

Making It More Affordable to Raise a Family

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Before the Joint Economic Committee

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Mr. Chairman and members of the committee, thank you for inviting me to testify today.

Ensuring that a family can be raised affordably in America should be an uncontroversial public policy objective.

Yet government policies at the federal, state, and local levels today raise prices of basic goods and services, to the disproportionate financial detriment of poor households and families with children.ⁱ

Where households spend money

Households across the income spectrum spend large amounts on goods and services that at their most basic should be considered “necessities.” Items such as food, shelter, transport, clothing, utilities, and, often, child-care services.

The average household in the poorest 20 percent by income allocates 57 percent of its spending towards shelter, food, transport and clothing alone.ⁱⁱ The average married family with young children allocates 53 percent. Any meaningful analysis of family affordability must therefore consider the determinants of *prices* in these and other important product markets.

Table 1

Expenditure by category

Percentage of total expenditure, 2017

Expenditure type	Poorest quintile	Single parent with children	Married family with young children	Married without children	Whole population
Shelter	24.3%	23.3%	20.9%	17.4%	19.8%
Food	15.6%	12.9%	12.3%	12.0%	12.9%
Transportation	13.4%	16.0%	16.7%	15.7%	15.9%
Apparel	3.4%	4.0%	3.5%	2.8%	3.1%
Total "essentials"	56.7%	56.2%	53.4%	47.9%	51.7%

Source: Bureau of Labor Statistics, Consumer Expenditure Survey 2017, Table 1502. Composition of consumer unit: Annual expenditure means, shares, standard errors, and coefficients of variation and Table 1101. Quintiles of income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation.

The role of policy

In recent years, housing and child-care affordability have become particularly pertinent political issues given their high toll on family budgets. High housing and child-care prices are often deemed market failures, necessitating corrective government intervention, price controls, or subsidies.

But in both these product markets existing government regulations constrain supply, in turn raising prices.

Extensive work has shown how overly-restrictive, local land-use planning and zoning laws constrain new housing supply, particularly in major cities.ⁱⁱⁱ As demand for housing rises, an unresponsive supply of homes drives up the market price of housing services, forcing downsizing, longer commutes, or higher rents and mortgage payments on poorer families.

Lesser known is that state-level child-care staffing regulations—notably, restrictive staff to child ratios and qualification requirements for workers—reduce the supply of child-care centers in poor areas, driving up prices and reducing formal care options for families.^{iv}

Again and again, one finds the same pattern of government policies increasing prices. The federal sugar program^v, milk-marketing orders^{vi}, and ethanol mandates raise the price of families' groceries^{vii}; federal fuel-standard regulations^{viii} and state-level automobile dealership laws inflate the cost of driving^{ix}; protectionist tariffs raise retail clothing and footwear prices^x; and state occupational licensing laws create barriers to entry for workers raising the price of services from hair braiding to dentistry.^{xi}

Table 2

Summary of costs of interventions on the poor and single parents (dollars per year)

Expenditure type	Policy area	Household in poorest quintile	Single-parent household
Housing	Land-use regulations and zoning laws	\$0–\$2,000	\$0–\$3,500+
Childcare	Caregiver regulations and staff-child ratios	\$0–\$2,078+	\$0–\$2,078+
Food	Milk-marketing orders	\$38	\$54
	Sugar interventions	\$18	\$33
	Renewable fuel standard	\$39	\$58
Transportation	Corporate average fuel economy standards	\$133	\$279
	Dealership franchise laws	\$61	\$140
Apparel and footwear	Tariffs	\$92	\$204
Occupational licensing	Aggregate costs to consumers	\$450–\$690	\$760–\$1,160

Source: Author's calculations applied largely through the Bureau of Labor Statistics Consumer Expenditure Survey. For more information see Ryan Bourne, "Government and the Cost of Living: Income-Based vs. Cost-Based Approaches to Alleviating Poverty," Cato Institute Policy Analysis no. 847, September 4, 2018.

My research has sought to aggregate the price effects of all these policies. Using cautious assumptions, I find that, combined, they raise prices faced by typical poor families directly by anywhere between \$830 and \$3,500 per year.^{xii} That's between 7 percent and 30 percent of average after-tax income for households in the poorest quintile.^{xiii}

Given my analysis excludes much utilities and labor market regulation, this severely understates the negative price impacts government intervention has on basic goods and services. Nor does this calculation consider the potentially huge indirect costs. We know, for example, that elevated housing, child-care and transport costs make it more physically or financially difficult for families to access jobs with higher wages.^{xiv}

The benefits of a cost-focused affordability agenda

Undoing the worst of these price-inflating, regressive regulations could therefore benefit poor families considerably.

