# Executive Summary

The challenges facing major U.S. cities are daunting—population loss, disinvestment, and fiscal difficulty are all too common. But Philadelphia, facing all these trends and then some, has been in the vanguard of combating them.

Targeting schools, its tax code, and its business environment, the city is making great efforts to reverse decades of decline.

And yet, while much of Philadelphia transforms, many of the city's large number of families working toward middle class membership are being left behind.

The statistics are bleak: Over one in five of Philadelphians lives below the poverty line. Over one out of every four households lives off less than the minimum wage. And just one in five adults in the city has a college degree, a lower proportion than nearly 100 other large U.S. cities.

***Put simply, Philadelphia must also grow a middle class by making the market work for low-income families.***

To move ahead, the city must renew opportunities for its large number of aspiring middle class families. Schools, the economy, city services, neighborhoods—all the major ingredients of city life—are more vigorous when cities have a large and growing middle class.

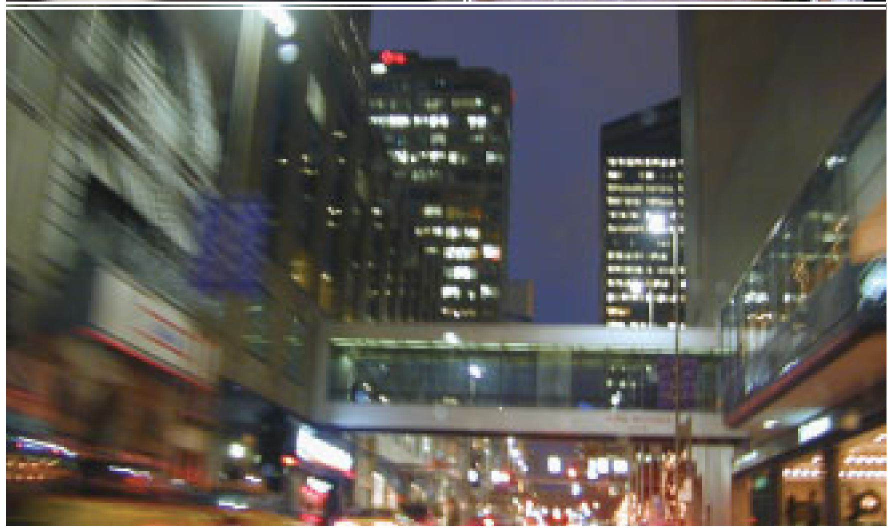
Certainly, Philadelphia and its state and local leaders should explore a broad, traditional agenda of expanding access for low-income families to jobs, while making sure those jobs pay. But, the city must do more.

Put simply, Philadelphia must make the market work for low-income families. Thousands of dollars are currently drained from the budgets of Philadelphia's working families through higher prices for everyday goods and services. These higher prices—higher than those paid by better off families for the exact same goods and services—hold back all aspiring middle class families, even those who gain access to jobs and benefits that make those jobs pay, draining much-needed family investment dollars and increasing family financial insecurity. Just as Philadelphia has worked to change its schools, economy, and tax code, the city must also transform the market to better price everyday goods and services for low-income families.

This report is about this tremendous, and largely hidden, opportunity Philadelphia has to grow its middle class. We reach several conclusions about the need for state and local leaders to seize this opportunity and pursue avenues for change:

**Philadelphia's low-income working families pay higher prices for most everyday goods and services than other households.** In general, these families pay more to buy and insure their cars. They pay higher prices to buy groceries in their neighborhoods. They pay higher prices to buy and insure homes. They pay higher prices to buy furniture and appliances. They pay higher real estate taxes. And, they often pay higher prices for utilities. In fact, aside from the lower value of their homes, low-wage families in Philadelphia pay higher prices than other households for nearly every basic necessity. In particular:

- **Car purchases:** Low-income families in Philadelphia can pay over $500 more for the same car bought by a higher-income household.
- **Car loans:** More than half of households with an auto loan that earn less than $30,000 a year pay a higher interest rate than the average borrower.
- **Car insurance:** The annual cost to insure the exact same car and driver in the Philadelphia area is over $400 more in a neighborhood with a median income less than $30,000 than in a neighborhood with a median income more than $70,000.
- **Buying groceries:** Philadelphia's low-income neighborhoods have smaller grocery stores and more convenience stores than other neighborhoods.



- **Cashing checks:** Most of the city's 147 check-cashing establishments are in low-income neighborhoods, which are allowed by state law to charge up to $450 every year to cash checks for a household earning $15,000.
- **Short-term loans:** Although Pennsylvania is often heralded as a state that has banned payday lending, state regulations allow providers of short, two-week loans to charge an annual percentage rate over 450 percent.
- **Establishing utility service:** Current state regulations make low-income families more likely to pay a higher security deposit to use Philadelphia's utilities than other households.
- **Gas prices:** At current rates, it costs the typical family in Philadelphia about $300 more every year to use a typical amount of natural gas than households in the suburbs.
- **Home loans:** Low-income households can pay hundreds, even thousands, more every year for the same mortgage taken-out by a high-income household.
- **Home appliances and furniture:** A survey of Philadelphia's rent-to-own stores, used almost exclusively by low- and moderate-income households, found that the average installment plan mark-up was 90 percent over the purchase price.
- **Real estate taxes:** Homes in Philadelphia's low-income neighborhoods are much more likely than homes in high-income neighborhoods to be assessed at values higher than their worth.

