Breaking Down the Barriers:
Three Ways State and Local Governments Can Improve the Lives of the Poor

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ABSTRACT

This study considers the ways in which government, whether through spending programs or regulations, has made it more difficult for people to find their way out of poverty. It argues that when considering new regulations or eliminating existing ones, policymakers should pay more attention to the regressive effects of government, from the way in which it prevents upward mobility to the way in which some policies and programs burden the poor more than other groups. Specifically, it explores the regressive effects of occupational licensure, zoning laws, and other restrictions on operating businesses, as well as the effects of sin taxes. The discussion of occupational licensure includes a small case study of Uber, the ride-sharing platform. If government policy is restricting upward mobility, then policymakers should look more seriously at ways to stop government from harming those seeking to escape poverty.

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Even as the long-term trend for both the United States and the rest of the world is an ongoing reduction in absolute poverty, understandable concern over the "poverty in the midst of plenty" observed in the United States, as well as the shorter-term effects of the Great Recession, has given the issue of poverty reduction new salience. The most commonly proposed cures for US poverty involve increased spending by various levels of government on anything from preventive programs, like greater access to education, to ameliorative programs, such as various income supplements or other forms of assistance (e.g., food stamps). This conventional wisdom, however, overlooks the possibility that existing government policies, especially economic regulations, have made it more difficult for people to find their way out of poverty in the first place.

A common assumption in public policy is that government regulation of the market generally works to protect the poor and disenfranchised. However, such regulations more often have the opposite effect: that is, they benefit the wealthy and powerful at the expense of the poor. The key to understanding this point is recognizing that the regulatory process is not, in general, a pristine attempt to instantiate the public interest. Instead, economic actors see in the political process a means of enhancing their profits at the expense of their competitors, but without meeting the wants of consumers in the process. Support for regulations that create barriers to entry in an industry or occupation may well be couched in terms of the need to protect public interest, but such regulations are often demanded by (a) incumbent producers who wish to acquire monopoly profits by making it harder for new producers to enter the marketplace and (b) consumers whose income enables them to afford higher prices, while the burden is shouldered by lower-income producers and consumers. Such regulations effectively become a regressive transfer of income from the poor to the relatively well-off.

When considering new regulations or eliminating existing ones, policymakers should pay more attention to the regressive effects of government, from the way in which it prevents upward mobility to the way in which some policies and programs burden the poor more than other groups. This study explores three areas in which government regulation and intervention, specifically at the state and local levels, have worked to the disadvantage of the poor, and where government getting out of the way would (a) increase opportunities for those with lower incomes to move up the income ladder or (b) reduce consumer costs that disproportionately affect the poor. From the way in which state and local governments license various occupations (in fields ranging from interior design to cab driving) to zoning and other related business regulations to sin taxes, a whole variety of often well-intentioned policies end up either reducing employment opportunities or increasing the cost of living for lower-income households. This study aims to make these regressive effects a more central consideration in debates and argues that a reduction in the size and scope of state and local government regulation of business, when done strategically, can be the most powerful way to increase the upward mobility of the poor.

OCCUPATIONAL LICENSING

One specific set of policies that helps keep poor people from moving out of poverty is occupational licensure laws. These policies exist mostly at the state and municipal levels and regulate the conditions of entry into a wide variety of jobs by requiring that people obtain licenses to practice them. The licenses frequently involve exams that require applicants to undertake costly and time-consuming preparatory activities. Hence, these laws work as what economists call "barriers to entry" to protect the profits of existing producers by reducing the competition from newcomers in the field. Normally, these laws are defended both by those arguing for their necessity to protect the public from malpractice by persons in those occupations ("Baptists") and by those who stand to benefit from such restrictions—namely, the incumbent producers, who are out to protect their own profits ("Bootleggers"). This so-called Baptists and Bootleggers phenomenon has become part of the standard analysis of regulation and applies very well to occupational licensing.[1]

By raising the cost of entering an industry and thereby reducing the level of competition within it, occupational licensure laws enable those who have licenses to capture a larger share of the market or higher wages than they would otherwise. One estimate reveals that licensing increases wages by about

1. Bruce Yandle, "Bootleggers and Baptists: The Education of a Regulatory Economist," *Regulation* 7, no. 3 (1983): 12.

15 percent and, when combined with union membership, that wage premium averages 24 percent.[2] The reduction in competition also means that existing suppliers can charge higher prices and get away with providing lower-quality service. These costs are real to consumers, who lose the value of lower prices and better service and see that value transferred to the pockets of the politically protected producers.