For example, estimates suggest that relaxing the average mandated staff-to-child ratio by just one child across all age groups would reduce child-care prices by 10 percent or more.^{xv} On housing, some economists estimate that lowering regulation levels in just New York, San Francisco, and San Jose to the median of all US cities would raise nationwide GDP by nearly 9 percent.^{xvi}

Addressing government policies that drive high prices at the source would also dampen the demands we see for risky rent control measures, affordable housing mandates, higher minimum wages, government subsidized child-care, and new tax credits and allowances.

Conclusion

My main message is therefore simple: before proposing new or expanded federal programs we should acknowledge that important pro-market reform levers already exist to improve family affordability, particularly at the state and local government level.

These regulatory changes, especially in housing and child-care policy, do not require yet more federal borrowing, nor do they come with the risks associated with wage and price controls further worsening the availability of housing, child-care, and low-skilled job opportunities.

Such a “cost-based, affordability agenda” may not be the full or final answer to the affordability challenge you’re considering. But before reaching for new programs or regulation, we—through government policy at all levels—should at least attempt to undo the harm caused by existing policies.

ⁱ Ryan Bourne, “Government and the Cost of Living: Income-Based vs. Cost-Based Approaches to Alleviating Poverty,” Cato Institute Policy Analysis no. 847, September 4, 2018, <https://www.cato.org/publications/policy-analysis/government-cost-living-income-based-vs-cost-based-approaches>.

ⁱⁱ Bureau of Labor Statistics, Consumer Expenditure Survey 2017, Quintiles of income before taxes. <https://www.bls.gov/cex/2017/combined/quintile.xlsx>.

ⁱⁱⁱ Edward L. Glaeser, Joseph Gyourko, Raven Saks, “Why Is Manhattan So Expensive? Regulation and the Rise in House Prices,” NBER Working Paper no. 10124, November 2003, <https://www.nber.org/papers/w10124>; Joseph Gyourko and Raven Molloy, “Regulation and Housing Supply,” in *Handbook of Regional and Urban Economics*, Volume 5, eds. Gilles Duranton, J. Vernon Henderson, William C. Strange (Amsterdam: North-Holland, 2015), pp. 1289-1337, <https://www.sciencedirect.com/science/article/pii/B9780444595317000193>; Nils Kok, Paavo Monkkonen, John M. Quigley, “Land use regulations and the value of land and housing: An intra-metropolitan analysis,” *Journal of Urban Economics* 81 (2014) 136–148, <https://escholarship.org/content/qt04r462fk/qt04r462fk.pdf>; Keith R. Ihlanfeldt, “The effect of land use regulation on housing and land prices,” *Journal of Urban Economics* 61, no. 3 (2007): 420-435, <https://ideas.repec.org/a/eee/juecon/v61y2007i3p420-435.html>.

^{iv} Diana Thomas and Devon Gorry, “Regulation and the Cost of Child Care,” Mercatus Center Working Paper, August 17, 2015, <https://www.mercatus.org/system/files/Thomas-Regulation-Child-Care.pdf>; Randal Heeb and M.

Rebecca Kilburn, "The Effects of State Regulations on Childcare Prices and Choices," RAND Labor and Population Working Paper no. WR-137-NICHD, January 2004, https://www.rand.org/content/dam/rand/pubs/working_papers/2004/RAND_WR137.pdf; V. Joseph Hotz and Mo Xiao, "The Impact of Regulations on the Supply and Quality of Care in Child Care Markets," *American Economic Review* 101, no. 5 (August 2011): 1775-1805, <https://www.aeaweb.org/articles?id=10.1257/aer.101.5.1775>.

^v John C. Beghin and Amani Elobeid, "Analysis of the US Sugar Program," Agricultural Policy in Disarray: Reforming The Farm Bill," American Enterprise Institute, November 2017, <http://www.aei.org/publication/analysis-of-the-us-sugar-program/>.

^{vi} Hayley Chouinard et al, "Milk Marketing Order Winners and Losers," *Applied Economic Perspectives and Policy* 32, no. 1 (March 2010): 59-76, https://www.researchgate.net/publication/227346078_Milk_Marketing_Order_Winners_and_Losers.

