The Heritage Foundation

SPECIAL REPORT

No. 176 | APRIL 5, 2017

Big Government Policies that Hurt the Poor and How to Address Them

Edited by Daren Bakst and Patrick Tyrrell

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SR-176

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This paper, in its entirety, can be found at:
http://report.heritage.org/sr176

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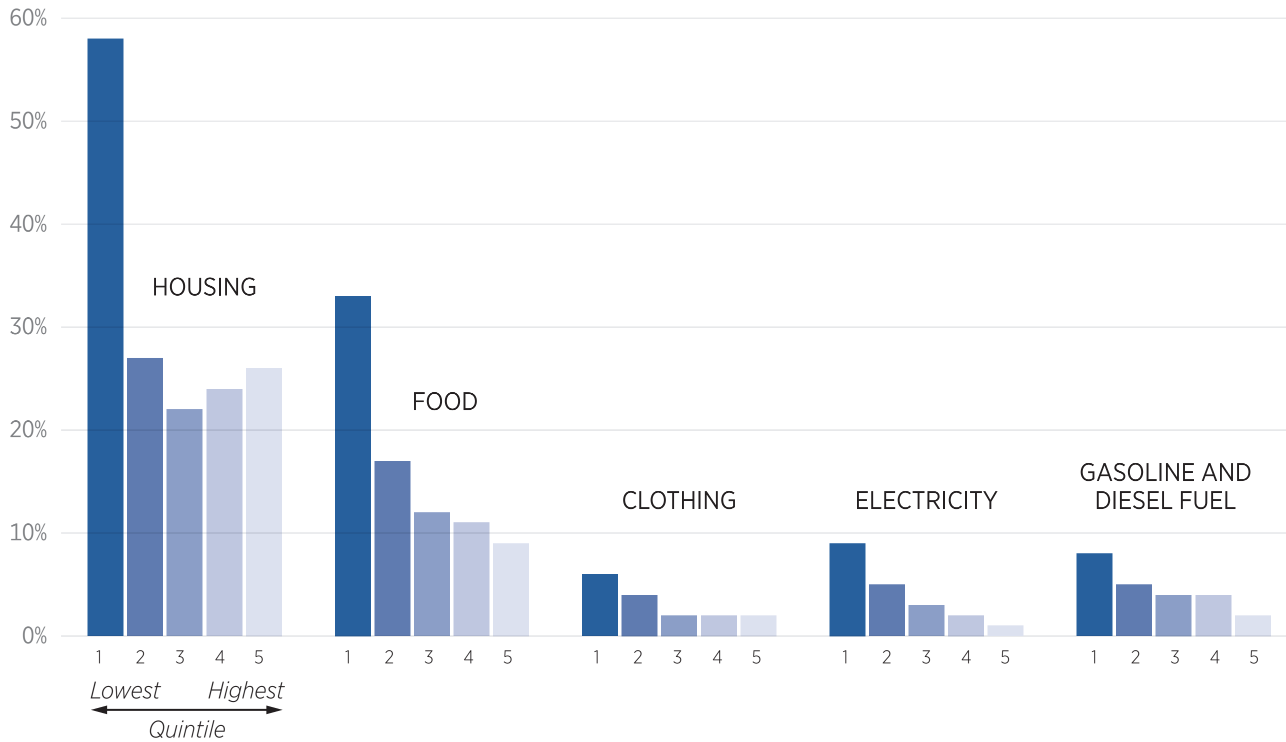
Concern for the poor is often equated with expanding government programs. In other words, expanding government is frequently seen as good for those in need, and limiting government is often portrayed as hurting them. The reality is that, in many cases, government policy can make it more difficult for those striving to make ends meet. This *Special Report* identifies nearly two dozen big government policies that particularly hurt the poor. These policies, at the local, state, and federal levels, are just the tip of the iceberg. The report does not address the harms imposed by the distorted incentives of the current welfare system, which discourages work and self-sufficiency, or cover some critical areas, such as education and health care policy. This *Special Report* covers many other issues, with a particular emphasis on the harmful impact of economic regulation on poorer Americans.

There are some common threads that run throughout most of the identified policies. A significant number are classic examples of cronyism; it is quite illuminating how government policies supposedly designed to protect vulnerable workers or consumers wind up, in reality, helping dominant producers or politically favored special interests. Many of the policies drive up consumer prices, such as for food and energy, which disproportionately hurt the poor. (See Chart 1 analyzing low-income household expenditure patterns.) There are also numerous policies that create artificial and unnecessary obstacles for the poor when it comes to obtaining the jobs that could lift them out of poverty.

All Americans should have the opportunity to get ahead, and opportunities abound in the U.S. market economy when it is allowed to function freely. If the government would just get out of the way by curtailing cronyism, eliminating unnecessary regulations, and eliminating other government interventions that needlessly drive up prices, those in need would have a better chance to succeed.

CHART 1

Household Spending as a Percentage of After-Tax Income by Quintile of Income, 2015



NOTES: Data for "Clothing" comes from the Consumer Expenditure Survey (CE) category "Apparel and Services" with figures from "Other Apparel Products and Services" subtracted. Housing data is the sum of figures from CE categories "Mortgage Interest and Charges," "Property Taxes," "Rented Dwellings," and "Change in Mortgage Principal (Owned Home)." Electricity is the amount paid directly on electricity bills. "Gasoline and Diesel Fuel" is the amount reported to the BLS spent on "Gasoline," "Diesel Fuel," and "Gasoline on Out-of-Town Trips." The category "Rented Dwellings" sometimes includes utilities or miscellaneous expenditures besides rent that can be included in a survey respondent's rent payment; similarly, the category "Electricity" does not include the cost of electricity if it is included in a respondent's rent payment. For more information, see U.S. Bureau of Labor Statistics, *Focus on Prices and Spending: Consumer Expenditure Survey*, Vol. 1, No. 12 (November 2010), p. 3, https://www.bls.gov/opub/btn/archive/household-energy-spending-two-surveys-compared.pdf (accessed March 17, 2017). The term "Household" is synonymous with the BLS definition of "Consumer Unit."

SOURCES: U.S. Bureau of Labor Statistics, "Table 1101. Quintiles of income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation, Consumer Expenditure Survey, 2015," https://www.bls.gov/cex/2015/combined/quintile.pdf (accessed January 24, 2017). Additional data for Table 1101 were pulled from categories "Gasoline," "Diesel Fuel," "Gasoline on Out-of-Town Trips," and "Change in Mortgage Principal (Owned Home)," which were provided by the BLS upon request.

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I. Energy and Environmental Policy

Energy policy has real-world implications for all Americans, but particularly for those living in low-income communities. Policies and regulations that distort market prices and drive costs higher disproportionately affect poorer families, forcing them to make difficult choices between energy (e.g., electricity, gasoline) and other necessities. Allocating more money to energy bills adversely affects not just their wealth but also their health. According to the 2011 National Energy Assistance Survey, a poll of low-income families, 24 percent went without food for a day, and 37 percent decided to forego medical and dental coverage, in order to pay higher energy bills. Nearly one in five had a family member who became sick due to the home being too cold.[1] Americans with after-tax incomes of less than $30,000 spend 23 percent of their budgets on energy, compared to just 7 percent for those earning more than $50,000, according to a report by the American Coalition for Clean Coal Electricity.[2] But energy policies affect more than the direct consumption of electricity and transportation fuel. Energy is an essential input for almost every good and service that Americans consume. Consequently, government policies that increase energy prices result in higher prices for food, health care, education, clothing, and almost every aspect of everyday life. Through a number of policies and regulations, be it restricted access to energy resources, subsidies, mandates, or regulations, the federal government has distorted the true market price that consumers should be paying for energy.

Climate Change Regulations. Throughout his tenure in office, President Barack Obama made it one of his top policy priorities to combat manmade global warming. Although legislation to cap greenhouse-gas emissions ultimately died in Congress, the Obama Administration empowered the Environmental Protection Agency (EPA) to regulate greenhouse-gas emissions from a variety of sources, most prominently by regulating carbon dioxide (CO_2) emissions from new and existing power plants.

If allowed to stand, the New Source Performance Standards for new electricity-generating units would effectively prohibit the construction of new coal-fired power plants, and the regulations for existing plants, the Clean Power Plan, would force states to re-engineer their respective energy mix to meet state-specific reduction targets.[3] Additionally, the government promulgated regulations to reduce greenhouse-gas emissions from light and heavy-duty vehicles.[4] The EPA also developed regulations for another greenhouse gas, methane, for oil and natural gas production, transportation, and storage.[5]

Cumulatively, these regulations, if unchecked, will drive energy prices substantially higher. A Heritage Foundation analysis found that, as a result of the Obama Administration's climate policies, household electricity expenditures could increase between 13 percent and 20 percent, hitting America's poorest households hardest.[6]

Regardless of what one believes about the nature of global warming, the climate return on these regulations, if any, is negligible. The same climate sensitivity modeling as used by the EPA shows that completely eliminating all CO_2 emissions from the U.S. would moderate any warming by a mere 0.137 degrees Celsius by 2100. If the entire industrialized world completely eliminated all CO_2 emissions, only 0.278 degrees Celsius of warming would be averted by the end of the century.[7]

The Trump Administration has a number of tools for undoing the Obama Administration's global warming regulations, including encouraging Congress to pass legislation under the Congressional Review Act, ceasing work on regulations in limbo, and commencing the rulemaking process to undo finalized regulations. The Trump Administration should use all of these tools.