One might argue that occupational licensing increases income for families that need it, in a way similar to a minimum wage. If this is the case, then the question becomes whether these benefits outweigh (a) the costs of licensing for those who choose to obtain a license, (b) the costs of less employment or pay for those who are discouraged by the licensing time and costs and who therefore accept lower-paying employment elsewhere, and (c) the higher costs and reduced quality for consumers of the services provided by the licensed profession. Moreover, those who obtain a license may not see their take-home pay increased if their higher income is transferred to special interests in the form of dues or to licensing boards to cover the costs of administering the licensing program. Finally, it is not clear that the individuals who currently hold licenses and who are trying to exclude new entrants and those who will successfully obtain such licenses in the future have incomes as low as the people they are excluding. The beneficiaries of licensing laws may tend to be those with more resources to afford the costs of licenses and those with more of the political influence necessary to pass such laws. Even if license holders do benefit from such laws, those benefits might be a regressive redistribution away from people who are less well-off than license holders.

Whether the costs to consumers are offset by gains in, for example, safety is a second question. To answer it, one must look at the ways in which market signals and incentives, as well as technology, would ensure that producers not covered by government regulations nevertheless would provide safe goods and services. A study by the Institute for Justice of 102 licensed low- and moderate-income occupations (i.e., ones in which earnings are lower than the national average) finds that all 50 states and the District of Columbia license at least some of these occupations, ranging from 24 to 71 occupations of the total 102 occupations studied.[3] The occupations in question range from florist and interior designer to auctioneer, manicurist, and preschool teacher. Some

2. Morris M. Kleiner and Alan B. Krueger, "The Prevalence and Effects of Occupational Licensing," *British Journal of Industrial Relations* 48 (December 2010): 685.

3. Dick M. Carpenter II, Lisa Knepper, Angela C. Erickson, and John K. Ross, *License to Work: A National Study of Burdens from Occupational Licensing* (Arlington, VA: Institute for Justice, May 2012), http://ij.org/images/pdf_folder/economic_liberty/occupational_licensing/licensetowork.pdf.

“Market competition is a powerful regulatory force of its own because firms and service providers understand that their profits frequently rest on their reputations.”

states license certain occupations, while others do not. These state-to-state differences are strongly suggestive of the point raised earlier—that the real goal of licensing is not to protect consumers. The incumbent practitioners in a field tend to populate and control the licensing boards and can therefore adjust the difficulty of the licensing test or the dollar amount of associated fees, thereby controlling the conditions of entry. By so doing, they increase the burden on lower-income people who might wish to enter the field. The Institute for Justice report finds that licensing processes “require of aspiring workers, on average, $209 in fees, one exam, and about nine months of education and training.”[4] That average varies widely across states, with some states licensing many occupations and others only a few, and with some occupations having larger burdens in some states than in others.[5] Even the national average, however, represents a significant cost for those with lower incomes, especially those trying to enter the labor market for the first time. About half of the licensed occupations are ones that would enable practitioners to start a new business (e.g., the various cosmetology jobs), and performing this sort of work can often be done cheaply out of one’s own home or a low-rent storefront. However, burdensome licensing requirements often preclude this kind of entrepreneurship and therefore the business growth and the new jobs such growth might bring. Business ownership can be a crucial means of upward mobility.

The Institute for Justice report also indicates that practitioners of these licensed lower-income occupations are more heavily male, nonwhite, and less educated than the general population, with their average annual income about 37 percent lower than that of the general population.[6] Even as licensing, as noted earlier, enhances the incomes of those fortunate enough to get a license, that effect is notably smaller in the lower-income licensed occupations than

4. Ibid, 4.
5. Ibid.
6. Ibid.

in the higher-income ones, a fact that contributes to income inequality.[7] The variety and cost of requirements needed to obtain licenses in these occupations clearly burden lower-income and lower-skilled workers disproportionately.

