Making Markets an Asset for the Poor

Matt Fellowes[*]

I. Introduction

Lower-income households in America now have a collective annual income of more than $650 billion, which is more than the combined federal budgets of Mexico and Canada.[1] However, the higher prices that lower-income consumers tend to pay for basic necessities—from groceries to mortgages—curb the buying power of that substantial income. While a handful of leaders in and out of government are now pursuing innovative initiatives to bring these higher prices down, most policymakers still overlook the magnitude of this problem. As a result, they fail to employ practical solutions to sidestep the corrosive politics and significant fiscal cost of traditional antipoverty efforts, which almost exclusively focus on boosting the income of the poor. Higher prices erode the effectiveness of these income-boosting traditional government programs—such as the $42 billion Earned Income Tax Credit program and the minimum wage laws—by putting further downward pressure on disposable income and eroding the purchasing power created by these policies. As a result, lower-income families have more difficulty saving for and investing in their future mobility.

In response, I propose a set of strategies designed to bring down these higher prices: a plan I refer to as *Making Markets Assets for the Poor*. These strategies fall under three broad categories of public-private action: (1) incentives for businesses to enter lower-income markets that reduce the higher costs of doing business with the poor, (2) regulations designed to curb unscrupulous business practices taking advantage of market failures in lower-income markets by charging unreasonably high prices, and (3) investments in tools that boost the transparency of the market for lower-income consumers so that they can make better-informed decisions. My *Making Markets Assets* proposal has the potential to create thousands of dollars in annual savings that families could then invest in wealth-growing assets.

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[*] Fellow, Brookings Institution, Washington, D.C.

[1] Matt Fellowes, From Poverty, Opportunity: Putting the Market to Work for Lower Income Families 9 (2006), *available at* http://www.brookings.edu/metro/pubs/20060718_povop.htm. Unless noted otherwise, lower-income refers to a household income that is less than or equal to about 50% of the HUD estimate of 2006 median income.

II. High-Price Markets for Lower-Income Families Are Large and Growing

Economists have recognized for some time that the poor pay higher prices for a handful of basic necessities, like groceries.[2] However, the commonness of higher prices charged to lower-income consumers for basic necessities has grown considerably in recent decades. This has resulted from increased consumer demand in lower-income markets despite sharply increased supply. The increasingly high prices have become a significant obstacle to upward mobility for lower-income families. Today many lower-income consumers shop in a completely different economy than the one known to middle- and higher-income families.

A. Changing Demand for Goods and Services

As a result of broad societal changes over the past few decades, lower-income families have more basic needs today than ever, and thus the higher prices for these goods have an even greater impact. For example, car ownership rates have increased faster among lower-income than higher-income households in recent decades. This increase is partially due to urban sprawl, which made owning a car more of a necessity for lower income households than in the past. As urban populations across the country sprawled into once outlying rural areas, jobs moved into the countryside and new communities where housing tended to be more expensive than in urban neighborhoods.[3] As a result, lower-income workers have found themselves increasingly isolated, or spatially mismatched, from job opportunities, and thus have increased demand for cars.[4] Between 1985 and 2005, for instance, the proportion of households living below the poverty line with at least one car increased 22%, compared to just a 2% increase among all other households.[5]

Similarly, home ownership rates have rapidly increased among lower-income households as a result of changes in technology, lending markets, and public policy that have opened up the previously underserved lower-

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[2] *See* David Caplovitz, The Poor Pay More: Consumer Practices of Low-Income Families (1963); Burton H. Marcus, *Similarity of Ghetto and Nonghetto Food Costs*, 6 J. Marketing Res. 365 (1969). *But see* Donald E. Sexton, Jr., Groceries in the Ghetto 17 (1973); Charles S. Goodman, *Do the Poor Pay More?*, 32 J. Marketing Res. 18 (1968).

[3] *See generally* Edward L. Glaeser et al., Job Sprawl: Employment Location in U.S. Metropolitan Areas (2001), *available at* http://www.brookings.edu/es/urban/publications/glaeserjobsprawl.pdf; Edward L. Glaeser & Matthew E. Kahn, *Decentralized Employment and the Transformation of the American City* (Nat'l Bureau of Econ. Research, Working Paper No. 8117, 2001), *available at* http://papers.nber.org/papers/w8117.pdf.

[4] Keith R. Ihlanfeldt & David L. Sjoquist, *The Spatial Mismatch Hypothesis: A Review of Recent Studies and Their Implications for Welfare Reform*, 9 Housing Pol'y Debate 849, 851 (1998).

[5] *See* U.S. Census Bureau, H150/05, American Housing Survey for the United States: 2005, at 58 (2006), *available at* http://www.census.gov/prod/2006pubs/h150-05.pdf.

income market.[6] As one sign of these changes, the number of mortgages sold to lower-income households increased by more than 90% during the 1990s, compared to a 52% increase among higher-income households.[7] Accordingly, demand increased among lower-income families for all of the many necessities associated with homeownership, including furniture, appliances, and insurance.

Since the 1970s, demand for short-term loans has also increased rapidly in lower-income markets as wages have stagnated or declined for workers with a high school degree or less—about 40% of America's workforce.[8] As one sign of that increased demand, the number of families with a credit card balance earning less than $10,000 increased by 54% between 1989 and 1998, compared to a less than 1% increase among families earning more than $100,000 every year.[9]

More generally, over the past few decades the growing ranks of low-wage workers have increased the demand for all the necessities associated with work (including the cars to get to work), financial services to cash checks and take out loans, houses to invest in, and insurance to protect investments.[10]

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[6] *See generally* BUILDING ASSETS, BUILDING CREDIT: CREATING WEALTH IN LOW-INCOME COMMUNITIES (Nicolas P. Retsinas & Eric S. Belsky eds., 2005).