Energy-Efficiency Regulations for Appliances. The Energy Policy and Conservation Act of 1975 authorizes the Department of Energy (DOE) to regulate the energy and water-use efficiency for 19 original categories of consumer and commercial appliances, which are to be reviewed at least every six years.[8] The list of covered products by the DOE has since grown to 60, including products like refrigerators, air conditioners, furnaces, televisions, showerheads, ovens, toilets, and light bulbs.[9] These regulations prioritize efficiency over other preferences that customers and businesses might have—such as safety, size, durability, and cost. Customers and businesses might have such preferences even at the loss of some reduced efficiency. While there are a number of problems with the government mandating energy conservation (such as cronyism and dubious environmental benefits), appliance efficiency regulations are likely to have a bigger negative impact on middle-income and low-income families, and likely to have more benefits for upper-income families.

The efficiency regulations claim to save consumers money over time, but increase the up-front costs for appliances. The up-front costs of a more expensive light-bulb or appliance may not acutely impact a wealthy or middle-income family's budget, but the real-world implications of regulations that increase energy costs and take choices away are nothing to dismiss, especially for the poor who could be disproportionately and severely affected through these higher up-front costs.[10]

Part of the reason why low-income families disproportionally bear the burden of efficiency regulations is the unrealistic way that the DOE calculates the costs and benefits. The DOE's analysis of energy-efficiency costs and benefits are far too static and monochromatic.[11] As the DOE currently evaluates them, the costs and benefits of its energy-efficiency regulations do not reflect actual consumer behavior, but best describe the benefits to households making $160,844 or more (those that can absorb higher costs up-front in anticipation of future savings).[12]

In reality, energy-efficiency costs and benefits vary widely depending on income, education, and race. If the DOE is wrong about how Americans make purchasing decisions, then energy-efficiency regulations are reducing choices and burdening low-income Americans with billions of dollars in costs.[13] Congress should realize that Americans do not need government mandates, rebate programs, or spending initiatives to make businesses and homes more energy efficient. If Americans want to buy energy-efficient products, they can choose to make those purchases. The federal government should not presume it knows better than individuals and families what will best meet their needs. Congress should eliminate these energy-conservation mandates and subsidies.[14]

Fuel-Efficiency Mandates and Tier 3 Gas Regulations. The EPA regulates the options available to American drivers, from the cars they buy to the fuel they can use, through Corporate Average Fuel Economy (CAFE) standards for vehicles and Tier 3 gasoline standards addressing tailpipe emissions.

As required by Congress, the U.S. Department of Transportation and the EPA recently finalized new fuel-efficiency standards for cars and light-duty trucks that will require an average fuel economy of 54.5 miles per gallon (mpg) for 2025 model year vehicles.[15] Much like efficiency standards for appliances, CAFE standards increase the prices for new vehicles. The Obama Administration's stringent standards will cost consumers thousands of dollars per new vehicle; if the EPA freezes future targets, the agency could save future new car purchasers up to $3,400 for model year 2025.[16]

The EPA also set new standards on gasoline (Tier 3 gasoline standards) to lower sulfur and other tailpipe emissions from gasoline starting in 2017, with smaller companies required to comply by 2020.[17] Industry estimates that this new standard could raise the cost of formulating gasoline by six cents to nine cents per gallon.[18] For this additional cost to Americans, the EPA promises no meaningful environmental benefits. Previous standards (Tier 2) already cut tailpipe emissions by 77 percent to 90 percent, and sulfur reductions by 90 percent.[19] Emissions of the six major air pollutants that the EPA regulates have dropped 63 percent nationally since 1980.[20] These regulations hit all drivers hard, particularly those in traditional blue collar jobs, such as in the trucking industry. As companies must either absorb the costs of regulations or try to pass them along to customers, large companies can more easily comply with the regulations, while smaller businesses struggle to comply. The poor once again bear a disproportionate burden due to the higher costs that will be passed on to consumers as a result of reformulated gasoline.[21]

Ozone. Ground-level ozone (not to be confused with the ozone layer) is the primary component in smog and one of six major pollutants regulated by the EPA under the Clean Air Act. National average ozone levels have fallen 32 percent since 1980.[22] The EPA again tightened the ozone standard in October 2015; this new standard is currently being challenged in the D.C. Circuit Court of Appeals.[23] The EPA took this action despite many regions still working to meet the 1997 and 2008 standards.

The ozone standard has become increasingly controversial as it has become more expensive to meet tighter standards with smaller margins of tangible benefits. The EPA is now in the position of effectively setting American *economic* policy as it sets *environmental* policy, enjoying nearly unfettered power to set ozone standards and, indirectly with it, economic activity and land use.[24] This has restricted opportunity and increased compliance costs, which are passed on to Americans, affecting the poor the most.

Many areas are in violation of the standard not because of more pollution but because of more stringent standards. Perhaps most oppressive are requirements for non-attaining regions to offset ozone-creating emissions from new or expanding businesses with cuts in emissions elsewhere. Offsets turn economic growth into a zero-sum game and force investment away from non-attaining areas by making it harder to attract or expand new business.[25] If increased regulation does not achieve significant health benefits, it makes little sense to weigh down economic opportunity with it.

Unreasonable standards have also taxed local and state governments, diverting resources from meeting the needs of the poor. The National League of Cities, the National Association of Counties, and the National Association of Regional Councils urged the EPA to delay new standards because of the "financial and administrative burdens on local government" to implement the transportation-related requirements alone.[26] Texas spent $50 million in air-quality research to develop regulatory strategies for meeting the ozone standard.[27] In order to come into compliance with the 1997 and 2008 standards, the state required more expensive, allegedly cleaner diesel (the Texas Low Emission Diesel (TxLED) program) to be sold in certain regions, and created the Texas Emissions Reduction Program, costing Texans $1 billion in the form of a new-car-title fee to pay for retrofitted and replacement engines, trucks, and construction equipment.[28]

Renewable Fuel Standard. The Energy Policy Act of 2005 first mandated that renewable fuels be mixed into America's gasoline supply, primarily by using corn-based ethanol. The 2007 Energy Independence and Security Act increased the quotas significantly. A total of 36 billion gallons of ethanol must be blended into the nation's fuel supply by the year 2022.[29] The program does *not* end after 2022; the EPA has authority to set yearly targets beyond 2022.[30] The issue is not the use of biofuels but the unintended consequences created by policies that mandate the use of one fuel over another. Evidence indicates that certain biofuels are cost competitive with traditional fuels and make a useful addition to gasoline.[31]

However, the mandate forces higher levels of use than the market would otherwise bear.[32] The result is higher food and fuel prices. Ethanol's energy content is only two-thirds the energy content of petroleum-based gasoline.[33] The higher the ethanol content, the worse a car's gas mileage, and the more drivers have to spend to go the same distance. The federal government's biofuel policy[34] has also diverted corn and soybeans used for food and feed to fuel to meet the artificially increased demand for these crops mandated by the renewable fuel standard (RFS). This increases the cost of corn, soybeans, and feedstocks, as well as overall food prices.

While the magnitude of the mandate's impact on corn prices may not be certain, the direction is clear: The RFS has increased demand for corn and, consequently, has increased prices. According to separate analyses by University of California–Davis economists and a Heritage Foundation economist, the mandate accounts for an increase in corn prices of 30 percent or even as much as 68 percent, respectively.[35] Though other factors, such as weather, global markets, and changing food preferences are at work in the price of corn, the RFS has certainly contributed to increased prices[36] and disproportionately hurts the poor through high food and fuel prices. Congress should repeal the RFS and allow the market to best meet transportation fuel demand.

Tennessee Valley Authority. Congress created the Tennessee Valley Authority (TVA) in 1933 as part of the New Deal to provide affordable electricity and stimulate economic development in Tennessee and the eight surrounding states.[37] The TVA is a government-backed corporation that operates like a private company but has a presidentially appointed board and congressionally approved budget. This arrangement shields the TVA from scrutiny from both the private sector and the government, with egregious results.

For example, the TVA has borrowing authority with the U.S. Department of Treasury at rates subsidized by federal taxpayers. This has encouraged the TVA to take on tens of billions of dollars in debt throughout its history, backed by an implicit guarantee of repayment by the federal government. Neither does the TVA have to compete for or defend its use of capital to shareholders. Lack of accountability has unsurprisingly led to costly decisions, environmental damage, high overhead costs, and growing liability for all federal taxpayers.[38]

Ironically, counter to its original purpose of providing affordable electricity to an economically depressed region, the TVA does not sell the cheapest electricity in the region and in recent history had some of the highest rates in the Tennessee Valley. It has had a 78 percent rate increase over the past 20 years, larger than any other state in the region save Kentucky.[39] This is despite a roughly 10 percent to 15 percent competitive advantage over other utilities due to the favorable government policies that the TVA enjoys.[40]

States also do not benefit from the TVA, with the result of fewer resources for state and local programs that could be directed to the poor. The TVA is exempt from local, state, and federal taxes in lieu of a 5 percent payment from revenues to states.