Critics of ending occupational licensure may argue that licenses are a way to keep customers and the public safe and to ensure that businesses provide high-quality goods and services. Several studies show that licensing regulations have either no effect on product or service quality or may actually reduce it. One study of construction contractors after hurricanes in Florida finds that reducing license requirements had no significant impact on the quality of work produced.[8] Another study of real estate professionals after an increase in licensing requirements in Massachusetts finds that the heightened requirements reduced the number of licensed active agents and increased their wages, but the study fails to find any improvement in product quality as measured by complaints by customers to the licensing board.[9] Finally, an examination of the relaxation of the licensing of nurse practitioners finds no changes in measures of quality of services provided, such as infant mortality rates and malpractice premiums. The reduction in requirements changed the pattern of wages and hours but had no effect on quality.[10]

Regulation is also not the only way to ensure safety and quality. Market competition is a powerful regulatory force of its own because firms and service providers understand that their profits frequently rest on their reputations—especially in a world of instant feedback through consumer review websites such as Yelp. Competitive firms have very strong incentives to develop ways to signal to prospective customers that they provide safe and high-quality products. One such way is through private-sector certification agencies. These organizations can offer a "seal of approval" that enables consumers to determine quality without relying on regulations that create legal barriers to entry for competitors. The National Institute for Automotive Service Excellence provides exactly this option for car mechanics, and the certification can be displayed in shops to signal that services of a high-quality standard are offered

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7. Morris M. Kleiner, "Occupational Licensing," *Journal of Economic Perspectives* 14, no. 4 (Autumn 2000): 196.
8. David Skarbek, "Occupational Licensing and Asymmetric Information: Post-hurricane Evidence from Florida," *Cato Journal* 28 (Winter 2008): 73–82.
9. Benjamin Powell and Evgeny Vorotnikov, "Real Estate Continuing Education: Rent Seeking or Improvement in Service Quality?," *Eastern Economic Journal* 38, no. 1 (2012): 57–73.
10. Morris M. Kleiner, Allison Marier, Kyoung Won Park, and Coady Wing, "Relaxing Occupational Licensing Requirements: Analyzing Wages and Prices for a Medical Service" (NBER Working Paper No. 19906, National Bureau of Economic Research, Cambridge, MA, 2014), http://www.nber.org/papers/w19906.pdf.

there.[11] Underwriters Laboratories has provided similar services for the manufacturers of small appliances since 1894.[12]

Licensing occupations normally causes the price of the product or service being sold to be higher than it would be otherwise, because a lack of competition means that license holders are less likely to cut their prices. Because many licensed occupations offer products or services that are bought by the poor, licensing laws hit the poor twice—once in the form of limiting job opportunities and then again in the form of higher prices. A good example of this "double whammy" is daycare. A forthcoming study finds that "The cost of center-based infant care ranges from 25 percent of income for a family of three living at the federal poverty level in Mississippi to 86 percent of income for a similar family in Massachusetts." The comparable numbers are 12.7 percent and 43 percent for a family of three earning twice the amount of the poverty level.[13] Given the disproportionate number of single-parent households among the poor and the working class, access to affordable daycare is a near necessity if a single parent is to work his or her way out of poverty. Daycare providers are subject to any number of regulations, including many occupational licensure laws. Among the various state regulations are ones prescribing maximum child-staff ratios and requiring staff members to have high school diplomas. The potential savings of even slight changes in regulation are significant.[14] To the degree that easing of regulations, especially regarding location and licensing, increases entry into daycare provision, the additional competition will further drive down costs to consumers. Given that daycare provision is also a way for many lower-income women to earn a living, less regulation and more providers will mean both lower costs and more job opportunities.

THE CASE OF UBER

The ride-sharing network Uber provides a good case study for many of these issues. Taxis are normally regulated at the municipal level, with most jurisdictions (a) authorizing specific firms to provide such services and (b) regulating the ways in which they do so, from fares through driver certification. Uber

11. For more information about the certification program, see institute's website at https://www.ase.com/About-ASE.aspx.
12. The long history of Underwriters Laboratories is discussed on the organization's website at http://ul.com/aboutul/history/.
13. Diana W. Thomas and Devon Gorry, "Regulation and the Cost of Child Care" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, forthcoming), 4.
14. Ibid., 15.

offers an alternative to traditional taxis, and it skirts these regulations by serving as a connection between people who are willing to offer rides for a fee and individuals who need rides.