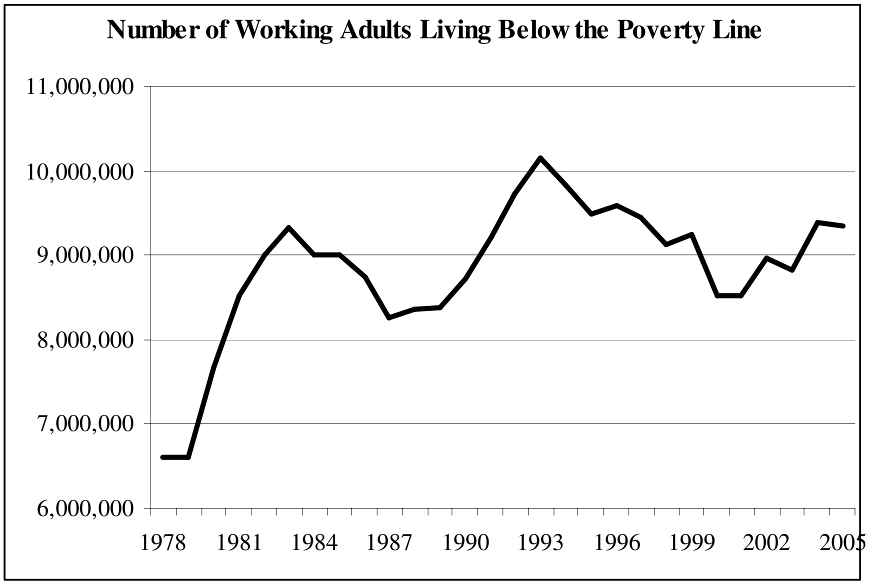
[7] Eric S. Belsky & Mark Duda, *Anatomy of the Low-Income Homeownership Boom in the 1990s*, *in* LOW-INCOME HOMEOWNERSHIP: EXAMINING THE UNEXAMINED GOAL 15, 16 (Nicolas P. Retsinas & Eric S. Belsky eds., 2002).

[8] LAWRENCE MISHEL ET AL., THE STATE OF WORKING AMERICA 2006/2007, at 150 (2007).

[9] Arthur B. Kennickell et al., *Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances*, 86 FED. RES. BULL. 1, 1, 21 (2000); Arthur B. Kennickell & Martha Starr-McCluer, *Changes in Family Finances from 1989 to 1992: Evidence from the Survey of Consumer Finances*, 80 FED. RES. BULL. 861, 876 (1994).

[10] Since 1978, for instance, the number of workers living below the poverty line increased by 42%. U.S. CENSUS BUREAU, CURRENT POPULATION SURVEY, ANNUAL SOCIAL AND ECONOMIC SUPPLEMENTS (2006), *available at* http://www.census.gov/hhes/www/poverty/histpov/hstpov18.html. 1978 was the first year of that these survey questions were included in the Current Population Survey.

FIGURE 1: NUMBER OF WORKING ADULTS LIVING BELOW THE POVERTY LINE



Note: *See* U.S. CENSUS BUREAU, *supra* note 10.

Some of this increase in the number of low-wage workers was the result of new eligibility and work requirements passed for welfare recipients in the mid-1990s.[11] It was also the result of rapid immigration growth during the 1990s, a steady increase in single-parent households over the past few decades, and a surge in global competition among workers, which drove down wages for some American workers.[12]

Together, these shifts fostered a broad expansion in the demand for basic necessities among lower-income families, along with a corresponding growth of business opportunities in lower-income markets.

[11] *See generally* FINDING JOBS: WORK AND WELFARE REFORM (David E. Card & Rebecca M. Blank eds., 2000).

[12] *See generally* Jeff Chapman & Jared Bernstein, *Immigration and Poverty: How Are They Linked?*, 126 MONTHLY LAB. REV. 10 (2003); Richard B. Freeman, *Are Your Wages Set in Beijing?*, 9 J. OF ECON. PERSP. 15 (1995); Abraham T. Mosisa, *The Role of Foreign-Born Workers in the U.S. Economy*, 125 MONTHLY LAB. REV. 3 (2002); U.S. CENSUS BUREAU, CURRENT POPULATION SURVEY, MARCH AND ANNUAL SOCIAL AND ECONOMIC SUPPLEMENTS (2006), *available at* http://www.census.gov/population/socdemo/hh-fam/fm2.pdf.

B. Changing Supply of Goods and Services

Businesses responded to, and sometimes led, this surging demand in lower-income markets by opening new storefronts and expanding access to products, many of which despite increases in competition were priced higher than comparable products sold in higher-income markets. At the same time, major business innovations that have lowered prices in higher-income markets in recent years—such as online retail and super-sized grocery stores—passed many lower-income markets by. Together, these changes contributed to a growing supply of high-priced goods and services in lower-income markets, even as demand for these goods and services surged.

Mortgages are one type of expensive products that have increased in availability. Among the numerous industry advances that made this possible, the transition to risk-based pricing technology was perhaps the most important because it gave lenders the capacity to index interest rates and fees to a borrower's predicted risk of default. In the past, lenders were much less likely to extend credit to low-income clients with limited credit histories.[13] As a result of these changes, interest rates for the same amount of borrowed money can vary by more than 10%, adding up to tens of thousands of dollars in price differences charged to different consumers for the same mortgage amount.[14]

Increased access to home mortgages contributed to growth in related industries as well. Between 1993 and 2005, for instance, the number of rent-to-own establishments increased by 11%, while the industry's annual revenue increased by more than 69%.[15] These stores, which sell appliances, furniture, and electronics, market themselves to a lower-income demographic by offering low monthly payments to credit constrained customers and operating in lower- and moderate-income locales.[16]

New establishments and products were also developed to meet rising demand in lower-income markets for short-term loans. Pawnshops expanded from about 7000 storefronts in the late 1980s to more than 11,000 by 2005, and payday lenders grew from a few hundred establishments in the early 1990s to about 22,000 by 2005.[17] Despite well-established expectations that

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[13] *See generally* J. Michael Collins, et al., *Exploring the Welfare Effects of Risk-Based Pricing in the Subprime Mortgage Market*, *in* BUILDING ASSETS, BUILDING CREDIT, *supra* note 6, at 138–51.

[14] Robert B. Avery et al., *Higher-Priced Home Lending and the 2005 HMDA Data*, 92 FED. RES. BULL. 123, 156–58 (2006).

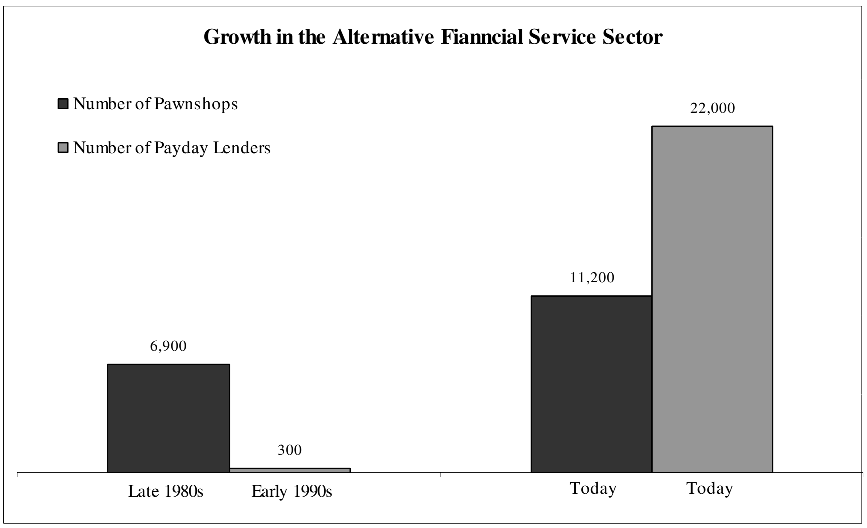
[15] Ass'n of Progressive Rental Orgs., Industry Overview, http://www.rtohq.org/About_rent-to-own/Industry_overview (last visited Mar. 7, 2007).