The inefficiencies created by protection from market forces are harming energy users, and, disproportionately low-income users, particularly in Tennessee where the TVA is the only electricity provider. As shown in Chart 1, the lowest-income households bear the brunt of higher electricity bills—averaging 8.9 percent of their after-tax income spent on electricity in 2015 compared to 2.4 percent for all households, and 1.4 percent for the top 20 percent of households.[41] Without reform, the problems created by favorable government treatment will only grow worse. Congress should sell the TVA's assets via a competitive auction that honors existing contracts and continues service for existing customers.

II. Food and Agricultural Policy

Food helps to meet a basic human need. Government intervention in food and agricultural policy makes it more difficult for the poor to meet this need because such intervention drives up food prices. In some instances, the higher food prices are not an unintended consequence, but the entire purpose of the government intervention.

As shown in Chart 1, high food prices have a disproportionate impact on low-income households. The lowest-income households spend a greater share of their after-tax income on food (33.0 percent) than other households, including the highest-income households (8.7 percent). These policies are often the result of cronyism at the expense of the poor, or arrogant government officials deciding that they should dictate or influence individual dietary choices. Ironically, many of the same individuals who want to expand government food assistance are simultaneously advancing policies that make food less affordable for those they ostensibly seek to help. Ultimately, these harmful and often egregious policies need to be eliminated.

Federal Sugar Program. The federal government tries to limit the supply of sugar that is sold in the United States. This federal sugar program uses price supports, marketing allotments that limit how much sugar processors can sell each year, and import restrictions that reduce the amount of imports. As a result of government attempts to limit the supply of sugar, the price of American sugar is consistently higher than world prices; domestic prices have been as high as double that of world prices.[42] This big government policy may benefit the small number of sugar growers and harvesters, but it does so at the expense of sugar-using industries and consumers. An International Trade Administration report found that "[f]or each sugar-growing and harvesting job saved through high U.S. sugar prices, nearly three confectionery manufacturing jobs are lost."[43]

The program is also a hidden tax on consumers. Recent studies have found that the program costs consumers as much as $3.7 billion a year.[44] Such a program has a disproportionate impact on the poor because a greater share of their income goes to food purchases compared to individuals at higher income levels.

The most egregious aspect of this program is that the artificially high prices are not an unintended consequence of the program, but the inevitable result of intentionally restricting supply. The poor suffer from these artificially high prices; sugar is used in many products, including staple products, such as bread. Congress needs to eliminate this egregious program; simply by removing this harmful government intervention, food will become more affordable to the poor.

Fruit and Vegetable Marketing Orders. The Agricultural Marketing Agreement Act of 1937 authorized fruit and vegetable marketing orders. These relics of the New Deal are initiated by industry, enforced by the U.S. Department of Agriculture (USDA), and are binding upon the entire industry in the covered geographic area, regardless of whether an individual agricultural producer has supported the marketing order. These orders are effectively government-sanctioned cartels. These orders attempt to create stable markets for certain commodities.[45] Among other things, they authorize research and promotion of commodities, establish minimum quality standards, and sometimes limit supply through volume controls.

While there are many problems with marketing orders, the most egregious aspect of these big government policies is the volume controls. These controls allow representatives from a specific industry to intentionally limit the supply of commodities, thereby driving up food prices and disproportionately harming the poor.

The absurdity of volume controls in marketing orders has received significant attention of late. In 2015, the U.S. Supreme Court dealt with the raisin marketing order, specifically the federal government's authority to fine raisin growers who did not hand over part of their crop to the government. Fortunately, the court held that forcing growers to turn over their raisins was a taking of private property requiring just compensation.

Recently, the federal government limited the supply of tart-cherry growers. In July 2016, a Michigan tart-cherry farmer posted a photo on Facebook showing piles of his wasted cherries that were to rot on the ground. He said 14 percent of his cherries would be wasted due to the Department of Agriculture's tart-cherry marketing order that limits the supply of tart cherries. Such waste is not unique: In 2009, a reported 30 million tart cherries rotted on the ground. In that year, an astonishing 65 percent share of the tart-cherry market was restricted.[46]

There are currently about 28 marketing orders. Ten marketing orders have authorized volume controls, but only two of them are active: for tart cherries and spearmint oil.[47]

The small number of volume controls certainly shows that they are outdated and unnecessary. However, just because the number of volume controls is small does not mean new ones will not be added. Those marketing orders with authorized volume controls could quickly have active controls again. For example, supply restrictions under the raisin marketing order are currently not active, but still authorized.

Congress should prohibit volume controls in marketing orders. This will allow farmers to grow and sell legal products as they see fit. These supply restrictions might benefit some within a specific industry, but they come at the expense of those in the industry who do not want to be subjected to such restrictions. They also come at the expense of consumers, especially the poor, who are directly harmed by artificially high food prices.

USDA Catfish Inspection Program. The Food and Drug Administration (FDA) inspects seafood for safety. The 2008 farm bill, however, included a provision[48] that would move catfish inspection from the FDA to the USDA. This move was not in response to a catfish-safety crisis. The FDA and Centers for Disease Control and Prevention consider commercially raised catfish to be a low-risk food.[49] The Government Accountability Office (GAO) has said that such a switch to the USDA will not improve safety.[50] Instead, this provision is a textbook example of cronyism and trade protectionism in order to help a very small interest group (domestic catfish producers) at the expense of everyone else, including the poor.[51]

The USDA issued a final rule[52] implementing the program in December 2015, but full enforcement will not occur until September 2017.[53] As a result of this program, the USDA inspects catfish, and the FDA inspects all other seafood. This creates duplication because seafood processing facilities that process both catfish and any other seafood will have to deal with two different types of seafood regulatory schemes, instead of just one.[54]

Moving catfish inspection to the USDA requires foreign countries to develop new catfish inspection schemes that are the regulatory equivalent[55] of the more burdensome USDA system. If they do not meet the USDA's requirements, foreign exporters from various countries that currently supply the United States with catfish will be blocked from selling their catfish in the U.S. Some countries may not even bother to go through the regulatory equivalence process.

Domestic catfish producers certainly might benefit from less competition, but they will do so at the expense of consumers. Reduced supply of catfish will drive up its prices, which disproportionately hurts the poor.[56] The program risks trade retaliation from other countries, who would likely win any lawsuits against the United States before the World Trade Organization since this program is an unjustified non-tariff trade barrier to protect domestic catfish producers.[57] This trade retaliation would likely focus on other agricultural interests, such as meat packers and soybean farmers.

There is significant opposition to the USDA catfish inspection program. The GAO has repeatedly been critical of the program.[58] President Obama called for eliminating the USDA catfish inspection program in his FY 2014 budget.[59] In May 2016, the Senate, in a bipartisan manner, passed legislation[60] that would have effectively eliminated the program. In the House, a bipartisan group of 220 members went on record[61] asking House leadership to take up the Senate bill (House leadership failed to do so).

This program needs to be eliminated, and there is wide bipartisan agreement to do so. If it is eliminated, Congress will be addressing cronyism and helping the poor by no longer artificially increasing the price of this food.

Soda Taxes. In 2014, voters in Berkeley, California, approved a tax on sugar-sweetened beverages (a "soda tax").[62] Since then, other localities, such as San Francisco, have passed similar measures.[63] In June 2016, the Philadelphia city council (not the voters) passed a soda tax.[64] These soda taxes cover a variety of sugar-sweetened beverages, from sodas to certain fruit-juice drinks. In Philadelphia, the tax even covers diet soda.[65]

These taxes, allegedly intended to reduce obesity, are intentionally designed to drive up the prices of sugar-sweetened beverages, thereby reducing consumption. While the taxes are on distributors and not at the point of sale, these taxes, if they are to reduce consumption, would need to be passed on to consumers. As Philadelphia residents have recently experienced, these taxes are in fact passed on to consumers.[66] These taxes can also cause serious sticker shock; the cost of the Philadelphia tax itself in some cases is not much lower than the pre-tax cost of the beverages themselves.[67]

These higher food prices have a disproportionate impact on the poor.[68] Lower-income individuals are also more likely to drink the covered beverages than individuals at higher income levels.[69]

In addition to being an attack on the poor, these taxes are an attack on individual freedom. People are perfectly capable of making personal dietary decisions and do not need the government to dictate or influence what they purchase.

Sugar-sweetened beverages, from sodas to juice drinks, are legal and safe products that do not necessarily lead to negative health outcomes. Dietary decisions are a highly complex and individual matter. Someone who drinks sugar-sweetened beverages regularly may have a much healthier diet overall than someone who does not drink them. Isolating and punishing the purchase of specific products is both arbitrary and pointless.