^{vii} Congressional Budget Office, "The Impact of Ethanol Use on Food Prices and Greenhouse-Gas Emissions," April 2009, pp. 8-10, <https://www.cbo.gov/publication/41173>; Richard K. Perrin, "Ethanol and Food Prices-Preliminary Assessment," Faculty Publications: Agricultural Economics 49, University of Nebraska-Lincoln, May 9, 2008, https://www.researchgate.net/publication/228643831_Ethanol_and_Food_Prices-Preliminary_Assessment; Congressional Budget Office, "The Renewable Fuel Standard: Issues for 2014 and Beyond," June 2014, <https://www.cbo.gov/publication/45477>.

^{viii} Mark R. Jacobsen, "Evaluating US Fuel Economy Standards in a Model with Producer and Household Heterogeneity," *American Economic Journal* 5, no. 2 (May 2017), <https://www.aeaweb.org/articles?id=10.1257/pol.5.2.148>; Lucas W. Davis, Christopher R. Knittel, "Are Fuel Economy Standards Regressive?" NBER Working Paper no. 22925, December 2016, <https://www.nber.org/papers/w22925>; Mark R. Jacobsen and Arthur A. van Benthem, "Vehicle Scrappage and Gasoline Policy," NBER Working Paper no. 19055, May 2013, <http://www.nber.org/papers/w19055>; David Austin and Terry Dinan, "Clearing the Air: The Costs and Consequences of Higher CAFE Standards and Increased Gasoline Taxes," *Journal of Environmental Economics and Management* 50, no. 3 (November 2005): 562-82, <https://www.sciencedirect.com/science/article/pii/S0095069605000550>; Julian Morris, "The Effect of Corporate Average Fuel Economy Standards on Consumers," Reason Foundation Policy Brief, April 1, 2018, <https://reason.org/policy-brief/the-effect-of-corporate-average-fuel-economy-standards-on-consumers/>.

^{ix} Richard L. Smith II, "Franchise Regulation: An Economic Analysis of State Restrictions on Automobile Distribution," *Journal of Law and Economics* 25, no. 1 (April 1982): 150, <https://www.jstor.org/stable/pdf/725228.pdf>; Robert P. Rogers, "The Effect of State Entry Regulation on Retail Automobile Markets," Bureau of Economics Staff Report to the Federal Trade Commission, January 1986 <https://www.ftc.gov/reports/effect-state-entry-regulation-retail-automobile-markets>; Mark Cooper, "A Roadblock on the Information Superhighway: Anticompetitive Restrictions on Automotive Markets," Consumer Federation of America, February 2001, <https://consumerfed.org/pdfs/internetautosales.pdf>; Frank Mathewson and Ralph Winter, "The Economic Effects of Automobile Dealer Regulation," *Annales d'Économie et de Statistique* no. 15/16 (July-December 1989): 409-26, <http://www.jstor.org/stable/20075766>; Gerald Bodisch, "Economic Effects of State Bans on Direct Manufacturer Sales to Car Buyers," U.S. Department of Justice Economic Analysis Group, May 2009, <http://www.justice.gov/atr/economic-effects-state-bans-direct-manufacturer-sales-car-buyers>.

^x Jason Furman, Katheryn Russ, and Jay Shambaugh, "U.S. Tariffs Are an Arbitrary and Regressive Tax," Voxeu.org, CEPR's Policy Portal, January 12 2017, <https://voxeu.org/article/us-tariffs-are-arbitrary-and-regressive-tax>.

^{xi} Morris Kleiner, Alan B. Krueger, and Alex Mas, "A Proposal to Encourage States to Rationalize Occupational Licensing Practices," A Proposal to the Brookings Institution Hamilton Project, April 2011, <https://www.hhh.umn.edu/file/9441/download>; Salim Furth, "Costly Mistakes: How Bad Policies Raise the Cost of Living," Heritage Foundation Backgrounder no. 3081, November 23 2015, <https://www.heritage.org/government-regulation/report/costly-mistakes-how-bad-policies-raise-the-cost-living>.

^{xii} See conclusion of: Ryan Bourne, "Government and the Cost of Living: Income-Based vs. Cost-Based Approaches to Alleviating Poverty," Cato Institute Policy Analysis no. 847, September 4, 2018, <https://www.cato.org/publications/policy-analysis/government-cost-living-income-based-vs-cost-based-approaches>.

^{xiii} Bureau of Labor Statistics, Consumer Expenditure Survey 2017, Quintiles of income before taxes. <https://www.bls.gov/cex/2017/combined/quintile.xlsx>.

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- ^{xv} Diana Thomas and Devon Gorry, "Regulation and the Cost of Child Care," Mercatus Center Working Paper, August 17, 2015, <https://www.mercatus.org/system/files/Thomas-Regulation-Child-Care.pdf>.
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