[16] *See generally* JAMES M. LACKO ET AL., FED. TRADE COMM'N, SURVEY OF RENT-TO-OWN CUSTOMERS (2000), *available at* http://www.ftc.gov/reports/renttoown/renttoownr.pdf.

[17] Nat'l Pawnbrokers Ass'n, http://www.nationalpawnbrokers.org/aboutus.htm (last visited Mar. 7, 2007); Cmty. Fin. Services Ass'n of Am., http://www.cfsa.net/about_payday_advance.html (last visited Mar. 7, 2007). *See generally* ROBERT W. SNARR, JR., FED. RESERVE BANK OF PHILA., NO CASH 'TIL PAYDAY: THE PAYDAY LENDING INDUSTRY (2002),

a growing supply of loan products would lead to decreases in market prices, research indicates that these alternative lenders tend to set prices at or near the maximum rate allowed by state law, indicating a potential market failure.[18]

FIGURE 2: GROWTH IN THE ALTERNATIVE FINANCIAL SERVICE SECTOR



Note: See Nat'l Pawnbrokers Ass'n, *supra* note 17; Cmty. Fin. Services Ass'n of Am., *supra* note 17. *See generally* ROBERT W. SNARR, *supra* note 17.

Additionally, because many price-lowering business innovations passed by lower-income markets, the supply of high-priced goods in lower-income markets increased. The median size of grocery stores, for instance, burgeoned over the past several decades, helping to drive down the share of household income going to buy groceries.[19] But many urban, lower-income neighborhoods missed out on this trend toward larger, lower-priced gro-

available at http://www.phil.frb.org/src/srcinsights/srcinsights/pdf/ccq1.pdf.

[18] Mark Flannery & Katherine Samolyk, *Payday Lending: Do the Costs Justify the Price?* 21 (FDIC Ctr. for Fin. Research, Working Paper No. 2005-09, 2005), *available at* http://www.fdic.gov/bank/analytical/cfr/2005/wp2005/CFRWP_2005-09_Flannery_Samolyk.pdf.

[19] *See* U.S. DEP'T OF AGRIC., FOOD EXPENDITURES BY FAMILIES AND INDIVIDUALS AS A SHARE OF DISPOSABLE PERSONAL INCOME (2006), *available at* http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/table7.htm. From 1994 to 2004, the median store size increased by 30%, up to roughly 46,000 square feet. Food Mktg. Inst., Key Facts: Median Average Store Size—Square Feet, http://www.fmi.org/facts_figs/keyfacts/storesize.htm (last visited Mar. 7, 2007).

cery stores because of the higher costs of development and more austere zoning policies in these neighborhoods.[20]

Similarly, the Internet has created enormous price-bargaining power for consumers by making the variance of prices in a market more transparent.[21] This is reflected by evidence that consumers who use the Internet to price basic necessities comparatively pay lower prices than consumers that do not access this service.[22] However, Internet access among lower-income households still lags significantly behind higher-income households, making lower-income consumers less able to take advantage of this important price-lowering tool.[23]

C. Higher Prices for Lower-Income Consumers Now Add Up to a Hefty Premium

The combination of increased demand for necessities and increased supply of high-priced necessities in lower-income markets substantially expanded the incidence and magnitude of the premiums charged to lower-income consumers. Almost across the entire budget, lower-income families tend to pay higher prices than higher-income families for the exact same good or service.[24] As a result, initiatives designed to lower prices are more important now than ever.

D. Buying Credit Costs More

Of the numerous credit lines that have grown in availability in lower-income markets, mortgages, auto loans, and short-term loans are some of the more prevalent. Available evidence indicates that lower-income consumers tend to pay higher prices for each of these services.

In the mortgage market, the most recent data indicate that the average APR on a first mortgage charged to households earning less than

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[20] Recent research suggests the average grocery store in lower-income neighborhoods in metro areas is 2.5 times smaller than in higher-income neighborhoods. FELLOWES, *supra* note 1, at 6.

[21] For instance, websites like lendingtree.com, carbargain.com and einsurance.com help consumers compare prices in the lending, automotive, and insurance industries, respectively.

[22] *See* Jeffrey R. Brown & Austan Goolsbee, *Does the Internet Make Markets More Competitive? Evidence from the Life Insurance Industry*, 110 J. POL. ECON. 481, 483 (2002).

[23] *See* ERIC C. NEWBURGER, U.S. CENSUS BUREAU, U.S. DEP'T OF COMMERCE, P23-207, HOME COMPUTERS AND INTERNET USE IN THE UNITED STATES: AUGUST 2000, at 2–3, 6–7 (2001), *available at* http://www.census.gov/prod/2001pubs/p23-207.pdf; MARY MADDEN, PEW INTERNET & AM. LIFE PROJECT, DATA MEMO: INTERNET PENETRATION AND IMPACT 4 (2006), *available at* http://www.pewinternet.org/pdfs/PIP_Internet_Impact.pdf.

[24] The average family in the lowest income quintile spends 38% of their budget on housing, 15% on transportation, 17% on food, 8% on health care, 4% on entertainment, and 18% on other items. U.S. BUREAU OF LABOR STATISTICS, U.S. DEP'T OF LABOR, CONSUMER EXPENDITURES IN 2004, at 9 (2006), *available at* http://www.bls.gov/cex/csxann04.pdf. Specific questions on the cost of basic financial services are not available.