Ironically—but logically—if people are incentivized to drink less soda, they may make up for the sugar intake through other sources (such as beer[70]), which could be even higher in sugar or calories, or unhealthy in other ways. City residents can also simply buy their desired sugar-sweetened beverages outside the city.[71]

Municipalities should not go down this dangerous path of trying to socially engineer the personal dietary decisions of their citizens, and they should not develop a policy, such as a soda tax, that will disproportionately hurt the poor.

III. International Trade and Economics

The freedom to trade has many economic benefits, not merely for domestic exporters, but also for consumers who, through imports, get more choices and less-expensive goods. When this freedom to trade is undermined through government intervention, often as a result of cronyism, consumers suffer as a result.

Government intervention takes the form of tariffs and non-tariff trade barriers (such as unnecessary regulations), which drive up consumer prices. These harmful policies impact numerous goods, including basic necessities such as food, clothing, and gasoline.

While this *Special Report* focuses on the poor in the U.S., this section includes an example of a harmful policy that hurts the poor in other nations (International Monetary Fund bailouts). Bad domestic policy can have repercussions not only on the poor in the U.S., but in other countries as well.

International Monetary Fund Bailouts. The International Monetary Fund (IMF) was established after World War II to enhance stable, private-sector-led global economic growth through trade and investment—and the biggest group to benefit from that growth has been the world's poor. Too often, however, economists at the IMF have bailed out the governments of developing countries whose politicians ran up huge debts to achieve short-term and self-serving political objectives. The biggest losers from those financial crises? The poor.

The world's poor lose, not once but twice. First, they lose when governments borrow money from global markets to buy their votes via ineffective and often corruptly administered social welfare programs. Second, they lose again when those countries cannot repay their debts, are ejected from world credit markets, and seek bailouts from the IMF.

Aggressive IMF lending programs began after the first oil shock in the early 1970s, and ramped up through subsequent economic crises. Although conditions were tied to the loans—requiring adoption of fiscally conservative and sustainable economic policies—IMF bureaucrats were frequently undercut. As eminent Carnegie-Mellon economics professor Allen Meltzer has pointed out, cynical officials in the borrowing governments knew that IMF international civil servants could be pressured into making unwise loans.[72]

The struggle between fiscal conservatives and Keynesian expansionists at the IMF continues, most recently in a skirmish over the 2010 IMF "reform package" that ended U.S. veto power over tens of billions of American taxpayer dollars set aside for extreme emergencies.

In approving the IMF reform package in 2015, Congress demanded that the IMF reinstate its "Exceptional Access Framework" rule[73] to prohibit new IMF lending to countries with unsustainable debt and no realistic plan to get out of it. It was the abandonment of that rule in 2010, at the beginning of the Greek debt crisis, which cleared the way for morally hazardous loans that bailed out big European banks but left Greece even further in debt and still in need of debt restructuring and fundamental economic and political reforms.[74]

Heritage Foundation co-founder Edwin Feulner explains that moral hazard precisely:

> IMF bailouts are more likely to cause financial crises than prevent or cure them. Bailouts send signals to governments that they will not have to bear the costs of failing to reform their economies: The IMF will be there to pay the price of their inaction. Thus, the IMF's actions will neither prevent nor cure financial crises—they will encourage them.[75]

The highly subsidized interest rates on IMF bailouts and structural adjustment loans provide massive subsidies to borrowing countries, and lead developing countries to economic stagnation and recession, fostering dependence on more foreign aid. At latest count, 39 of the IMF's 189 member countries had loans from the IMF.[76] That means that, contrary to assertions by some of its defenders, the IMF has not been functioning as a lender of last resort. Instead, it has often been acting as a lender of first resort. In the process, the IMF has in some cases *increased* political instability by bailing out and thus preserving the power of ruling elites.

Going forward, then, it is doubly important for the IMF to ensure that countries do not make the first mistake (borrowing money without a sustainable way to pay it back) and that the IMF does not make the second mistake (bailing them out, time after time). The way to do that will be for the IMF to stick to the rules-based "Framework" approach, which the Trump Administration and the 115th U.S. Congress should insist be strengthened and expanded.

The market is far more effective in enforcing conditions, promoting reform, and minimizing the risk of a crisis spreading in the near term or far into the future. Promotion of market-based policies, and rules-based lending, should become the IMF's default setting for policy advice to all IMF member countries. This will help promote economic growth and reduce the chances that future IMF lending hurts the poor.

Import Restraints on Food and Clothing. Import restraints, such as import tariffs on food and clothing in the U.S., impose a large financial burden on the poor by driving up prices. Americans paid a 20 percent import tariff on some dairy products in 2016,[77] a whopping 131.8 percent import tariff on certain peanut products,[78] and up to a 35 percent import tariff on canned tuna.[79]

A 2013 report by the International Trade Commission estimated annual welfare benefits from liberalization of import restraints for various sectors, including food. Liberalization of import restraints would benefit U.S. consumers annually by an average of $50 million for cheese, $277 million for sugar, and $8 million for tuna between 2012 and 2017.[80]

Tariffs on imported clothing were 8.9 times as high as those on imported goods overall in 2015.[81] Such restraints on imports are a hidden tax hitting the poor's pocketbooks each month.

Import restraints on food and clothing are regressive in nature. As shown in Chart 1, a greater share of income from low-income households goes to food and clothing than from higher-income households. In 2015, those in the bottom 20 percent of income spent 33 percent of their after-tax income on food. This compares to 11.6 percent for all consumers and 8.7 percent for those at the highest income level.[82] The lowest-income households spent 6.8 percent of their after-tax income on clothing in 2015. This compares to 3.1 percent for all consumers and 2.8 percent for the highest-income households.[83]

It is not merely imported goods that are affected. Import restraints on imported goods also raise the price of domestically produced goods because import prices do not reflect demand. The poorest Americans are hit the hardest. They have to spend more for food and clothing, and every dollar that is spent as a result of these import restraints means that they cannot use that money to buy something else they need. By removing these import restraints, Congress would significantly help individuals at all income levels, especially the poor.

Jones Act. The Merchant Marine Act of 1920, commonly known as the Jones Act, requires the use of domestically built ships when transporting goods between U.S. ports. The ships must also be U.S.-owned and mostly U.S.-crewed. According to the Department of Homeland Security:

> American shipping in the United States coastwise trade has been protected from foreign competition, in order to encourage the development of an American merchant marine, for both national defense and commercial purposes. As a result, all vessels engaged in the coastwise trade have been required to be American-built and American-owned.... The coastwise laws are highly protectionist provisions that are intended to create a "coastwise monopoly" in order to protect and develop the American merchant marine, shipbuilding, etc.[84]

As explained in a previous Heritage Foundation report, the Jones Act

> drives up shipping costs, increases energy costs, stifles competition, and hampers innovation in the U.S. shipping industry. Originally enacted to sustain the U.S. Merchant Marine, the law has instead fostered stagnation in the U.S. maritime shipping industry. Furthermore, the Jones Act fleet is unable to meet the needs of the U.S. military, which routinely charters foreign-built ships to fulfill additional sealift needs. The U.S. economy and the U.S. military would be better served without the Jones Act.[85]

It costs about $2 per barrel to ship crude oil from the Gulf of Mexico to Canada, but thanks to the Jones Act it costs between $5 and $6 to ship it to the U.S. east coast.[86] Fadel Gheit, an energy analyst at Oppenheimer, stated that the "Jones Act is nothing more than a giant tax on the U.S. consumer. I can take a barrel of gasoline across the Atlantic for one-third the cost of shipping it to New York from Houston."[87]

Estimates of the Jones Act's impact on gas prices vary. According to one analyst in 2014, the Jones Act adds up to 15 cents per gallon to gasoline prices.[88] In 2013, the CEO of Gulf Oil suggested: “If foreign owned and flag ships were able to carry gasoline in US waters, the price of gasoline in the North East and in Florida could be 20 to 30 cents lower.”[89]

The Jones Act is especially harmful to low-income drivers because they spend a greater share of their income on gasoline. (See Chart 1.) It also drives up the prices of propane and heating oil prices.[90]

The government should treat transportation by ship the same way it treats transportation by truck, rail, or aircraft. A good start would be to repeal the ban on the use of foreign-built ships when transporting goods between U.S. ports.

IV. Labor and Employment

Government policies often make it difficult for individuals to have the opportunity to succeed and prosper. These harmful policies are prevalent in the labor and employment context.

High minimum wages create a disincentive for hiring less-skilled workers from poor families, and an incentive for hiring individuals with a more extensive skill set, usually from higher-income families, instead. Occupational licensing creates artificial barriers for lower-income individuals to build their careers and have a chance to become entrepreneurs. These licensing requirements are often poorly justified and fail to recognize that private entities can provide certifications if the market demands individuals with such qualifications.

