# Government is to blame for America's cost of living crisis

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In a recent extract of her book *Squeezed*, *Guardian* columnist Alissa Quart documented in detail the insecurities faced by many ordinary American families. Student loan debt, housing costs, and healthcare bills can be crippling even for those on decent enough incomes. For the struggling poor with job insecurities, the situation can be worse still.

Even with the US labour market tightening, concern about working- and middle-class living standards has left politicians reaching for radical solutions. In the past year, mainstream politicians have advocated federal job guarantees, universal basic income, huge minimum wage hikes, attempts to boost union power and membership, expanding tax credits, co-determination laws, universal single-payer healthcare and much else besides.

Putting aside the legion risks of such policies, these proposals have one major thing in common: they could be described as "income-based approaches" to trying to raise living standards. They all assume that markets, left to their own devices, cannot provide adequate living standards, necessitating interventions to raise households' disposable incomes (through affecting income via pay or transfers directly, or reducing household payments for certain goods or services).

For sure, some policies in this mould can help to alleviate financial hardship. But Quart highlighting out-of-control costs of different goods or services surely suggests a better first step is surely to ask why certain things are expensive in the first place, before reaching for compensatory interventions or transfers.

In a recent research paper for the Cato Institute, I did precisely that for basic goods and services which poor households spend disproportionately on. And I found that nine types of intervention alone in housing, food, child-care, transport, clothing and sectors governed by occupational licensing combine to raise the cost of typical poor households directly by anywhere between $830 and $3,500 per year. All these "income-based approach" things we do, in other words, are compensating households for cost-inflating government policies elsewhere.

The average household in the bottom income quintile puts 25.2 per cent of total spending per year towards direct housing costs, for example. Yet land use planning and zoning laws imposed at local levels of government, particularly in desirable metropolitan areas, impose a significant regulatory tax. This costs households anywhere up to around $2,000 per year, depending on location. This not only has direct financial consequences but makes it more difficult for poor households to move to good job opportunities.

The best evidence suggests too that state-level child-care regulation, including staff-child ratios and qualification requirements for centre staff, raises prices by $500 per year or more across the country, not to mention making it more difficult for low-income parents to return to work.

In fact, in area after area one sees misguided interventions raise the costs of everyday items. Ethanol mandates and protectionist sugar and milk programs raise the cost of everyday groceries. Regulations relating to fuel efficiency and car dealerships raise the cost of cars and hence driving. Tariffs on clothing and footwear are extraordinarily regressive, because the poor spend disproportionately on these goods, and lower-quality variants of products tend to attract the highest tariffs. It's well established too that occupational licensing raises wages in sectors and the price of associated services.

Any analysis of this type has to stop somewhere. Mine focused on basic goods and poorer families, but one could make similar arguments for other sectors, not least healthcare and utilities, and some of the analysis applies even more forcefully for those further up the income scale.

A recent Cato book, *Overcharged: Why Americans Pay So Much For Healthcare*, documents in lucid detail how the whole US healthcare system encourages high costs for services, for example. It's not my area of expertise, but no doubt similar logic applies to the university sector too.

With the federal budget deficit already large, and most of the ideas floating around all coming with risky unintended consequences, now seems an opportune time for a cost-of-living agenda which examines and undoes these cost-inflating interventions at all levels of government.

Some goods and services will always be expensive, and there may be a role for government to supplement the incomes of the unfortunate. But we should at least, from a regulatory perspective, aim for a "first do no harm" approach which does not raise living costs for families unnecessarily.

Rather than treating the symptoms of the financial struggles outlined in *Squeezed* and talked about every day, let's do what we can to address the underlying causes.

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