Uber drivers usually have different occupations but are willing to provide ride-sharing services when it fits their schedule. Customers in need of a ride use a smartphone app that connects them with drivers in the area who are willing to provide rides. (Similar sharing networks exist for individuals offering rooms to rent.) Unsurprisingly, traditional taxi companies are protesting, claiming that this service is illegal and dangerous because it is not subject to the same regulations. Of course, Uber also eats into the profits of cab companies, at least part of which are a result of cab companies having a politically privileged position in the market.[15] That privilege also creates problems with their service, as it does with other firms protected by regulatory barriers to entry, which make alternatives to traditional cabs like Uber so popular. Being an Uber driver offers a potential source of supplemental income to the working poor (not to mention that it provides a lower-cost alternative to taxis for transportation around town), yet many cities are giving in to the pressure from cab drivers to block Uber and are empowering local police to arrest Uber drivers giving rides using its network.

Even professional economists, who often seem to agree on very little, agree that regulations preventing Uber from operating more freely are a bad idea.[16] Uber reports that its drivers who work a full-time, 40-hour week have an average salary of over $90,000 in New York City and almost $75,000 in San Francisco. By contrast, traditional cab drivers typically make around $30,000.[17] Although Uber drivers do need to provide and maintain their own vehicles, those costs are dwarfed by the difference in salaries for those willing to work full-time. The low pay for traditional cab drivers is a reflection of the politically generated profits earned by the medallion-owning companies they work for, whereas the nearly nonexistent overhead costs of Uber, particularly the absence of the fixed cost of the medallion, enable Uber's drivers to directly capture a much higher percentage of the benefits of their work. In this case, regulation keeps the gains out of the hands of poorer workers—the actual cab

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15. See the discussion of the value of a New York City taxi medallion in Stewart Dompe and Adam C. Smith, "Regulation of Platform Markets in Transportation" (Mercatus on Policy, Mercatus Center at George Mason University, Arlington, VA, October 2014).
16. Justin Wolfers, "Uber Improves Life, Economists Agree," *New York Times*, September 30, 2014, http://www.nytimes.com/2014/10/01/upshot/uber-improves-life-economists-agree.html.
17. See Matt McFarland, "Uber's Remarkable Growth Could End the Era of Poorly Paid Cab Drivers," *Washington Post*, May 27, 2014, http://www.washingtonpost.com/blogs/innovations/wp/2014/05/27/ubers-remarkable-growth-could-end-the-era-of-poorly-paid-cab-drivers/.

“As in the daycare industry, the providers of van services are often immigrants and members of other lower-income groups.”

drivers—and benefits those with the capital and political connections to obtain the medallion or other regulatory privileges. Removing these barriers for entry opens up high-paying jobs for lower-income households as well as provides cheaper rides and more access in neighborhoods often underserved by traditional taxis.[18]

As discussed earlier, Uber also provides an example of market-provided safety and quality assurance. Companies such as Uber have a strong profit incentive to provide qualified drivers and safe rides, and Uber has a very transparent process in place to demonstrate that it does so. Uber drivers are required to carry insurance, and Uber covers all trips up to $1 million. Uber’s competitor, Lyft, requires that drivers operate late model vehicles and have their vehicles inspected before they offer services.[19] Uber also offers the opportunity for customers to provide anonymous feedback, much as buyers provide feedback about sellers on eBay, and this feedback is available to customers before they accept a ride. Concern for its reputation in a competitive marketplace has led Uber to develop numerous ways to assure customers of safety and quality. By comparison, taxi companies, which are shielded from competition by licensing regulations, are frequently the subject of customer complaints about safety and quality.[20] Only a competitive market will force these companies to provide services (such as accepting credit cards) that more customer-responsive firms such as Uber have offered from the start.