Licensing requirements can also be cronyism disguised as consumer protection. For individuals already in a specific industry, licensing requirements can provide a barrier to entry for new entrants helping these existing individuals in the industry.[91] This means less competition for the existing players, thereby driving up prices for consumers, which hurts the poor in a disproportionate manner. The licensing requirements also hurt the poor because they may not have the means to meet the unnecessary requirements. Policymakers should be trying to think of ways to reduce obstacles for people to reach their dreams, not erecting barriers to achieving those dreams.

High Minimum Wages. The minimum wage represents a policy trade-off. It raises the pay of some workers at the expense of eliminating the jobs of others. Historically, Congress and state legislatures have recognized these negative consequences and have avoided raising the minimum wage to levels where it would clearly hurt the poor.

Recently, several states have raised their minimum wages to historically unprecedented levels. Within a few years California and New York will require employers to pay starting wages of $15 an hour.[92] The state of Washington will require starting pay of $13.50 an hour.[93] Arizona, Colorado, and Maine will all require $12.00 an hour.[94] Seattle and Washington, DC, have also adopted $15-an-hour minimum wages.[95]

Employers pay employees based on the value their labor produces. If the government requires employers to pay more than a worker produces, they will not hire that worker at all. For example, if a worker produces $12 an hour in value for a firm, he will receive close to $12 an hour. But with mandatory $15 starting wages, the firm will lay him off. His employer will not pay more than the value of what he provides the business.

Not only do high minimum wages eliminate jobs, they make it more difficult for workers to move into higher-paying positions. Most minimum-wage jobs are starting jobs. Less-skilled and less-experienced workers often start at the minimum wage. As they gain experience, they become more productive and command higher pay. Two-thirds of minimum-wage workers in the U.S. earn a raise within a year.[96] If they cannot get hired for starting jobs, employees lose the opportunity to gain experience and move ahead. Consequently, requiring high starting wages will eliminate many jobs and make it more difficult for less-skilled workers to get ahead. By 2023, this extremely high minimum wage of $15 will cover one-third of California's workers.[97] This is projected to eliminate approximately 900,000 jobs.[98] New York's increase is projected to eliminate over 400,000 jobs.[99] One prominent study found that the 1996 federal minimum-wage increase caused retail stores to reduce the hiring of less-skilled adults and replace them with teenagers from affluent zip codes.[100] While employees who keep their jobs get higher wages, high starting wage requirements make it especially hard for poor people to get jobs.

Consequently, excessively high starting wages will eliminate millions of jobs for less-skilled workers. Workers with the least education will get hit the hardest because these very high minimum wages will attract more educated individuals to these positions. Few California employers will want to hire a worker without a high school degree for $15 an hour when they could hire a worker with a high school or associate's degree instead. Recent state minimum-wage increases will freeze many vulnerable workers out of the job market.

State and local governments, as well as Congress, should not raise their minimum wages. States and local governments that have already done so should reduce their minimum wages to the federal minimum wage of $7.25 an hour, which is the lowest wage they can provide under federal law.[101] This would increase less-skilled workers' access to starting jobs—enabling them to move up into higher paying positions in the future.

Occupational Licensure. Which jobs are available to someone who finds himself suddenly out of work and needs a new source of income right away? More than a quarter of the workforce has jobs that require licenses. These types of jobs are out of the question immediately unless the individual has a required license.[102] Occupational licensing restrictions cost millions of jobs nationwide and raise consumer expenses by as much as $203 billion per year.[103] The licensing process usually requires time and money, even where there is no training involved. In many cases, the applicant simply waits for weeks while his application is slowly processed. For people without the luxury of time to prepare for a new career, the scope of available work shrinks. These policies are often just a barrier to entry to help existing individuals in the specific field by limiting competition.[104] For the poor who want to get out of poverty, the government is making such a move far more difficult.

Most licenses are required by state law, though there are some cases of local or federal licensure. Instead of relying on bureaucrats, state governments should trust employers—who have much to lose if they hire poorly trained workers—to screen for the skills necessary to perform each job.

Licensure requirements are especially damaging when the requirements become disconnected from the job in question. Practitioners of African hair braiding, for instance, are still regulated as cosmetologists in many states,[105] despite the lack of overlap in the skills required for African hair braiding and cosmetology.

Licensure also caps upward mobility in medical professions by narrowly defining the scope of practice of each skill set. In some states, dental hygienists can be hired independently of a dentist to perform a broad range of teeth-cleaning services.[106] In other states, their scope is severely limited and they have to practice under the auspices of a dentist.[107] Most research on licensure does not find that it improves quality or public health and safety,[108] but it does find that strict scopes of practice add to the cost of care.[109] Loosening scope of practice laws can make medical care more affordable—and thus more accessible to the poor—while at the same time expanding possibilities for promotion and higher earnings in working-class medical professions.

Finally, some laws and licenses are specifically aimed at preventing people from going into business for themselves. Laws that subject lemonade stands to restaurant-level permitting requirements or that force prospective shoeshiners to pay hefty fees and wait half a year for approval serve as effective barriers to the bottom rung on the ladder of opportunity. In a time when teenagers from poor homes are the least likely to have jobs,[110] government should not be using its resources to chase them out of the marketplace.

State and local governments should generally eliminate occupational licensing requirements. Private organizations can, and already do, certify individuals to practice many occupations, signaling to consumers that they are qualified without the need for government-issued occupational licensing. If the government got out of the way and did not crowd out private solutions, more voluntary private certification systems might exist. Consumers can make decisions for themselves if they want to purchase the services of someone with or without a specific private certification.

The following are some specific reported examples of the problems with occupational licensing:

Hair Braiding. One field that is burdened with onerous barriers to entry for the poor is African-style hair braiding. Unlike cosmetology, African-style braiding requires no scissors, heat, or chemicals; yet, most states require a hair-braiding or cosmetology license. Sixteen of those states specifically require the more burdensome cosmetology license that can require training costing thousands of dollars and as many as 2,100 hours of cosmetology training even though the person who wants to practice this type of hair braiding is not seeking to become a cosmetologist.[111]

Hair braiding is an occupation that has few start-up costs and is not capital intensive, making it feasible for the poor to undertake. A hair braider who does not have thousands of dollars for cosmetology classes should not be prevented from practicing hair braiding.

Sidewalk Vending. Perhaps no better example of occupational licensing restrictions gone too far exists than those for sidewalk stands. These restrictions prevent unemployed poor people from lifting themselves out of destitution by starting small enterprises for themselves. When local governments crack down on young children's lemonade stands, the story sometimes makes the news (some recent cases are highlighted on pp. 16–17). The poor, however, such as homeless people selling bottles of water, suffer in silence when they are restricted in the same way from making a few much-needed dollars.

"Peddler's Permits," "temporary food permits," and other permission slips from the government to sell things are governmental overreach that hurt the poor the most because the poor are least likely to have hundreds of dollars to buy the right to sell things like water, T-shirts, or plastic roses on a public sidewalk.

Shoeshining. Licenses on occupations like shoeshining serve only to pad the coffers of local governments and protect established businesses from upstart entrepreneurs with very little money with whom they would otherwise need to compete.

Some states require traveling vendor's licenses for shoeshiners in certain instances.[112] In Washington, DC, no fewer than four different licenses are required to shine shoes,[113] and it can take six months to get approved for work.[114] These are only some of the headaches awaiting those who want to make money shining shoes.

Dental Hygienist. Some occupational licensing requirements harm poor consumers as well as the person practicing the occupation. Dental-hygienist restrictions on cleaning teeth without a dentist's authorization are a case in point. Dental prophylaxis is a teeth-cleaning procedure. Dental hygienists in two states, Alabama and Mississippi, are not permitted to do dental prophylaxis without a dentist on site; and, there are many states that lack "direct-access" supervision levels for prophylaxis.[115] Direct access is an umbrella term defined by the American Dental Hygienist's Association as "the ability of a dental hygienist to initiate treatment based on their assessment of a patient's needs without the specific authorization of a dentist, treat the patient without the presence of a dentist, and maintain a provider-patient relationship."[116] The Federal Trade Commission (FTC) recently sent a staff comment letter to Georgia State Senator Valencia Seay concerning Georgia House Bill 684 that would have removed direct supervision requirements under certain settings. The FTC expressed that such legislation would likely "enhance competition in the provision of preventive dental care services and thereby benefit Georgia consumers, particularly underserved populations with limited access to preventive care."[117]

Requiring the poor to consult a dentist for basic dental procedures like prophylaxis makes things more expensive for them. This leads some of the poor to forgo necessary treatment. In 2011, dentists earned an average wage of $77.76 per hour, whereas dental hygienists earned an average of $33.54 per hour.[118] Consequently, paying a hygienist to clean one's teeth without involving a dentist saves money. In fact, researchers have found that prohibiting dental hygienists from doing seven procedures that they are allowed to do in some states but not all, including dental prophylaxis, likely raises patient bills by 12 percent.[119] The researchers also found that allowing insurance companies and Medicaid to reimburse dental hygienists directly for their work leads to an increase of between 3.7 to 4.3 percentage points in dental prophylaxis treatments per year.[120]

Because the poor have the most stretched budgets, a dental bill increase of 12 percent drives more of them away. Not getting recommended dental prophylaxis cleanings regularly can lead to periodontitis, a chronic inflammatory dental disease that has been linked to cardiovascular disease. One study found that those with periodontitis are 1.24 to 1.34 times more likely to develop coronary artery disease five to 21 years later.[121] Indeed, compelling evidence now exists for the clinical association between chronic conditions, such as diabetes, heart disease, and stroke, and oral conditions, such as periodontal disease.[122] Furthermore, unlike medical maladies, almost all dental disease is preventable.