$30,000 per year is about 6.9%, compared to a 5.5% average rate for households with annual earnings of more than $120,000.[25] Over the course of a loan, those rate differences can add up to tens of thousands of dollars in additional charges for lower-income consumers. Not only do higher-cost mortgages affect the ability of lower-income borrowers to meet basic sustenance costs and make other investments, but housing experts have also found that such borrowers are unlikely to succeed in building wealth from this investment.[26]

FIGURE 3: DISTRIBUTION OF MORTGAGE APRS, BY INCOME GROUP

Typical APR on First Mortgage, by Income Group			
Household Income	25th Percentile	Mean	75th Percentile
Less than $30,000	5.4%	6.9%	7.8%
$30–59,999	5.5%	6.5%	7.0%
$60–89,999	5.3%	6.0%	6.5%
$90–119,999	5.1%	5.9%	6.3%
$120,000+	4.9%	5.5%	6.0%
Total	5.3%	6.2%	6.8%
Typical APR on Second Mortgage, by Income Group			
Household Income	25th Percentile	Mean	75th Percentile
Less than $30,000	7.0%	9.2%	10.0%
$30–59,999	5.8%	7.9%	10.0%
$60–89,999	4.5%	7.1%	8.5%
$90–119,999	4.5%	6.4%	8.0%
$120,000+	4.5%	6.0%	6.5%
Total	4.8%	7.2%	8.8%

Note: *See* FELLOWES, *supra* note 1, at 41.

There are even higher price differences in the loosely regulated auto loan market. In 2004, the average APR paid by lower-income households

[25] Figures based on author's analysis of data from FED. RESERVE BOARD, 2004 SURVEY OF CONSUMER FINANCES (2004), *available at* http://www.federalreserve.gov/pubs/oss/oss2/2004/scf2004home.html. For an excellent assessment of how these higher interest rates drain wealth from the poor, see Eric S. Belsky et al., *The Financial Returns to Low-Income Homeownership* (Harvard Univ. Joint Ctr. for Hous. Studies, Working Paper No. W05-9, 2005), *available at* http://www.jchs.harvard.edu/publications/finance/w05-9.pdf.

[26] *See* Belsky, *supra* note 25, at 17.

for an auto loan was about 9.2%. In contrast, households that earned more than $120,000 per year paid about 5.5%. That difference on a five-year, $5000 loan would add up to $500 in extra interest payments.[27]

However, the largest price differences in credit are found in the short-term loan market because of lower-income consumers' higher relative reliance on non-bank products, like payday loans, refund anticipation loans, pawnshop loans, and auto title loans.[28] Fees for payday loans, for instance, can be higher than 15% of a loan's value (or about 400% APR) in Colorado, Delaware, Illinois, South Dakota, and a number of other states.[29] To put those rates in perspective, the Federal Reserve estimates that the average credit card APR was between 12% and 15% between 2001 and 2005.[30] Research indicates that demand for payday loans is highest among lower- and moderate-income consumers who already have multiple credit cards,[31] suggesting that payday loans are often an expensive last resort for debt-burdened consumers.

Many factors drive up credit prices in lower-income markets. Businesses, for one, do incur higher costs when selling credit to lower-income consumers. In particular, selling credit to lower-income consumers involves increased risk because lower-income households have a much higher propensity to fall behind on their payments, declare bankruptcies, and have low credit scores.[32] Most alternative credit providers also have expensive business models compared to banks and credit unions, which sell a much larger range of products.

Additionally, unscrupulous businesses unnecessarily drive up credit prices for lower-income families. For instance, research on mortgage pricing suggests that more than one in five borrowers who purchased a high-cost mortgage could have qualified for a better-priced mortgage product, which

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[27] Figures based on author's analysis of data from FED. RESERVE BOARD, *supra* note 25. The average was generated by taking the average of all auto loans reported in the Survey of Consumer Finances for each household. The median, real value of a car owned by the lowest income quintile in 2001 was $5100.

[28] *See generally* John P. Caskey, *Fringe Banking and the Rise of Payday Lending*, *in* CREDIT MARKETS FOR THE POOR (Patrick Bolton & Howard Rosenthal eds., 2005); FELLOWES, *supra* note 1, at 4–6.

[29] *See* Nat'l Conference of State Legislatures, Payday Lending, http://www.ncsl.org/ programs/banking/paydaylend-intro.htm (last visited Mar. 7, 2007); NAT'L CONSUMER LAW CTR., 2005 SUMMARY OF STATE PAYDAY LOAN ACTS 9, 11, 18, 47 (2005), *available at* http://www.consumerlaw.org/action_agenda/payday_loans/content/NCLC_SUMMARY.pdf.

[30] *See* GEN. ACCOUNTING OFFICE, GAO-06-929, CREDIT CARDS: INCREASED COMPLEXITY IN RATES AND FEES HEIGHTENS NEED FOR MORE EFFECTIVE DISCLOSURES TO CONSUMERS 15 (2006), *available at* http://www.gao.gov/new.items/d06929.pdf.

[31] *See* ELLEN SEIDMAN ET AL., CTR. FOR FIN. SERVICES INNOVATION,
GETTING TO KNOW UNDERBANKED CONSUMERS: A FINANCIAL SERVICES ANALYSIS 5, 9 (2005), *available at* http://www.cfsinnovation.com/managed_documents/seg.pdf.

[32] MATT FELLOWES, FROM REDLINING TO GREENLINING: THE CREDIT BOOM AND BUST IN LOWER INCOME MARKETS (forthcoming May 2007).

would have saved hundreds or thousands of dollars in interest charges every year.[33]

Lower-income consumers also tend to be less informed than higher-income consumers because they have less access to the Internet, a key price-comparison shopping tool. Recent evidence indicates that 30% of lower-income consumers do almost no comparative shopping when buying credit, compared to just 13% of all other households.[34] This lack of information makes lower-income consumers more susceptible to overcharging.

E. Buying Consumer Durables Costs More

Lower-income consumers also tend to pay more for consumer durables. Some of the largest price differences among income groups are found in prices for cars. For instance, recent research suggests that the neighborhood income of a car buyer—the proxy used for the income of the car buyer—has a significant effect on the final price of a car. Moreover, a number of other variables associated with household income also affect price, including the car buyer's race, educational attainment, and renter status. Together, these effects add more than $500 to the price of an average-priced car.[35]

[33] Mike Hudson & E. Scott Reckard, *More Homeowners with Good Credit Getting Stuck with Higher-Rate Loans*, L.A. Times, Oct. 24, 2005, at A1.

[34] Fellowes, *supra* note 1, at 11.

[35] Fiona Scott Morton et al., *Consumer Information and Price Discrimination: Does the Internet Affect the Pricing of New Cars to Women and Minorities?* 3 (Nat'l Bureau of Econ. Research, Working Paper No. 8668, 2001), *available at* http://www.nber.org/papers/w8668.

FIGURE 4: PRICE DISCRIMINATION FOR CARS

Note: See Morton, *supra* note 35, at 17–22.