To the extent that regulations preventing competition from Uber and other transportation services keep the cost of rides higher than necessary, these regulations also limit options for the poor, especially their ability to get to work. Although the poor are not big consumers of taxicab services,

18. Dompe and Smith, “Regulation of Platform Markets,” 4.
19. Ibid., 3.
20. See this report on complaints about Washington, DC, cab service for one example: Andrea Noble, “Taxi Drivers, Passengers Agree More Safety Measures Are Needed,” *Washington Times*, June 5, 2013, http://www.washingtontimes.com/news/2013/jun/5/dc-taxi-riders-gripes-were-exaggerated/.

they might well use a service such as Uber if the price were right. Many working poor *do* use van services, which are also often highly restricted or are hassled by the authorities as they try to provide convenient, cheap transportation to lower-income neighborhoods not well served by public transportation. And as in the daycare industry, the providers of van services are often immigrants and members of other lower-income groups. Lightening regulation of these forms of transportation would provide both job opportunities and cheaper transportation to those who need them most.[21]

ZONING AND OTHER SMALL BUSINESS RESTRICTIONS

Another category of economic policy that can hinder the opportunities of those with less income and fewer skills includes regulations that make it difficult to operate home-based and other very small businesses. These restrictions include zoning laws, limits on the kind of businesses people can operate out of their homes (and the number of customers who can visit those businesses), and limits on mobile businesses such as food cart and other street vendors. Such businesses do the kind of work that people with limited skills and not much capital could perform, but legal restrictions, normally at the municipal level, often make such options prohibitively expensive and thereby remove an important path out of poverty.

The idea behind zoning laws is to restrict certain kinds of economic activity to specific geographic locations so that they do not interfere other forms of activity. For example, one can understand why putting an industrial plant in a residential neighborhood might create problems. By zoning areas as residential, industrial, or commercial, urban planners hope to avoid these kinds of negative externality problems. Despite these good intentions, however, zoning laws, like occupational licensure laws, are often used by those with better access to political power as a way to reduce competition from lower-cost rivals. In Chicago, for example, all businesses have to have a basic business license that costs $250 for two years, and violating that law can cost hundreds of dollars per day. Almost any attempt to renovate a building or operate a business out of one's home requires a variety of forms—as well as an application

21. For a brief overview of this issue, see Jennifer Dirmeyer, "The Jitney Potential: Transportation for the Poor" (Brief Analysis 762, National Center for Policy Analysis, Washington, DC, December 14, 2011), http://www.ncpa.org/pub/ba762. See also this discussion of the Institute for Justice's case against New York City's restrictions on van drivers: Chip Mellor and Nicole Garnett, "Challenging Barriers to Economic Opportunity," Institute for Justice, Arlington, VA, accessed July 17, 2015, https://www.ij.org/ny-vans-background.

process—that are controlled by the Department of Zoning.[22] Even changing a sign can require dozens of hours and forms to get the necessary approval. The ability to determine what counts as "commercial" or "residential" gives zoning regulators all kinds of control over businesses, especially small ones.[23] Moreover, incumbent firms can seek profits through the political process by raising the costs of small start-ups.

Home-based businesses face additional challenges. For example, city laws in Chicago limit home-based businesses to no more than one employee who does not live in the home. Home-based businesses cannot manufacture or assemble products unless they sell them directly to retail customers, who must come to the home. In other words, there can be no selling to stores to resell to customers. The city also limits such businesses to no more than 2 customers at one time and a total of 10 per day. It also prohibits displaying products on shelves or racks.[24] It is not clear what purpose these rules serve beyond hampering new businesses that wish to compete against established ones. A significant number of US businesses operate out of homes, and many major companies began in garages.

Similar barriers limit the ability of people to enter the street-vendor business. Chicago requires a "peddler's license" and imposes severe limits on the places vendors can operate. Food cannot be prepared on the street without the vendor (a) obtaining a specific additional license and (b) adhering to a large number of restrictions, including being at least 200 feet from a brick-and-mortar restaurant.[25] Street vendors in Philadelphia and other cities face similar restrictions.[26] In New York City, food vendors face a citywide limit on the number of vending permits issued, and obtaining one can take months. Many forms are printed only in English, putting a larger burden on immigrants. Vendors need a separate permit for their cart, and the number of permits for carts is also capped. Unsurprisingly, these restrictions have led to a black market for permits, with the cost ranging from $10,000 to $20,000 for two years.[27]

22. Elizabeth Milnikel and Emily Satterthwaite, "Regulatory Field: Home of Chicago Laws," Institute for Justice, Arlington, VA, November 2010, http://ij.org/images/pdf_folder/city_studies/ij-chicago_citystudy.pdf.
23. Philadelphia's Zoning Board of Adjustment is well described here: Robert McNamara, "No Brotherly Love for Entrepreneurs," Institute for Justice, Arlington, VA, November 2010, http://ij.org/images/pdf_folder/city_studies/ij-philly_citystudy.pdf.
24. Milnikel and Satterthwaite, "Regulatory Field."
25. Ibid.
26. McNamara, "No Brotherly Love."
27. Miriam Berger, "Your Favorite Food Vendor Could Get Arrested," *Salon*, November 24, 2013, http://www.salon.com/2013/11/24/your_favorite_food_vendor_could_get_arrested/.

