹ A good summary of the issues, history and methods of estimating earnings may be found in Polachek, Solomon W., *Earnings of the Lifecycle: The Mincer Earnings Function and Its Applications*, Discussion Paper No. 3181, Nov. 2007, Institute for the Study of Labor. It may be found online at <http://repec.iza.org/RePEc/Discussionpaper/dp3181.pdf>.

¹⁰ *Ibid*, p. 80

¹¹ *Ibid*, p. 84

¹² The increase is in the range of seven to nine percent for each year of experience less two-tenths of one percent times total years of experience. Years of experience equals age minus six minus years of schooling (since a worker in school is not in the workforce and therefore not gaining on the job experience).

two percentage points in either direction beyond the bounds estimated herein. Econometric estimates of the effects of experience and schooling have been quite stable over time. In addition, the 2006 sample from which the estimates are derived is quite similar to 2005 and earlier samples.

Earnings comparison of Natives to non-Natives in Hawai'i

Non-Natives tend to be better educated than Natives in Hawai'i as documented from the 2006 survey in the following table:

Hawai'i

Age>24	Non-Natives	Natives
Less than high school diploma	11.0%	10.9%
High school graduate (includes equivalency)	26.3%	46.1%
Some college or associate's degree	30.1%	28.7%
Bachelor's degree	21.7%	10.4%
Graduate or professional degree	10.9%	3.9%

Overall, non-Natives average 0.9 years of schooling more than Natives.¹³ That translates to a predicted earnings profile from schooling for non-Natives that is some eight to 12 percent higher than for Natives in Hawai'i.

Non-Natives tend to have slightly more experience than Natives in Hawai'i as documented in the following table:

Proportion of Working Age Population by Age Group as Indicator of Experience

Age Group	Non Natives	Natives
18 to 24 years	14.6%	18.8%
25 to 34 years	20.9%	25.7%
35 to 44 years	22.5%	22.2%
45 to 54 years	23.1%	20.1%
55 to 64 years	18.8%	13.3%
Average age	40.8	38.1

¹³ Since Natives are generally younger, they have been unable yet to catch up with the older non-Natives. Education takes time. To the extent that (even adjusting for age) they might indeed be less educated, there are plausible explanations: It may be because of their free choice (the Apology Resolution's asserted cultural traits of "self-sufficiency," traditional agricultural methods, fishing and subsistence practices do not require much formal education), it may be because Hawai'i's poor primary and secondary education system does not prepare them for education beyond high school, and/or it may be because they flee to the mainland where more economic freedom begets improved opportunities. Notice that on the mainland they tend to be slightly better educated on average than non-Natives (see next section).

Overall, non-Natives average 2.1 years of experience more than Natives. But the predicted effect of additional experience for non-Natives will be small because of the decreasing rate by which experience increases earnings in the later years. In this case the predicted additional earnings for non-Natives would be less than one-half of one percent.

The combined effects of schooling and experience give us a predicted range of eight to 12 and one-half percent more earnings for non-Natives in Hawai'i. How does this compare to what we actually observe in 2006? Here is the estimate of actual earnings from the 2006 survey:

Median earnings (dollars) full-time, year-round workers:	Non-Natives	Natives	Percentage Difference favoring Non-Natives
Male	\$ 42,129	\$ 40,259	4.6%
Female	\$ 34,415	\$ 30,872	11.5%
Average ¹³	\$ 38,881	\$ 36,071	7.8%

Notice that the actual difference by which earnings of non-Natives exceed earnings of Natives is at the lower end of the predicted range. That means Natives are doing at least as well as predicted by theory and evidence. They are certainly not downtrodden in Hawai'i.

Earnings comparison of Natives to non-Natives on the mainland¹⁵

Non-Natives tend to be a little less educated than Natives on the mainland as documented from the 2006 survey in the following table:

Mainland	Non-Natives	Natives
Less than high school diploma	15.9%	10.7%
High school graduate (includes equivalency)	30.2%	30.2%
Some college or associate's degree	26.9%	37.6%
Bachelor's degree	17.1%	14.8%
Graduate or professional degree	9.9%	6.7%

Overall, non-Natives average 0.02 years of schooling less than Natives. That translates to a predicted earnings profile from schooling for non-Natives that is two to three-tenths of one percent lower than for Natives on the mainland.

¹⁴ Average is weighted by the number of workers in each group.

¹⁵ "On the mainland" includes all of the U.S. except for Hawai'i.

Non-Natives tend to have slightly more experience than Natives on the mainland as documented in the following table:

Mainland	Non-Natives	Natives
18 to 24 years	15.7%	19.9%
25 to 34 years	21.1%	24.2%
35 to 44 years	23.3%	24.8%
45 to 54 years	23.0%	19.5%
55 to 64 years	16.8%	11.7%

Overall, non-Natives average 1.9 years of experience more than Natives. But the predicted effect of additional experience for non-Natives will be small because of the decreasing rate by which experience increases earnings in the later years. In this case the predicted additional earnings for non-Natives would be less than one-half of one percent.