**These higher prices are the consequence of the market not working for low-income families in Philadelphia.** Four market characteristics, in particular, cause these higher prices in Philadelphia, which include:

- **Businesses react rationally to the real or perceived higher risks of selling goods and services to low-income households by charging higher prices.** Generally higher loan and bill delinquency rates among low-income families, and higher accident rates in the neighborhoods many of these families live in, drive up the costs of selling many goods and services to low-income households. These higher costs are passed on to low-income consumers through higher prices.

  For instance, low-income households are more likely than other households to fall behind in bill payments. This drives down their credit scores, which drives up the prices they pay for auto, home, and other types of insurance; auto, home, and other types of loans; and security deposits.

  But, low-income households are also often perceived as higher risks because of limitations in current methods used to measure risk, rather than because of a real, higher risk. For instance, market demand data is less reliable in low-income neighborhoods, which can create artificially high risks in these neighborhoods. Similarly, there is evidence that errors in credit scores, which are factored into insurance, loan, and utility security deposit prices, inflate perceptions about the risk of selling goods and services to low-income households.

- **Consumers lack full information about the marketplace.** This particularly hurts low-income households since they generally have less access than other households to information resources, such as the Internet and financial education. This makes them less able to shop for lower prices, recognize inflated prices, and effectively manage their money. In turn, this drives up the prices they pay for basic necessities.

  Lack of basic market information is exacerbated by the increasing complexity associated with buying goods and services. Credit scores, for instance are now used to set prices for auto, home, and other types of insurance; auto, home, and other types of loans; and security deposits. Without knowledge about how to raise these scores, low-income households can end up paying higher prices than they might otherwise qualify for.

- **Weak enforcement, deregulation, and limited regulation have fostered market abuses that take advantage of low-income households.** A perfect marketplace would automatically set the lowest possible price for everyday goods and services. But, markets are often far from perfect and fringe suppliers of these necessities can take advantage of these imperfections by charging excessively high prices.

  For instance, a gap in state regulations allows short-term lenders to charge an annual percentage rate over 450 percent for short-term loans, even though state law caps interest rates at 23.75 percent.

- **And, in Philadelphia, the public supply of goods and services drives up prices for some necessities.** Most households consume public utilities, so this cause of higher prices does not raise prices for just low-income families. But, low-income families do have less room in their budgets, which makes these higher prices particularly difficult to pay for.

  For instance, the typical household in Philadelphia that uses home gas will pay about $300 more for that gas than suburban households pay for the same amount of gas. This takes $300 out of the budget of low-income families every year, a significant hit for families trying to move ahead.

**Higher prices undermine the ability of low-income working families in Philadelphia to accumulate wealth, stalling the efforts underway to make the economy truly competitive.** The fates of Philadelphia's aspiring middle class families and the city are inextricably linked.

When low-income working families have to pay higher prices for everyday goods and services they have less money to invest in savings, education, homes and home improvements, their retirement, and their children. This holds these families back.

But, higher prices also hold back everybody else in the city from moving forward. Aspiring middle class families that are not getting ahead keep the city's tax base weak, lowering the quality of life for everyone, threatening the promise of a public education, and making it increasingly difficult for the city to attract and retain new families. Unabated crime, low property values, and all of the many consequences of concentrated poverty continue to wear away neighborhoods. In turn, these neighborhoods remain unattractive for mainstream business investment, since the risks of doing business are too high. And, this void in investment is left filled by predatory businesses that take advantage of the everyday needs of Philadelphia's low-income working families.

**The city of Philadelphia has a tremendous opportunity to get the market right for low-income working families and move the city farther ahead in reaching its aspirations.** State and local government, businesses, and organizations in the city all can contribute to an agenda that lowers the risks of doing business with low-wage families, boosts the amount of information about the market for everyday goods and services, fights market abuses, and lowers the costs of publicly-supplied necessities.

***Reduce the risks of doing business with low-wage families by:***

- **Investing in financial literacy**
  This will give families the tools to reduce the risks they face when buying goods and services.
- **Reassessing the market demand in low-income neighborhoods**
  This will reduce some of the risks of selling goods and services in more uncertain markets for businesses.
- **Studying how companies measure risk**
  This will help companies measure risk in ways that do not ascribe undue risks to low-income families.
- **Leveraging capital for business investment in low-income neighborhoods**
  This will directly subsidize the costs of doing business in low-income neighborhoods.
- **Reducing neighborhood risks**
  This will lower the risks of selling goods and services in low-income neighborhoods.

***Boost the amount of information low-wage families have about the market by:***

- **Developing and distributing a roadmap for families to improve credit scores**
  This will give families an important tool to lower the prices they pay for everyday goods and services.
- **Rethinking and reinvesting in financial education**
  This will give consumers the know-how to recognize inflated prices, shop for good deals, and manage their money effectively.
- **Giving low-income families a catalog of programs designed to lower prices**
  This will give families access to the numerous existing programs designed to lower their costs of living.

***Fight market abuses by:***

- **Fortifying efforts underway to curb market abuses in the city**
  This will create a safety net to protect consumers from market abuses
- **Strengthening regulations governing the short-term loan industry**
  This curbs a major gap in state regulations that allows annual percentage rates to soar well above interest rate caps.
- **Publicizing the names of companies that take advantage of low-income families**
  This creates a strong incentive for market abusers to change their behavior.
- **Investigating and developing policy to curb predatory tort lawyers.**
  This will directly drive down the prices that low-wage families pay for insurance.

***Lower the prices of publicly supplied goods and services by:***

- **Expanding support for home efficiency**
  This will lower the amount of high-priced gas that families consume.
- **Reform state regulations to expand resources for Philadelphia Gas Works**
  This will reduce the pressure Philadelphia's gas company faces to raise rates.