Lower-income consumers also tend to have greater reliance on rent-to-own stores and thus incur more frequent overcharges for less expensive durables like furniture, appliances, and consumer electronics.[36] Rent-to-own consumers pay higher prices than if they simply bought the item with a credit card because of numerous rental-related fees. For instance, the Maryland Attorney General's office estimates that a new $400 washing machine would cost over $1,000 if purchased from a rent-to-own business, compared to just $480 if purchased with a credit card.[37]

Higher costs of doing business in lower-income communities are partly to blame for higher prices. Rent-to-own stores have higher capital costs than credit card companies, and they understandably pass those higher costs onto consumers. Nonetheless, unscrupulous businesses also inflate the prices charged to lower-income consumers. Some evidence suggests, for instance, that car dealers may systematically discriminate against lower-income and African American buyers by charging higher prices.[38] Some evidence also indicates that dealers often do not disclose price-inflating terms of loan

[36] The FTC recently found that 59% of rent-to-own customers earn less than $25,000 a year. LACKO, *supra* note 16, at ES-1.

[37] Office of Md. Attorney Gen., Rent-to-Own: Worth the Convenience?, http://www.oag.state.md.us/consumer/edge109.htm (last visited Mar. 7, 2007).

[38] *See* Ian Ayers, *Fair Driving: Gender and Race Discrimination in Retail Car Negotiations*, 104 HARV. L. REV. 817, 817 (1991); *see also* Morton et al., *supra* note 35, at 2.

contracts.[39] Finally, lower-income consumers tend to be less informed than higher-income consumers. This information gap puts lower-income consumers at a disadvantage when they need to bargain or scan the market for lower prices. The relatively high demand for rent-to-own services, which make little financial sense for most consumers, illustrates that disadvantage.

F. Buying Consumer Services Costs More

A broad array of consumer services are also sold at relatively high prices in lower-income markets. While most middle- and higher-income households rely on banks and credit unions to deposit checks, for instance, about nine million lower-income households lack an account and instead turn to higher priced check-cashing services. Fees at these alternative establishments range from about 1% of the face value of a check in Illinois to no limit in more than twenty-five states. Even within states, fees vary depending on the origin of the check. These fees carry a sizable cumulative impact: an unbanked adult earning the minimum wage in Detroit, for instance, pays anywhere from about $200 to $1700 every year to cash checks, depending on the source of the check.[40]

Evidence also suggests that urban, lower-income households pay higher prices than higher-income households for insurance. As a result of limited disclosure laws that govern the insurance industry, it is difficult to reliably quantify the national price differences among drivers. However, recent research on a sample of metropolitan areas found that the highest prices for insurance are in the lowest-income neighborhoods. The largest price difference is in New York, where it costs nearly $1000 more every year, on average, to insure the exact same car and driver in a lower-income neighborhood than in a moderate-income neighborhood.[41] Prices in low-income neighborhoods may even be higher than this study suggests because of a variety of unmeasured personal characteristics, like credit scores, educational attainment, and occupation, which co-vary with income and are factored into rates in some states.

Finally, groceries sold in urban, lower-income neighborhoods have long been known to be more expensive compared to groceries in higher-income neighborhoods. While scholars in the 1960s referred to "ghetto grocery stores" and lamented the added burden these placed on poor fami-

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[39] *See* California Department of Motor Vehicles, DMV & Consumer Affairs Protect Californians with "Car Buyer's Bill of Rights," http://www.dmv.ca.gov/pubs/newsrel/newsrel06/2006-13.htm (last visited Mar. 7, 2007); Remar Sutton, Anne E. Casey Found., Car Financing for Low and Moderate Income Consumers (forthcoming Apr. 2007).

[40] Matt Fellowes, Op-Ed., *Poor Should Get More for the Money*, Detroit Free Press, Aug. 7, 2006, at A9.

[41] Fellowes, *supra* note 1, at 5; *see generally* Office of the N.Y. City Comptroller, Highway Robbery: The High Cost of Automobile Insurance in New York (2006), *available at* http://www.comptroller.nyc.gov/bureaus/opm/reports/11-29-06_auto_insurance_report.pdf.

lies, the best evidence of price differences today is reflected by the difference in store sizes across markets. One recent analysis found, for instance, that grocery stores in metropolitan, lower-income neighborhoods were 2.5 times smaller, on average, than those available in higher-income neighborhoods.[42]

Like prices for credit and consumer durables, prices for consumer services tend to be more expensive because of higher business costs, unscrupulous business practices, and information asymmetries among consumers.

III. Making Markets an Asset for the Poor

While federal antipoverty policy is almost exclusively focused on boosting the income of the poor, many state and local governments have experimented with attempts to bring down the prices for basic necessities. State and local leaders are fundamentally altering how capitalism functions by making market adjustments through regulations, market incentives, and partnerships with businesses. Together, these policies aim to make markets work as an asset for the poor.

Although state and local activity is widely uneven across the country, the initiatives offer an entirely new theory on how to help lower-income families get ahead. The new initiatives primarily fall into one of three strategies: (1) lowering costs of doing business with the poor, (2) curbing unscrupulous behavior in the market, and (3) boosting the transparency of the market for consumers so they can make better-informed decisions. Higher costs of living for the poor are not inevitable—the right policies can bring them down, and policymakers have a real opportunity here to help lower-income families get ahead.

A. Lower Costs of Doing Business with the Poor

Talk to a mortgage, insurance, basic financial service, or just about any business that sells goods or services to the poor about why they tend to charge higher prices, and they will emphasize the higher costs of doing business in these areas and with these customers. In some, probably even most, cases they are absolutely correct. Lower-income families tend to fall behind more often on bill payments, for instance, which adds processing costs and lowers their credit scores; they tend to live in higher-crime neighborhoods, which adds business costs; and they have less money to spend, which means that businesses need to serve more people to achieve a sustainable revenue stream. Just as important, the existence of these

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[42] Fellowes, *supra* note 1, at 6; *see generally* Chanjin Chung & Samuel L. Myers, Jr., *Do the Poor Pay More for Food? An Analysis of Grocery Store Availability and Food Price Disparity*, 33 J. of Consumer Aff. 276 (1999); Tony Proscio, *Food, Markets, and Healthy Communities*, J. Housing & Community Dev., July-Aug. 2006.

higher costs contributes to perceptions of higher costs even where they might not actually exist.[43] This can deter responsible businesses from opening in these markets, thus decreasing competition and further increasing costs.

