

## **Let's tackle poverty by making sure policies don't hit poor in the pocket**

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April 3, 2018

Ask mainstream politicians in the UK or the U.S. what can be done to alleviate poverty, and the answers will probably be predictable and unimaginative.

Progressive politicians will talk up the need for more redistribution, minimum wage hikes, government job schemes and subsidies for services, with childcare nowadays a favored priority. Conservatives will advocate targeted tax cuts and welfare reform to encourage people to earn their way out of poverty. So-called moderates will split the difference.

All implicitly agree the primary way to help the low paid is through raising their incomes, either by government transfers, wage mandates, shifting service funding responsibility to taxpayers, or increasing the returns to working. But there's good reason to think this "income-based" consensus on poverty alleviation has had its day.

Income is still extremely important, of course. Money matters to human well-being. Progressives are correct that giving the poor money or stuff makes their lives easier, and helps reduce poverty for a large number of recipients (as are conservatives correct that means-tested benefits disincentivize earning more money).

But what really matters is what people can afford with their income. And it's here where the political focus on income-based solutions has left a huge blind spot which undermines anti-poverty efforts — for government policies in other areas raise the cost of living for poor people by increasing the price of essential goods and services. This not only makes the poor worse off, but in itself leads to demands for vast amounts of intervention and redistribution.

The poorest 20 percent of households in the UK see close to 60 percent of their spending go on housing, food, clothing, transport and utilities; in the U.S., on slightly different definitions, it's 68 percent. Those with children see higher spending on clothing and footwear, and childcare for those with infants can be hugely expensive too. Families in inner-successful cities face much higher rents (and often receive higher housing benefit or subsidies).

In all these sectors, government policies push prices structurally higher. Land use planning laws in the UK and around major U.S. cities are a key driver of high house prices and rents. Childcare regulation such as stringent staff-child ratios and group size limits have been shown to raise

prices, without improving child outcomes. Significant tariffs are imposed on food imports at an EU-level, and in the U.S. sugar subsidies, milk marketing orders, and ethanol mandates make food more expensive.

Highly regressive trade barriers on clothing and footwear likewise raise the costs of dressing ourselves, and especially hit poorer families. Energy policy is a mess of contradictions, particularly in regards to reducing carbon dioxide emissions, adding to bills beyond what could efficiently account for carbon emissions.

Though all these policies were introduced for other reasons, they cumulatively cost the poor a great deal. Yet they are treated as issues outside the poverty debate. Rather than acknowledge their adverse impact, we endlessly argue about benefit levels, universal credit or the minimum wage, when undoing the damage they cause would prove more fruitful.

Rather than instinctively proposing new spending and regulations, our politicians should instead adopt a “first do no harm” approach that unpicks interventions that increase prices in the first place. This should appeal to both progressives and conservatives. You do not have to believe anti-poverty programs have failed to acknowledge they’re undermined by government-induced high prices. You also do not have to believe they are a success to think it sensible to improve the financial position of the poor before attempting risky welfare reform or cuts, as the UK Conservatives have undertaken or as Republicans propose.

Pertinently, this kind of pro-market, supply-side agenda would be particularly powerful today.

Existing redistributive efforts seem to have hit diminishing returns. When you compare the average income of the top fifth of households against the bottom, the ratios are 12:1 and 15:1 in the UK and U.S. respectively, but these fall to 4:1 and 7:1 after taxes and benefits are included. Both countries redistribute a lot already.

But though large increases in spending did reduce poverty significantly in the U.S. in the Sixties and early Seventies, progress since then has stalled. In the UK, early spending hikes in the Blair years seemed to have a big impact before again levelling off. Minimum wage hikes likewise begin to mess up employment markets for the young and unskilled if set too high.

Even if one suspected a large increase in government spending on poverty relief could improve matters, neither country is really in a fiscal position to do it. Both have unprecedented high debt levels after the financial crisis owing to sustained structural deficits, and are heading into a period where an ageing population will put huge demands on resources.

Given electoral politics, unwillingness to reform the state pension and healthcare means working-age welfare budgets are therefore going to be under constant threat over the coming decades. In such an environment, when support for redistribution can wax and wane, lowering living costs should be seen as both insurance for the poor and potentially a means of reducing the demands for government spending.

In fact, liberalization in many of these areas would produce a double-dividend, as most of these existing interventions undermine economic efficiency and so reduce GDP and market wages.

Usually confined to technical debates within each industry, why not package economic liberalization measures in these sectors as part of an explicit anti-poverty package?

Yes, it would be tough, but considering reform as part of a poverty agenda alone would be a good start. Rather than wittering on about “the good government can do,” our elected officials should instead try to stop actively making the things the poor buy more expensive.

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