Dental hygienists should be allowed to practice at the top of their scope, that is, they should be allowed to provide dental prophylaxis and other procedures for which they are educated and qualified to provide. Restrictions that prevent them from doing so victimize the poor.

Occupational Licensing Horror Stories

African-Style Hair Braiding

Fatou Diouf learned to braid hair as a child in her native Senegal before she immigrated to the United States to attend college in Nashville, Tennessee. To support herself in college, she began braiding hair while also attending school. The State of Tennessee then informed Diouf that African-style hair braiding without a cosmetology license was illegal. Consequently, she was forced to stop attending the University of Tennessee, and complete 300 hours of cosmetology training, costing her $4,000.[*]

Isis Brantley is an even bigger victim of hair-braiding restrictions. In 1997, seven police officers showed up at her hair-braiding business, and carted her off to jail for braiding without a cosmetology license.[†] Brantley and her five children were rendered homeless by the ordeal.[‡]

Brantley fought back, though, and the State of Texas made an exception for her in 2007. She still had to file another lawsuit, though, in order to be allowed to teach her art without taking hundreds of hours of barber classes, without providing students 10 reclining barber chairs, and without teaching in a 2,000-square-foot facility.

She finally prevailed in court in 2015, but the 20-year conflict was not without its cost. As Brantley told *Cosmopolitan* magazine:

> Me and my son did the estimate of that a couple of weeks ago. Basically, we took a look at some of the schools that have been as long-standing as myself. He said that if you were able to earn an honest living and not have gone through the licensing restrictions for your business, you could have been earning anywhere between $150,000 to $250,000 per year, for 20 years. We estimated that it's probably a few million dollars that I could have made in the business.[§]

Nonsensical occupational licensing requirements like the ones for natural hair braiding that hurt the poor should be revoked in all states.

Sidewalk Vending

In 2015, in East Texas, two young sisters tried to sell lemonade to make money for a Father's Day present for their dad. The police shut them down because they had not paid the $150 fee for a Peddlers Permit. Their city later waived the Peddlers Permit fee, but they were still not allowed to sell lemonade because the "Texas Baker's Bill, prohibits the sale of food which requires time or temperature control to prevent spoilage. Since lemonade technically must be refrigerated to prevent the growth of bacteria, by law, the girls [could] not sell it without an inspection and permit."[||]

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* Angela C. Erickson, "Barriers to Braiding, How Job-Killing Laws Tangle Natural Hair Care in Needless Red Tape," Institute for Justice, July 2016, p. 3, http://ij.org/report/barriers-to-braiding/ (accessed February 7, 2017).

† Isis Brantley explains what happened to her: "A Summit on Workers' Empowerment," Heritage Foundation Lecture, October 6, 2015, video at 1 hour, 50 minutes, http://www2.heritage.org/events/2015/10/workers-summit.

‡ Ibid.

§ Prachi Gupta, "This Woman Fought for 20 Years to Change the Rules for Hair Braiding in Texas. This Week She Scored a Major Victory," *Cosmopolitan*, June 10, 2015, http://www.cosmopolitan.com/style-beauty/news/a41742/isis-brantley-hair-braiding-texas/ (accessed February 7, 2017).

|| "E. Texas Police Shut Down Girls' Lemonade Stand, Demand Permit," KCTVNews.com, August 8, 2015, http://www.kctv5.com/story/29279529/e-texas-police-shut-down-girls-lemonade-stand-demand-permit (accessed February 7, 2017).

An 11-year-old girl was barred from selling mistletoe at a holiday market in Portland, Oregon. She had chopped and bagged the mistletoe and wanted to sell it to help pay for her $5,000 braces. When she got to the park that holds the open-air market however, she was told that "'no person shall solicit for or conduct any business in a park,' unless they have a permit, lease or concession agreement. Applying for a vending booth at the market requires paying fees and passing 'multiple jury reviews,' before someone can properly sell there."[#] Astonishingly, a private security guard told her that she could beg for money at the market instead.[**]

In Austin, Texas, the Austin City Council declared May 7, 2016, "Lemonade Day." On this one day of the year, kids with lemonade stands are exempt from paying $35 to obtain a temporary food permit, and also exempt from paying $425 for a license agreement and fees for using public property. The other 364 days of the year require the usual $460 outlay[††]—far more than many families can afford.

Shoeshining

Tristan Justice, a college student at American University in Washington, DC, decided to set up a sidewalk shoeshining stand in the nation's capital.

To open such a business, Justice discovered he would have to comply with 83 pages of regulations, complete multiple forms, hire a lawyer to handle legal correspondence he will receive regularly from the DC government, buy a vendor's license that must be renewed every two years at a cost of $337, and obtain a sidewalk permit at a cost of $1,200 from the DC Department of Transportation.[‡‡]

Needless to say, Justice did not start his business. The combination of the vendor's license and the sidewalk permit alone was a deal-breaker. Icing on the cake was that a DC Department of Consumer and Regulatory Affairs official told him "there is usually a six month wait time just to get approved."[§§] If restrictive occupational licensing requirements were removed, people with low incomes like Tristan Justice would find it easier to start small businesses.[||||]

\# Nick Sibilla, "11-Year-Old Oregon Girl Can't Sell Without a Permit, Told to Beg Instead," Institute for Justice, December 3, 2013, http://ij.org/action-post/11-year-old-oregon-girl-can-t-sell-without-a-permit-told-to-beg-instead/ (accessed February 7, 2017).

** Ibid.

†† Nick Sibilla, "Austin's Regulations for Kid Lemonade Stands Are Unintentionally Hilarious," Institute for Justice, March 31, 2016, http://ij.org/austins-regulations-kid-lemonade-stands-unintentionally-hilarious/ (accessed February 7, 2017).

‡‡ Ibid.

§§ Ibid.

|||| For a short video about the types of occupational licensing that should be done away with, see Melissa Quinn, "You Need 4 Different Licenses to Shine Shoes in DC. Sen. Ben Sasse Wants to Change That," The Daily Signal, July 18, 2016, http://dailysignal.com/2016/07/18/you-need-4-different-licenses-to-shine-shoes-in-dc-sen-ben-sasse-wants-to-change-that/.

V. Property Rights

Many government policies undermine property rights while also hurting the poor. Local governments develop big government urban-planning policies that make it more difficult for individuals to live where and how they want, as well as driving up housing prices. Rent control can drive up housing prices as well. Regulations can make it difficult for homeowners to use their property to help them make ends meet. Government sometimes even seizes private property and transfers it to other private citizens to promote economic development.

Policies that drive up housing prices—and there are many—have a disproportionate impact on low-income households. Based on 2015 data from the Bureau of Labor Statistics, the lowest-income households spent 58.2 percent of their income on housing, compared to 25.8 percent for the highest-income households. (See Chart 1.)

Economic-Development Takings. On June 23, 2005, the United States Supreme Court held in *Kelo v. City of New London*[123] that the government can seize private property and transfer it to another private party for economic development.[124] This type of taking was deemed to be for a "public use" and considered a proper use of the government's eminent domain power under the Fifth Amendment of the United States Constitution.[125]

As a result, if a city claims that a certain privately owned property would generate additional tax revenue, create more jobs, or even simply make the city more attractive if owned by another private party, that city can use the power of eminent domain to seize the property. As a result, no private property is safe, because government can almost always find some "better use" for private property. The "public use" limitation on seizing private property has effectively been written out of the U.S. Constitution.

While states have responded by passing laws that are intended to provide protection from these economic-development takings, many eminent domain abuses remain. "Blight laws" are often the main culprit[126] in seizing property for economic development. In these situations, the government will use laws with very broad definitions of "blight," which can include almost any property, to seize the property to achieve economic development objectives. The blight laws are merely a pretext for economic-development takings.

Lower-income households are particularly vulnerable because their properties will likely be viewed as generating less economic benefit than other properties. These properties are likely to be in areas where municipalities want to redevelop, and this is where the abusive blight laws come in handy for local government officials. Further, the poor do not have the resources to challenge the government when it decides to seize property.

States and Congress should develop stronger laws to prohibit economic-development takings, including identifying ways to ensure that blight laws are not used as an end run around any prohibition on such takings. This will help all property owners, and particularly the poor, who are often the targets of this eminent domain abuse.