One potential solution for lowering prices, then, is to lower business costs through subsidies. This involves a very different flow of benefits than in traditional anti-poverty policy, where the benefits tend to flow directly to lower-income consumers. Here, the benefits flow indirectly to lower-income consumers through businesses. In 2005, Pennsylvania took this approach by becoming the first state to provide subsidies for the development of medium to large grocery stores in lower-income neighborhoods. As part of this initiative, the state paid for various costs associated with building grocery stores, including planning and land development costs.[44] Through a $20 million expenditure, Pennsylvania was able to leverage an additional $60 million in private funding and federal tax dollars and attract over twenty grocery stores to underserved markets in just two years.[45] By taking these costs off the table for grocery stores, the state cleared the way for the development of lower-priced grocery stores to directly compete with the higher-priced convenience stores that once were the sole providers of food in these neighborhoods. Now, other states are working toward similar bills.[46]

Similarly, subsidies provided by the City and State of New York have spurred the opening of more than thirty new bank branches in lower-income neighborhoods. This has helped lower demand for higher priced non-bank alternatives like check cashers. In particular, this program authorizes both the state and city Banking Departments to transfer more than $100 million in revenue to branches that open in lower-income neighborhoods and offer those branches a discounted interest rate on up to $10 million of the deposit for up to two years. This deposit makes up for the relatively low depository and borrowing power among lower-income consumers, allowing branches to open up in lower-income markets. At the same time, this program gives state and local leaders the opportunity to oversee the development of branches in lower-income markets, helping to ensure that participating banks offer and market reasonable, lower-cost products. According to an analysis of fifteen of these branches, more than 20,000 new checking or savings accounts were opened between May 2005 and April 2006, along with about $84 million in new loan originations. Though a small part of New York's banking market, the program has had the unmeasured further effect of encouraging additional banks to open and lend

[43] FELLOWES, *supra* note 1, at 39.

[44] Other innovative initiatives are discussed in Proscio, *supra* note 42.

[45] Pennsylvania Fresh Food Financing Initiative, http://www.trfund.com/financing/realestate/supermarkets.html (last visited Mar. 7, 2007).

[46] *See, e.g.*, "The Healthy Food Access Act." S.B. 1329. 2005-2006 Leg., Reg. Sess. (Cal. 2006).

in these markets. This program can easily be expanded because the costs of the program—administrative expenses and lost interest income—are minimal.[47]

Policymakers have also lowered business costs by reassessing how those costs should be measured. These efforts have resulted from the belief that businesses often overstate their costs in lower-income neighborhoods. The highest-profile example of this is in the insurance industry, where more than a dozen states have recently challenged the use of credit histories by insurance companies. "The bottom line," according to Florida's General Counsel to the Office of Insurance Regulation, "is we believe the lowest income strata have the worst credit scores, and they are paying higher rates as a result of that."[48] In the insurance context, fears of statistical discrimination have been the basis for regulatory efforts aimed at removing, or limiting, this variable in the calculation of prices.[49] Insurance companies claim that this raises the overall price of insurance in the market, but that is presumably just because risk ends up being more equitably distributed across drivers. Unfortunately, the data to assess the impact of both the regulation and the industries claims are limited. Although Congress mandated in 2003 that the Federal Trade Commission study this issue, the report is now over a year late and consumer advocates have criticized the Commission for using a non-representative sample.[50] In the meantime, states continue to aggressively pursue curbs on credit history applications, and insurance companies continue to aggressively resist those restrictions.

Finally, leaders are pooling together higher costs among businesses in order to lower business costs. San Francisco's Mayor Newsom, for instance, has set a goal to open checking accounts for at least 20% of the city's unbanked population within the next two years through a partnership he formed with twenty participating banks and credit unions. In exchange for free marketing supplied by the city, the banks and credit unions are working together to design appropriate banking products and marketing strategies that will lure lower-income consumers away from high-priced alternatives and into the lower-priced, mainstream financial ser-

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[47] A maximum of fifteen basis points can be deducted from a maximum $10 million deposit. That is about $500,000 per branch, per year, for up to a maximum of two years.

[48] Harriet Johnson Brackery, *Insurers, State Duel over Role of Credit Scores in Auto and Home Insurance Rates*, S. FLA. SUN-SENTINEL, July 13, 2006, at A1.

[49] Similarly, California has taken steps to curb the use of territories (e.g., zip codes) by insurance companies to set prices. The former Insurance Commissioner has said that the use of territories by insurance companies is also discriminatory, presumably because of the same statistical issues thought to be created by the use of credit information. *CBS Evening News* (CBS television broadcast Jan. 1, 2007).

[50] A number of organizations, including the Consumer Federation of America, Center for Economic Justice, and National Consumer Law Center, have challenged the FTC over its data use in this study. Letter from Calvin Bradford and Associates Ltd. et al. to Jesse Leary, Deputy Assistant Director, Division of Consumer Protection, Bureau of Economics, Federal Trade Commission (July 7, 2006) (on file with author).

vice industry. In this way, banks and credit unions are sharing the start-up costs associated with entering new markets, and the city is able to lower the cost of financial services for the poor by working to ensure that banks offer responsible, lower priced products.[51]

Another example of this model is in the insurance industry. In California, the Insurance Commissioner of California has formed a low-cost insurance policy for low-income drivers. All licensed insurers in the state are required to participate in that program. Through pooling the risks of insuring these drivers, the Insurance Commissioner was able to lower the price of insurance for lower-income drivers.[52]

These examples are based on recent initiatives in only a handful of states. Yet, they offer the potential for replication in other states and by the federal government. The federal government already subsidizes business costs in lower-income markets through initiatives like the Community Development Financial Institutions (CDFI) Program and New Markets Tax Credit (NMTC), which award more than $50 million in grants every year to spur the development of mainstream financial services in lower-income markets. However, these programs are extremely modest relative to the need, and bringing them to scale or broadening the reach of subsidies to other markets would be extremely expensive. The very constrained federal fiscal environment makes a recommendation to do so unrealistic.[53]

More realistically, federal efforts to lower prices for the poor through business subsidies should be coupled with other types of policy approaches. For instance, the Poverty, Work, and Opportunity Taskforce of the United States Conference of Mayors proposed in January 2007 that the federal government open and capitalize a savings account for every child born in this country to help create a new source of funding for higher education and workforce development, while also lowering dependence on high-priced, non-bank alternatives.[54] Additionally, the Taskforce recommended that the government use the tens of billions of dollars in float estimated to be created from this program over the first eighteen years to replicate New York's banking development initiative on a federal level. Here, the federal government could accomplish multiple policy goals with a single ex-

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[51] *See generally* Anne Stuhldreher, Consumer Fed'n of Am., Bank on San Francisco, http://www.cfed.org/focus.m (follow "Bank on San Francisco" hyperlink) (last visited Mar. 7, 2007).