Produce trucks in Los Angeles illustrate the benefits of a lighter regulatory touch. The trucks are limited to specific daylight hours and must move 500 feet every hour, but attempts at more comprehensive regulations have failed. The result is that the produce trucks have become both an effective opportunity for upward mobility for immigrants who operate them and a source of cheap, nutritious food and other goods for lower-income immigrant neighborhoods.[28]

Another hurdle facing entrepreneurs of modest means is the cost and complexity of the approval process for business permits. The process is within the purview of municipal governments, and the burdens associated with it are highly variable. In some locations, the process can be a major barrier to upward mobility. A recent US Chamber of Commerce study found that Chicago not only averaged 32 days to approve a permit for a professional services business but also charged $900 for doing so.[29] The state of Illinois then charged the business an additional $500 plus an annual fee of $250 to organize as a limited liability company. Although these fees are both well above the national averages, the Chamber of Commerce report shows that almost every major city imposes some sort of significant permit-related burden on new business start-ups. Reducing the regulatory burden on new business creation, including small-scale and home-based operations, would be another way to encourage upward mobility.

The discussion of these occupational licensure and business regulations only skims the surface of regulations that make upward mobility more difficult for low-income workers. As policymakers consider ways to address the problems of poverty, especially poverty in large cities, they should ask whether these regulations are really worth their human toll. Do they really protect consumers, or do they protect larger, more powerful sellers from competing with those with less capital? The evidence suggests the latter. One of the most troubling consequences of these laws is that they deny people who wish to provide for their families through hard work and personal skills from doing so. An agenda that would repeal the kinds of regulations discussed here not only would enrich poor people, but also would give them some control over their own lives and their ability to provide for their families, thereby reducing dependency.

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28. Soumya Karlamangla, "Produce Trucks a Slice of Home for Latino Immigrants," *Los Angeles Times*, February 19, 2014, http://www.latimes.com/local/la-me-c1-produce-trucks-20140219-m-story.html.
29. Michael Hendrix, Nam D. Pham, Justin Badlam, Anil Sarda, and Davide Sonzogni, "Enterprising Cities: Regulatory Climate Index 2014," US Chamber of Commerce Foundation, Washington, DC, April 14, 2014, http://www.uschamberfoundation.org/reports/enterprising-cities-regulatory-climate-index-2014.

REGRESSIVE TAXES

> "Economic theory points out that the actual burden of a tax does not necessarily falls on the party that physically pays it."

The prior sections focused on government policies that make it more difficult for lower-income households to earn a living. This section looks at one set of policies that raises the cost of living in ways that disproportionately affect lower-income households. In the language of economics, these are policies that have "regressive effects" because they hurt the poor relatively more than those who are better off. Regulations that raise prices by imposing taxes on the sale of products are one type of policy that can have such regressive effects. To the extent that the goods and services being taxed are consumed disproportionately by low-income households, the resulting higher prices increase such households' cost of living disproportionately and are thus considered regressive. "Sin" taxes—taxes on goods that are intended to change consumers' behavior—represent one category of regressive taxes. Economic theory points out that the actual burden of a tax does not necessarily fall on the party who physically pays it. For example, gasoline sellers—like any sellers of goods subject to a sales tax—write the government a check for the tax on gasoline, but that does not mean that the tax is coming out of their profits. To the extent that sellers can pass on the tax by selling their good at a higher price than they would otherwise, the burden of the tax falls on consumers who are willing to pay the higher-than-necessary price.