Home Sharing. Services like Airbnb and Home Away have enabled more Americans to leverage their home to be able to afford to live in gentrifying areas and to build financial security. Rising housing costs are making it increasingly hard for lower-income and middle-class individuals to live in and near urban centers.[127] Home sharing enables homeowners and renters to cover some or all of their costs by accommodating travelers on a short-term basis.

Banning or excessively regulating home sharing hurts the ability of low-income Americans to use their biggest asset—their home—to earn a living. Home sharing is a tradition as old as housing itself.[128] Only recently have technological advances enabled home sharing to become more widely spread and to draw the interest of regulators, hotel employee union lobbies, and the hotel industry.[129] Home sharing can be done responsibly without outright bans or excessive regulation.[130]

Home sharing is a key life raft for many low-income and middle-class families. According to research by Gene Sperling, former White House national economic adviser, Airbnb helps working families overcome income stagnation: "For the median household, making the extra $7,530 income [per year] that is typical for an Airbnb host renting out a single property would be the equivalent of a 14% raise, bringing the household income to over $60,000."[131] The National Immigration Forum recently published stories of Airbnb hosts in various cities. Among them are America and her twin sister, Penelope, whose parents emigrated from Mexico shortly before they were born; dad works construction and mom drives a bus for children with special needs. They are using Airbnb to help them finance their risky adjustable-rate mortgage. Unlike many of their neighbors who have lost their homes, they are able to save theirs by inviting guests in to help diffuse some of their costs.[132]

Unfortunately, several interest groups are working diligently to ban home sharing, or essentially regulate it out of existence. New York City recently passed a law that imposes fines from $1,000 to $7,500 for advertising units for rental periods of fewer than 30 days.[133] Santa Monica, California, bans short-term rentals of units.[134] Chicago imposed unannounced inspections and is requiring hosts to maintain meticulous registration records on all guests.[135]

There is resistance to these harmful laws. Several states are considering pre-empting local home-sharing regulations that interfere with individuals' rights to use their property as they see fit; this includes making their homes available to short-term renters. Arizona recently prohibited cities from banning short-term rentals, by limiting property-use restrictions to true health and safety concerns.

Lawmakers and regulators should exercise care not to fall prey to crony interests in the hotel industry who seek to protect themselves from healthy competition from homesharing. Instead, they should look to Arizona for ways to protect the safe and responsible use of home sharing as a fundamental property right. Not doing so does not merely undermine property rights, it also hurts low-income families who can benefit from this new source of income.

Rent Control. To promote affordable housing, many municipalities limit the rent that landlords can charge. Instead of promoting affordability, these rent controls limit the supply of housing.[136] This reduced supply leads to *increased* housing prices, which has a disproportionate impact on the poor. (See Chart 1.)

Rent controls lead to housing shortages because demand for housing outstrips supply. New apartments are less likely to be built because of the price controls, and landlords may seek to shift existing residential properties to other uses. Furthermore, the government is incentivizing landlords to focus less on maintenance of the properties, creating lower-quality dwellings for the poor.[137] These housing shortages are also exacerbated by government restrictions on housing construction, such as open space laws and other zoning laws.[138]

Rent controls are also not well targeted to meet the needs of the poor. Thomas Sowell, one of the nation's leading economists, explains:

> The image that rent control protects poor tenants from rich landlords may be politically effective, but often it bears little resemblance to the reality. The people who actually benefit from rent control can be at any income level and so can those who lose out...
>
> San Francisco's rent control laws are not as old as those in New York City but they are similarly severe—and have produced very similar results. A study published in 2001 showed that more than one-fourth of the occupants of rent-controlled apartments in San Francisco had household incomes of more than $100,000 a year. It should be noted that this was the first empirical study of rent control commissioned by the city of San Francisco.[139]

Economists, regardless of ideology, widely agree on the problems of rent control. In a 1990 poll of 464 economists in the *American Economic Review*, "93 percent of U.S. respondents agreed, either completely or with provisos," that "a ceiling on rents reduces the quantity and quality of housing available."[140] In 2000, well-known liberal economist Paul Krugman wrote in an op-ed critical of rent control that the "analysis of rent control is among the best-understood issues in all of economics, and—among economists, anyway—one of the least controversial."[141]

Removing rent controls in combination with removing zoning laws that limit the construction of new housing is imperative. If municipalities took this course of action, individuals and families, including the poor, would have more housing options to meet their needs.

Smart Growth. "Smart growth" is a pleasant name given to an unpleasant planning philosophy that seeks to promote high-density development, and through a centralized approach, determine where—and how—people should live in their communities. The enemy of smart growth is low-density development, or as it is referred to by its critics: "sprawl." Even while many people would choose to live in low-density developments, where they could own single-family homes with big yards in suburban environments, planners push their own agenda to socially engineer communities to reflect their own values and priorities.

Central to achieving smart-growth objectives is restricting development, which is done in large part through land-use regulations.[142] When there is less land for development, there is also less land for housing. There are also restrictions placed directly on the amount of housing that can be built.

Limiting housing supply through planning raises prices in two different ways. Basic supply and demand logic dictates that less total supply results in higher prices. But it is even worse: Faced with restrictions and hostile neighbors, developers focus on building expensive housing. That leaves less growth for the budget housing market. The poor are hurt in two different ways, as well. There is the budget-busting effect of San Francisco or Boston rents. There is also the hidden cost of that rent on poor people who never get a chance to move to a booming city because there is no place to live.

Cato Institute scholar Randal O'Toole found that "[i]n 2005, for example, planning-induced housing shortages added at least $275 billion to the cost of homes purchased in the United States."[143] A 2009 Heritage Foundation *Backgrounder* by leading experts Wendell Cox and Ronald Utt aptly summarized the impact of restrictive land-use regulations common to smart-growth strategies:

> As housing-price trends in the U.S. over the past decade reveal, the intensity of a region's land-use regulations is a key factor in the region's relative house-price inflation, affordability, and recent foreclosure experience. Areas with less land-use regulation consistently sustain housing prices that are affordable, while regions with greater regulations consistently sustain prices that are unaffordable to the majority of the citizens living in the region.[144]

Specific policies in the smart-growth toolbox are extremely harmful to the poor. For example, open-space regulations artificially limit the amount of land available for development, including for housing.

This continued push for "open space" (a vague term) is especially unwarranted given that federal, state, and local governments own significant amounts of land that are already unavailable for development. There are many private ways to promote open space, such as purchasing land to restrict development (e.g., private land trusts). The market itself also dictates open-space requirements; for example, homebuyers may demand open space in new residential developments.[145] Further, based on the 2012 Natural Resources Inventory, only 6 percent of all land (excludes water area) in the United States was developed in 2012.[146] Even in a high population state like Florida, only 16 percent of land was developed in 2012.[147]

In areas with substantial open-space restrictions like Palo Alto, California, the poorest residents—the ones who would buy or rent the smallest housing units in a free market—are priced out of the housing market altogether. In 2014, Thomas Sowell said of Palo Alto that "there is enough vacant land (open space) on the other side of the Interstate 280 freeway that goes past Palo Alto to build another Palo Alto or two—except for laws and policies that make that impossible."[148] Due to this vacant Palo Alto size expanse however, a two-bedroom, one-bathroom 1,010-square-foot bungalow built in 1942 cost $1,498,000 in 2014.[149] That is a price no poor person (or even most well-off people) can afford.

Quite simply, smart-growth policies drive up housing prices and hurt the poor. As shown in Chart 1, high housing prices have a disproportionate impact on the poor. Local governments should stop dictating how and where people live. If people want to live in suburban communities, planners should not use their personal visions of how people should live to prevent that from happening.

The federal government should also get out of the business of encouraging smart-growth policies at the local level; smart growth plays a significant role in the Environmental Protection Agency and the U.S. Department of Transportation, among other agencies, which have been leading drivers of these policies that are so harmful to the poor. Congress needs to examine the extent to which the smart-growth philosophy has infiltrated the federal government, and root it out.

VI. Miscellaneous

There are many other policy issues that hurt the poor that do not fit neatly into the categories listed earlier.

CFPB Payday-Lender Rules. The 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act created and authorized the Consumer Financial Protection Bureau (CFPB) to impose new regulations on payday lenders and other short-term credit providers.[150] Supporters of Dodd–Frank argue that these changes are necessary because private short-term lenders tend to "trap" consumers in high-cost debt. This view is fundamentally flawed, and the federal government has no need to regulate short-term lenders, all of whom are currently regulated by state governments.

The full title of the CFPB's proposed 1,300-page rule is "Payday, Vehicle Title, and Certain High-Cost Installment Loans," reflecting that it is, in fact, much broader than simply concerning payday loans.[151] The rule covers loans with terms of 45 days or fewer, as well as some loans with a term greater than 45 days, provided that they (1) have an "all-in" annual percentage rate greater than 36 percent and (2) are either repaid directly from the consumer's bank account or are secured by the consumer's vehicle. The rule identifies it as an *abusive and unfair practice* for a lender to make such a loan without first reasonably determining that the consumer has the ability to repay the loan.