[52] *See generally* California Dep't of Ins., Low Cost Automobile Insurance Program, http://www.insurance.ca.gov/0100-consumers/0060-information-guides/0010-automobile/lca/index.cfm (last visited Mar. 7, 2007).

[53] *See generally* Restoring Fiscal Sanity 2005: Meeting the Long-Run Challenge (Alice M. Rivlin & Isabel Sawhill eds., 2005).

[54] Antonio Villaraigosa, U.S. Conference of Mayors Taskforce on Poverty, Work, and Opportunity, Repairing the Economic Ladder: A Transformative Investment Strategy to Reduce Poverty and Expand America's Middle Class 13 (2007), *available at* http://www.preschoolcalifornia.org/assets/US-Conf-Mayors-Poverty-Work-and-Opp-Task-Force-Jan-2007.pdf.

penditure, making it more fiscally and politically realistic than a more targeted expenditure of the same amount of money.[55]

The federal government should also follow the lead of states by challenging how business costs are measured and spurring businesses to pool the higher costs of doing business with the poor. For instance, concerns about the accuracy of credit reports—which directly influence the price of loans and insurance and indirectly influence prices by affecting the location of retailers—prompted Congress in 2003 to require that credit bureaus make one free credit report available to consumers every year.[56] Congress intended this law to empower consumers to guard against errors in their reports more effectively. As a next step, I recommend that Congress pass a Credit Bureau Disclosure Act, which would require the bureaus to report regularly on the filings and outcomes of consumer complaints. Without that information, Congress has no capacity to assess whether the accuracy of reports is actually improving as a result of the amendments passed in 2003.[57]

Similarly, the U.S. Treasury Department or one of the banking regulatory agencies could replicate the Bank on San Francisco model by forming partnerships with regional banks and setting goals to increase demand for low-priced financial service products in lower-income markets. One existing vehicle for such an effort is the FDIC Advisory Committee on Economic Inclusion, which was chartered in November 2006. This taskforce is responsible for providing the regulatory agency recommendations for expanding access to financial services among underserved populations. As part of that effort, participating members should work with banks to set a realistic goal for lowering demand for high-priced alternative financial services and work to promote the proven, profitable, relatively low-cost banking products.[58] Key among these efforts should be the following: a clear endorsement by banking regulators of the availability of CRA credit for low-cost, short-term loan alternatives to payday loans; more government transparency in the documents that banks can accept to open accounts (e.g., Consular ID); and restrictions on denying account access because of check-screening reports, such as those provided by Chex Systems.[59]

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[55] In fact, this proposal also strives to address the high school drop out problem, by forbidding access to this account until the beneficiary obtains a high school degree. *See id.*

[56] Fair and Accurate Credit Transactions Act of 2003, Pub. L. No. 108-159, § 211, 117 Stat. 1981 (codified as amended in scattered sections of 18 U.S.C.).

[57] For more information about this recommendation, please refer to Matt Fellowes, Brookings Inst., Credit Scores, Reports, and Getting Ahead in America 16 (2006), *available at* http://www.brookings.edu/metro/pubs/20060501_creditscores.pdf.

[58] *See generally* Sheila Bair, Anne E. Casey Found., Low-Cost Payday Loans: Opportunities and Obstacles (2005), *available at* http://www.aecf.org/publications/data/payday_loans.pdf.

[59] For instance, participating banks and credit unions in the Bank on San Francisco campaign agreed to waive non-sufficient funds/overdraft histories older than one year. For more information about these criteria: http://www.sfgov.org/site/bankonsf_index.asp?id=46628.

At the same time, banking regulators should make educational resources available for local leaders so they can more effectively market financial products that are in the best interest of lower-income consumers and overcome misperceptions about banks in these markets.

B. Curb Unscrupulous Behavior in the Market

Talk to advocates for the poor about why businesses charge higher prices, and they will emphasize "price-gouging." That studies have found over one in five borrowers of high-cost mortgages qualify for lower prices seems on its face to be evidence of unscrupulous behavior.[60]

Evidence such as this has prompted an aggressive expansion in state regulation over the past decade intended to bring down excessive prices, particularly those incurred by lower-income consumers. Some of this regulation has been broadly implemented across the country. More than twenty states, for instance, have followed North Carolina's lead in curbing price-inflating practices in the mortgage industry.[61] New Mexico's new regulations, for instance, put restrictions on prepayment penalties, limit equity-stripping, refinancing practices, and require lenders to provide pre-purchase financial counseling to prospective, high-cost loan borrowers.[62] While more research is needed to analyze the impact of these recent state laws, the weight of the evidence collected to date indicates that the laws have curbed these and other price-inflating mortgage features, while not depressing growth in mortgage originations.[63]

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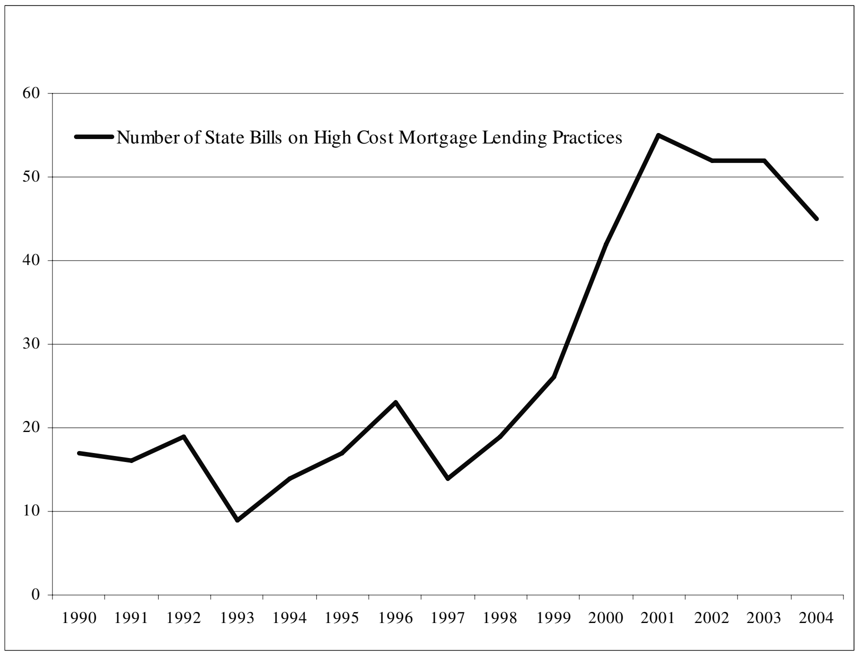
[60] *See* Hudson & Reckard, *supra* note 33.