The combined effects of schooling and experience give us a predicted range of zero to one-half of one percent more earnings for non-Natives on the mainland. How does this compare to what we actually observe in 2006? Here is the estimate of actual earnings from the 2006 survey:

Median earnings (dollars) full-time, year-round workers:	Non-Natives	Natives	Percentage Difference favoring Non-Natives
Male	\$ 42,213	\$ 40,884	3.2%
Female	\$ 32,642	\$ 34,382	-5.1%
Average ¹⁵	\$ 38,331	\$ 37,845	1.3%

Notice that the actual difference by which earnings of non-Natives exceed earnings of Natives is a little higher than the predicted range. But it is well within tolerance of the precision of the econometric estimates of earnings and the 2006 survey estimates, so that Natives are doing at least as well as predicted by theory and evidence. In the continental United States, as in Hawaii, Native Hawaiians are performing similarly to their non-Native peers.

Earnings comparison of Natives in Hawai'i to Natives on the mainland

Natives on the mainland tend to be better educated than Natives in Hawai'i as documented from the 2006 survey in the following table:

¹⁶ Average is weighted by the number of workers in each group.

Education

	Hawai'i Natives	Mainland Natives
Less than high school diploma	10.9%	10.7%
High school graduate (includes equivalency)	46.1%	30.2%
Some college or associate's degree	28.7%	37.6%
Bachelor's degree	10.4%	14.8%
Graduate or professional degree	3.9%	6.7%

Overall, Natives on the mainland average 0.54 years of schooling more than Natives in Hawai'i. That translates to a predicted earnings profile from schooling for Natives on the mainland that is five to seven percent higher than Natives in Hawai'i.

Natives on the mainland tend to have slightly less experience than Natives in Hawai'i as documented in the following table:

	Hawai'i Natives	Mainland Natives
18 to 24 years	18.8%	19.9%
25 to 34 years	25.7%	24.2%
35 to 44 years	22.2%	24.8%
45 to 54 years	20.1%	19.5%
55 to 64 years	13.3%	11.7%

Overall, Natives on the mainland average 0.26 years of experience less than Natives in Hawai'i. But the predicted effect of less experience for Natives on the mainland will be small because of the decreasing rate by which experience increases earnings in the later years. In this case the predicted smaller earnings for Natives on the mainland would be close to zero.

The combined effects of schooling and experience give us a predicted range of five to seven percent more earnings for Natives on the mainland than for Natives in Hawai'i. How does this

compare to what we actually observe in 2006? Here is the estimate of actual earnings from the 2006 survey:

Median earnings (dollars) full-time, year-round workers:	Hawaii Natives	Mainland Natives	Percentage Difference favoring Mainland Natives
Male	\$ 40,259	\$ 40,884	1.6%
Female	\$ 30,872	\$ 34,382	11.4%
Average ¹⁶	\$ 36,071	\$ 37,845	4.9%

Notice that the actual differential of earnings by which non-Natives on the mainland exceed Natives in Hawai'i is at the lower end of the predicted range. That means that neither set of Natives appears to be less prosperous compared to each other or anyone else. Natives are as industrious as everyone else. Whether in Hawai'i or on the mainland, they prosper in one of the globe's most prosperous countries during the most prosperous time in human history.

Conclusion

Contrary to the picture painted by many policymakers and activists, Native Hawaiians are prospering—both in Hawai'i and on the mainland. Specifically, it is important to consider the following:

- Poverty statistics for Native Hawaiians are inflated because of the group's higher proportion of non-income-earning youngsters and lower proportion of adults in their prime income-earning years, when compared to the non-Native population.
- After adjusting for age and education differences, Native Hawaiians in Hawai'i earn at least as much as predicted by theory and evidence.
- Similarly, Native Hawaiians on the mainland earn at least as much as predicted after adjusting for age and education differences.
- Native Hawaiians, both in Hawai'i and on the mainland, exhibit expected earnings compared to each other as well as to non-Natives.

Put together, these findings indicate that Native Hawaiians report similar earnings as non-Natives of the same age and education levels. Rather than emphasizing racially-defined differences that simply don't exist, lawmakers should enact policies that enhance the productivity and prosperity of all of Hawai'i's people—Natives and non-Natives alike.

¹⁷ Average is weighted by the number of workers in each group.



Published by the Grassroot Institute of Hawaii © All rights reserved
1314 S King Street, Honolulu, Hawaii 96814 (808)591-9193
www.grassrootinstitute.org

If you would like to join the Grassroot Institute of Hawaii, please visit
our web site.