The proposed rule is written in a manner that will likely force many lenders to stop offering these small-dollar loans. By the CFPB's own admission, these rules could effectively destroy the payday lending industry, eliminating up to 85 percent of the loans currently made.[152] More than 12 million people per year use short-term loans, and the majority of those people are those who have emergency credit needs and lack other forms of credit.[153] Few wealthy individuals have to rely on these services. Furthermore, the CFPB's own complaint database does not support the notion that this industry causes a systematic problem for its customers. From July 2011 to August 2015, consumers lodged approximately 10,000 complaints against payday lenders, a tiny fraction of the annual number using these services.[154]

The federal government is about to hurt the poor through this federal regulatory scheme. By simply not interfering with these private transactions that can be so important to low-income individuals, the federal government will allow the poor to continue to have much-needed access to short-term loans.

Further, states already regulate short-term lenders, making any federal role unnecessary. State regulation should also not undermine these critical loans; low-income individuals and families need these financial services and the government, be it state or federal, should not impose regulations that will make such loans a thing of the past, or too difficult to secure due to regulatory obstacles.

Day-Care Regulations. Each state has its own set of regulations for licensed day-care providers, aimed at ensuring safety and high-quality care for young children. In most states, it is illegal to operate an unlicensed childcare operation with the exception of caring for a few children in a home setting. This unnecessarily drives up the cost of licensed childcare and limits parents' options. Private certification could address many concerns if the market demands that facilities have certain qualifications. Consumers can then choose between certified and uncertified daycare providers.

However, so long as there is government licensing, any regulations should be narrowly focused on health and safety concerns in order to avoid unnecessarily driving up day-care costs. Where unnecessary regulations proliferate, low-income children and their parents have fewer day-care options. States should revise their day-care regulations to eliminate those that drive up costs without improving the safety and quality of care.[155] Families should be free to choose licensed or unlicensed childcare for their children, and the bar for licensed care should not be set so high that only high-income families can afford it.[156]

Despite day-care providers being one of the lowest-paid professions, day care is very expensive in the U.S. The average cost per child is $10,476 per year, with a range from $5,045 in Mississippi to $17,082 in Massachusetts.[157] These amounts represent between 24 percent and 85 percent of income for a family of three living at the federal poverty level.[158]

Economic studies find that continued teacher training has a positive impact on childcare quality. Other factors, such as group size and child-staff ratios, do not affect childcare outcomes or safety, but they do drive up costs. Increasing the child-staff ratio by just one child reduces costs by 9 percent to 20 percent ($850 to $1,890 per year).[159] Yet, many states impose these regulations that drive up costs without demonstrating any benefit.

For example, many states have excessively low child-staff ratios, and they unnecessarily restrict the total number of children who can be in a group setting. This means that centers have to needlessly double up on space, supplies, and equipment so that they can limit the number of like-aged children in particular groups. One example of a particularly costly and burdensome regulation is Maryland's requirement that licensed day-care providers have established procedures for evacuating the center and relocating children and staff to a designated safe site.[160] It is not enough that day-care centers have an emergency evacuation plan and location that would allow them to transport all children on foot to a nearby shelter—to comply with this rule, day-care centers have been told they can purchase multiple passenger vans or buses, which would require having a car seat for each child, and training staff in operating the vehicles, or they could contract with a company that would transport children and staff in a catastrophic event (but certainly any company will reserve its right not to come if the catastrophic event prevents it from sending such transportation safely). If enforced, regulations like this would prohibit all but the highest-income families from being able to afford licensed childcare.

If states are going to maintain licensing, they could help reduce the cost of childcare without sacrificing quality by relaxing the group size and child-staff ratios. These changes would make it easier for all families—and low-income families in particular—to afford safe, quality childcare. Ideally though, states would allow the market to respond to any demand for private certification in lieu of requiring government licensing.

Ridesharing Regulations. For years, states and municipalities have attempted to heavily regulate, and at times ban, ridesharing companies like Uber and Lyft in an effort to prop up their principal competitors, the traditional taxicab companies.[161] Taxi firms have historically enjoyed an effective monopoly on for-hire transportation, owing to ordinances in many jurisdictions that require operators to obtain a license or taxi medallion, while capping the number of medallions. The result is that it is virtually impossible for competitors to enter markets and challenge incumbent firms. Without competition there is no downward pressure on prices, so consumers pay above-market fares. Drivers, meanwhile, must pay steep fees to taxi companies merely to drive a cab. In New York and Boston, medallion leasing fees can reach $100 per driver, per shift.[162]

Government policies that attempt to preserve this system against competition from ridesharing firms, or which impose costly and burdensome regulations on said firms, do so at the expense of both consumers and drivers, with a particular impact on the poor. Rideshares are generally cheaper than taxis, resulting in significant savings for consumers.[163] One recent study estimated that the most basic Uber service, UberX, generated $6.76 billion in consumer surplus in 2015, an amount "two times larger than the revenues received by driver-partners and six times greater than the revenue captured by Uber."[164]

These companies have consistently offered better and more reliable coverage to low-income and minority neighborhoods than traditional taxi companies. In New York, in 2014, just 6 percent of taxi pickups originated outside of the city's airports and midtown Manhattan; 22 percent of UberX rides fit that criteria.[165] Of those rides, 60 percent serviced areas with median household incomes below the overall median income for New York, excluding the Manhattan core.[166] A study of UberX benefits for low-income communities in Los Angeles concluded that riders in those areas "could expect to wait twice as long and pay twice as much for a taxi as for an UberX ride."[167] Rideshares help low-income riders in other ways as well. Many are reliant on public transportation, yet their final destinations may be significant distances from the nearest bus or subway stop. Rideshares offer convenient, affordable, and reliable rides, helping to solve this "last mile" problem.

Consumers are not the only beneficiaries of rideshares. These services provide economic opportunity for hundreds of thousands of drivers.[168] Because Uber and Lyft drivers are independent contractors, they can set their own hours. This flexibility permits drivers to use these services to earn income that supplements their primary wages, or quickly earn more income should they lose their primary job.[169] Rideshares have another significant benefit for drivers: There are no medallion leasing fees, meaning that drivers do not start their work day owing money.

Attempts by local and state government to impose costly, taxi-like regulations on rideshares—whether to "even the playing field" for traditional taxis or merely to insert government into an area best left to the market—deprive both workers and consumers of these benefits. The poor in particular suffer from such policies. State and local governments should deregulate their taxi sectors and allow competition in for-hire markets. The result will be better service, lower prices, and greater opportunity.

State-Sanctioned Lottery Monopolies. Forty-four states and the District of Columbia currently sponsor lotteries, with total sales of $64.6 billion in fiscal year 2014—and with an average payout of only 62.4 cents of prizes per dollar of revenue,[170] far lower than typically seen in other forms of gambling.[171]

Low-income individuals are more likely to play the lottery, yet are less likely to benefit from its proceeds. In a 2011 literature review, Kent Grote and Victor Matheson of the College of the Holy Cross note that researchers have found that those with low levels of education (among other groups) are more likely to purchase lottery tickets, and "studies uniformly find that lotteries represent a highly regressive form of taxation," yet "wealthy individuals and regions tend to benefit disproportionally from money earmarked towards cultural programs and education, potentially exacerbating the regressivity of the revenue side of lotteries."[172]

A substantial portion of the American public believes that the lottery is their ticket to upward mobility. A 2006 survey conducted by the Consumer Federation of America and the Financial Planning Association found that 21 percent of Americans—including 38 percent of those with incomes of less than $25,000, and 31 percent of those over 55 years of age—believe that "the most practical way" for them "to accumulate several hundred thousand dollars" is to "win the lottery," rather than to "save something each month for many years."[173]

Regardless of whether other forms of gambling are legal within a given state, policymakers should abolish state-sanctioned lotteries, which exist to maximize government revenue by promoting the idea that Americans should attempt to become wealthy through luck rather than work, savings, and investment.[174] State governments should abolish impediments to those who wish to promote private savings through innovative methods. For example, a nascent financial product known as the prize-linked savings account, which promotes savings by awarding lottery-like prizes to those who make and maintain deposits, has shown great promise in increasing savings rates, particularly among financially vulnerable persons who might otherwise use their money to purchase lottery tickets.[175] State governments should remove any remaining barriers to financial institutions that want to offer prize-linked savings accounts in their states.

Conclusion

The "American dream" is something to which all can aspire. While it is not the government's role to guarantee success to any Americans, the government should certainly not implement policies that make it more *difficult* to make this dream a reality. Yet, too often, that is precisely what the government does.

This nation is filled with success stories of people escaping poverty, but those stories seem to be getting fewer as government has grown. Reforms can make the journey out of poverty much easier. As illustrated in this *Special Report*, in many cases, government regulation and unwarranted intervention are the primary barriers to progress. Just getting government out of the way could make a huge difference. All levels of government—local, state, and federal—need to look honestly at how they contribute to the poverty problem. Then, they can become part of the solution.

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