BREAKING DOWN THE BARRIERS
Three Ways State and Local Governments Can Improve the Lives of the Poor

Economists are familiar with the regressive effects of government policies such as occupational licensing, minimum wage, zoning laws, and taxes, but policymakers often ignore these issues when debating inequality and poverty. Policymakers who see redistribution as a path to upward mobility should be looking more at existing government regulation and taxation and how they make upward mobility more difficult by erecting barriers between the poor and economic success.

In a new study for the Mercatus Center at George Mason University, economist Steven Horwitz examines several government policies and concludes that regulations and taxes prevent upward mobility by burdening the poor more heavily than those who are better off. Many of these regulations and taxes are products of the private interests of current producers who stand to benefit from government encroachment into business.

To read the study in its entirety and learn more about its author, see "Breaking Down the Barriers: Three Ways State and Local Governments Can Improve the Lives of the Poor."

KEY FINDINGS

One reason that people seeking upward mobility are prevented from advancing is the fact that starting a new business or entering a new occupation is often unnecessarily expensive and complicated by government regulations. These regulations may exist primarily to protect the people who are already in the market from new competition, rather than because of any real danger to consumers. There are a number of ways in which state and local regulation and taxation make it harder for lower-income households to achieve upward mobility.

Occupational Licensing
Occupational licensure laws disproportionately burden the poor by requiring them to spend significant resources just to enter a market. These laws require prospective professionals to pass tests

For more information, contact
Kate De Lanoy, 703-993-9677, kdelanoy@mercatus.gmu.edu
Mercatus Center at George Mason University
3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

and spend hundreds of dollars on classes and fees, and subject them to oversight from boards and regulators largely composed of those who already compete in the market.

Many of these regulations are also unnecessary because the jobs in question do not present any real risks to the public. Consumers can use services such as Yelp to research products or providers online before making a purchase. Instead of protecting consumers, these regulations often serve to protect those already in an industry by limiting competition. This, in turn, reduces upward mobility for the poor and raises prices for consumers.

Uber's experience provides a case study of many of these issues. Uber is a ride-sharing service that provides new employment opportunities for those in need as well as cheaper transportation for those of modest means. Yet Uber also eats into the profits of taxi companies, at least part of which are a result of taxi companies' politically privileged position in the market. Unsurprisingly, traditional taxi companies are protesting the service, claiming it is illegal and dangerous because it is not subject to the same regulations as taxis.

Zoning and Other Small Business Regulations

Zoning laws are intended to limit situations where certain types of business activities interfere with residential living. However, similarly to occupational licensure laws, zoning laws are often used by those with access to political power to reduce competition from rivals who are able to provide services at a lower cost.

In Chicago, for example, all businesses must have a basic business license that costs $250 for two years, and violating this law can cost hundreds of dollars per day. Those attempting to renovate a building or operate a business out of their home must complete an application process controlled by the Department of Zoning. Even getting permission to change a sign may require dozens of forms.

These types of laws deny people the opportunity to provide for their families through their hard work and personal skills. Repealing regulations that restrict business opportunities would enrich poor people and give them control over their own lives, reducing dependency on government.

Regressive Taxation

Government policies can also raise the cost of living in ways that disproportionately affect lower-income households. Regulations that raise prices by imposing taxes on the sale of certain products are one type of policy that can have such regressive effects. If 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 that are intended to change behavior of consumers—are one prominent category of taxes with a disproportionate effect on the poor.

- Sin taxes are often imposed on alcohol and tobacco, but recent proposals to tax sugary drinks or fatty foods would also fall under this category.
- While the intent of the taxes is to discourage people from consuming the taxed goods, economic evidence suggests that these taxes do not have much of an effect on behavior. Because the poor also tend to spend a larger share of their disposable income on these

goods than do the rich, sin taxes have a disproportionate effect on the spending power of poor households.

CONCLUSION

Many discussions of poverty and inequality are bogged down in debates about tax rates and government spending, trapped under the assumption that the cause of some people's poverty is other people's wealth. One key factor preventing upward mobility is state and local regulations that make it more expensive and time-consuming for the poor to open new businesses or enter a new profession. By eliminating burdensome business regulations such as occupational licensing and zoning restrictions and by refraining from imposing sin taxes, policymakers can let the poor help themselves move up and out of poverty.