The degree to which sellers are able to pass on the tax to consumers depends on what economists call the "price elasticity" of the demand for the good or service. Elasticity refers to how strongly the quantity of the good in demand responds to a change in price. For goods with few substitutes, people will not buy much less of the good even if its price goes up. These goods are inelastically demanded. Inelastically demanded goods, with a few exceptions such as food that are perceived to be necessities, are therefore the ones most likely to be taxed, because sellers can pass on the tax through a higher price and not lose many sales. Such taxes are regressive if the goods in question are more likely to be consumed by those with less income or if the poor spend a larger share of their income on such goods than do the wealthy.

Sin taxes have exactly this kind of effect. Sin taxes are taxes placed on a variety of items; the intent of the taxes is to discourage people from consuming the goods in question. The most common examples of sin taxes are those placed on alcohol and tobacco, but recent proposals to tax sugary drinks or fatty foods would fall under this category, as would a number of other potential targets.[30] The poor spend a larger share of their disposable income on consumption of these goods than do the rich.[31] A recent study in the United Kingdom indicates that the poorest 20 percent of households spend approximately $2,000 per year on sin taxes, which amounts to about 11.4 percent of their disposable income. Poor British households spend 37 percent of their disposable income on sin taxes and the value added tax (another consumption tax), whereas households in the top 20 percent of income levels spend just 15 percent of their disposable income on those taxes.[32]

The economic evidence further suggests that these taxes do little to discourage the behavior in question. Members of poor households smoke proportionately more than members of wealthier households, for example, with tobacco taxes simply taking resources away from the poor's ability to pay for food, clothing, and shelter. Similar results hold for alcohol taxes, and proposed taxes on sugary or fattening food also may not change behavior significantly, but may rather simply redistribute resources away from the poor. Moreover, even if taxes on sugary foods do change consumer behavior, consumers may simply be substituting other high-calorie foods instead. A recent study examining actual purchases by poor households in 2006 predicts that substitution of other high-calorie food would be a likely result of a half-cent-per-ounce tax on sugary drinks.[33] The study authors conclude that if the goal of the tax is to reduce obesity, the effects on weight would likely be small, and lower-income households would end up spending more on food with little weight reduction to show for

30. For more extensive discussion, see Adam J. Hoffer, William F. Shughart II, and Michael D. Thomas, "Sin Taxes: Size, Growth, and Creation of the Sindustry" (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, February 2013).
31. A representative example of the literature studying this issue is Andrew B. Lyon and Robert M. Schwab, "Consumption Taxes in a Life-Cycle Framework: Are Sin Taxes Regressive?," *Review of Economics and Statistics* 77 (August 1995): 389–406.
32. Christopher Snowdon, "Aggressively Regressive: The 'Sin Taxes' That Make the Poor Poorer" (Current Controversies Paper 47, Institute of Economic Affairs, London, October 2013).
33. Chen Zhen, Eric A. Finkelstein, James M. Nonnemaker, Shawn A. Karns, and Jessical E. Todd, "Predicting the Effects of Sugar-Sweetened Beverage Taxes on Food and Beverage Demand in a Large Demand System," *American Journal of Agricultural Economics* 96 (January 2014): 1–25.

it. In trying to ameliorate poverty, policymakers should pay close attention to policies like these that may raise the cost of living for poor households with not much in the way of benefits in return.

CONCLUSION

How best to address poverty in the United States remains a key public policy debate. The standard debate often focuses on various redistributive policies as the best approach to helping those in need, especially in comparison to policies that view the causes of poverty as stemming from the choices made by the poor. The perspective missing from this debate is one that recognizes that poverty is often not a matter of bad choices by the poor, but rather is a consequence of the regressive effects of a whole variety of government regulations that put structural barriers in the way of upward mobility. The best way to help poor Americans may be to remove many of these regulations and to make it possible for more people to grab the lower rungs of the income ladder and begin their upward climb. Occupational licensure laws; zoning regulations; the bureaucracy that stymies home businesses, food carts, and ride-sharing services; and regressive tax policies all have the effect of keeping the poor poor. It is time to tear down the walls that keep many hard-working Americans from finding productive employment and taking control of their lives. Doing so will improve their lives and those of their families. Looking at regulations and programs that can be eliminated because they make upward mobility harder—especially when so many of those regulations really benefit individuals who have already had economic success—would be an excellent start at addressing poverty. Promoting upward mobility in ways that create new products and services and that enable people to do what they love benefits everyone.

ABOUT THE AUTHOR

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