Testimony before the Philadelphia City Council
Committee on Commerce and Economic Development

The Price Is Wrong: Getting the Market Right for Working Families in Philadelphia

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Mr. Chairman and members of the committee, thank you for inviting me to testify today on the report I recently co-authored with Matt Fellowes, titled *The Price is Wrong: Getting the Market Right for Working Families in Philadelphia*.

This report is the first in a series that will develop new policy and market-based ideas to lift families out of poverty in metropolitan areas around the country. We chose Philadelphia as the first city in this series because of the commitment demonstrated by state and local leaders to help working families get ahead, and because of the rich network of organizations in this city that are working on growing a middle class. Our report, which intends to expand the envelope of policies that leaders can use to help low-income families get ahead, is a natural complement to efforts already underway.

In our analysis, we document the troubling fact that low- and moderate-income consumers living in the city are paying higher prices than other residents of the city and metropolitan area for a wide range of basic goods and necessities.

In particular, we found that low-wage families in Philadelphia pay:

- $100s more to buy the same car than a higher-income household
- $100s more to borrow the same amount for an auto loan as a higher-income household
- $100s, sometimes, $1000s, more to insure the same car and driver a high-income household insures.
- $100s more to cash checks than higher-income households
- $100s more to obtain a short-term loan than higher-income households
- $100s more to buy the same appliances and furniture than higher-income households
- among other examples.

The reasons for these price disparities vary.

First, businesses that sell everyday goods and services charge higher prices to low-income households to cover the higher risks they face when they sell basic necessities to the poor. The poor are more likely to default on loans, which raises the interest rates they're charged. Similarly, they're more likely to miss bill payments, which lowers their credit scores. And, they're more likely to live in neighborhoods with above average crime rates, which cuts down competition among businesses to lower prices.

Second, prices are higher because of predatory businesses that take advantage of regulatory gaps to charge unnecessarily high prices to poor families. The most well-known type of predatory businesses sell financial services, which includes businesses like payday lenders, check-cashers, pawnshops, rent-to-own stores, and some suppliers of remittances services. We found, for instance, that short-term interest rates in PA are capped at 24 percent, but, because there are no regulations that govern fees or the annual percentage rates, companies like Ace Check Casher charge an annual percentage rate between 400 or 500 percent for a short, two-week loan. But, it's not just financial services. There are also abusive practices in the car, insurance, and grocery industries.

Third, prices are higher for low-income families because they lack market information that other households have, which makes them less able to detect marked-up prices, shop for lower prices, and manage their finances. Most public school curriculums don't offer financial education classes any longer, so poor kids aren't getting the skills they used to. Most poor families also don't have access to the Internet, where there is an incredible amount of information that can be used to save money on everyday goods and services. And, many mainstream companies do not market their goods and services to low-wage families, so they are receiving less information directly from businesses.

All of this adds up to two very different economies in Philadelphia and the state: One economy is for families with middle and high incomes, and another one is for its low-wage families.

The good news is that the city and the metropolitan area can dramatically reduce the prices that low-wage consumers pay for basic necessities.

To start with, the city needs to make a commitment to bring more poor families into its mainstream economy. Promoting market transparency, demanding more accountability, and sparking market innovation are the key goals that should drive this commitment. It's also essential that these efforts involve more than just new government programs; leaders must harness the self-interest of entrepreneurs and area businesses.

Once this commitment is made, there are a number of specific steps leaders can take to realize these goals.

Leaders can reduce the higher risks businesses face when selling to poor families by investing in financial literacy, commissioning research on how risk is measured, directly subsidizing some of these higher risks for businesses (such as the Fresh Food Financing Initiative), and reducing crime and accident rates.

Market abuses can be curbed with new regulation that cracks down on regulatory loopholes and makes the state regulatory process more transparent; increasing investments in anti-predatory lending tools like the city's Don't Borrow Trouble hotline; publicizing the names of companies that take advantage of poor families; and challenging mainstream businesses to compete for the market share of abusive businesses.

Finally, more market information can be shared with low-wage families by reinvesting in financial education, distributing information about new market tools that shape prices (like credit scores), and by giving poor families a catalog of programs designed to lower their costs of living.

These are some of the many reforms that we developed in this report for state and local leaders in Philadelphia to lower the prices that are charged to low-wage families for everyday goods and services. The full range of reforms, as well as more specific evidence about the higher prices that low-income families pay for basic necessities, is available on our webpage at www.brookings.edu/metro.

We are delighted that the City Council has taken up this issue, and are looking forward to hearing about the reforms that the city has adopted to reduce these higher prices.