[61] The North Carolina bill passed in 1999. S.B. 1149, 1999-2000 Leg., Reg. Sess. (N.C. 1999).

[62] New Mexico Home Loan Protection Act, S.B. 449, 2003-2004 Leg., Reg. Sess. (N.M. 2003).

[63] *See* Wei Li & Keith S. Ernst, Ctr. for Responsible Lending, The Best Value in the Subprime Market: State Predatory Lending Reforms (2006), *available at* http://www.responsiblelending.org/pdfs/rr010-State_Effects-0206.pdf; Michael A. Stegman et al., *NC's Anti-Predatory Lending Law: Doing What It's Supposed To Do: A Reply* (AEI-Brookings Joint Ctr. for Regulatory Studies, Regulatory Analysis 03-27, 2003), *available at* http://www.aei-brookings.org/admin/authorpdfs/page.php?id=299. *But see* Robert E. Litan, *North Carolina's Anti-Predatory Lending Law: Still a Problem Despite New Study* (AEI-Brookings Joint Ctr. for Regulatory Studies, Regulatory Analysis 03-9, 2003), *available at* http://www.aei-brookings.org/admin/authorpdfs/page.php?id=291.

FIGURE 5: THE RISE IN STATE REGULATION DESIGNED TO CURB PRICE DISCRIMINATION



Note: See Matt Fellowes, Laboratories of Capitalism: How States Get the Market Right for Working Families, Address at the Federal Reserve Bank of Cleveland Policy Summit 17 (June 23, 2005), *available at* http://www.brookings.edu/metro/speeches/20050623_FederalReseve.pdf.

Similarly, over a dozen states have tightened regulations that govern the payday loan industry or outright banned the practice. Most recently, Georgia passed legislation that lowered the maximum APR for a short-term loan to under 16%—a rate comparable to those charged by credit cards. The impact of the state law was swift: payday lenders left the state almost overnight, and there is virtually no payday lending market left in Georgia.[64]

Other regulatory efforts designed to curb inflated prices have been more selective. Up until 2006, for instance, California was the only state to offer free tax preparation services by mailing out state pre-prepared tax

[64] State regulation of payday lenders is now much more efficacious than it once was because: (a) all of the federal banking regulatory agencies now ban or place severe restrictions on bank-payday lending partnerships (curbing the impact of federal preemption); (b) states are starting to curb the importation of better rates from other states; and (c) a growing number of banks and credit unions are offering lower cost alternatives.

returns to a sample of filers. If brought to scale, this initiative could help cut into the demand for for-profit tax preparers and expensive refund anticipation loans, which lower-income consumers are much more likely than higher-income consumers to purchase. Fees for these services alone generally range between ten and eighty dollars.[65] However, the program was strongly opposed by the tax preparation industry and lost its funding in 2006.

That same year, California also became the first state to pass legislation that curbs inflationary price practices among auto dealers and auto lenders.[66] That statute prohibits a number of the most egregious practices—such as the ability to add undisclosed terms to a contract—and curbs the incentive lenders have to charge higher than necessary prices for auto loans because of "kick-backs" from banks. While more widespread than initiatives that subsidize business costs, regulatory initiatives are still uneven across the country. In fact, such initiatives are uneven within individual states. California, for instance, has aggressively tried to bring down tax and car loan prices through regulation, but it also has some of the loosest mortgage and basic financial service regulations in the country. There is still a great deal of room for states to implement additional regulations that curb egregious, price-inflated practices.

At the same time, Congress could pass legislation that would make these protections against abusive practices universal. A bill modeled on the 1999 North Carolina mortgage law, for instance, was introduced in 2005 but has languished in a committee since then.[67] Similarly, policymakers should commission research to explore the need for a reporting requirement in the auto loan market that resembles the Home Mortgage Disclosure Act. The evidence of discrimination discussed above should be cause for alarm. Moreover, federal policymakers should provide funding to the Internal Revenue Service to explore how to replicate California's free tax preparation system, with a focus on lower-income households.[68]

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[65] *See generally* Alan Berube et al., The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC (2002), *available at* http://www.brookings.edu/es/urban/publications/berubekimeitc.pdf.

[66] Assemb. 68, 2005-2006 Leg., Reg. Sess. (Ca. 2005).

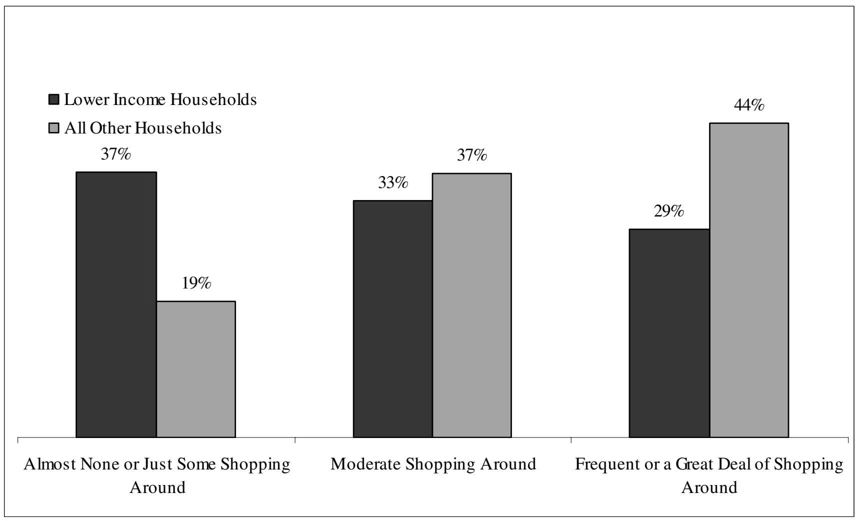
[67] Prohibit Predatory Lending Act of 2005, H.R. 1182, 109th Cong. (2005). One of the bill's sponsors, Congressman Barney Frank, is now Chairman of the House Financial Services Committee, and has said that passing this or a related bill is his top priority for the 110th Congress.

[68] A plan for bringing this model to scale nationally is discussed in Austan Goolsbee, The 'Simple Return': Reducing America's Tax Burden Through Return-Free Filing (2006), *available at* http://www.brookings.edu/views/papers/200607goolsbee_wp.pdf.

C. Boost the Transparency of the Market for Consumers

Survey evidence indicates that lower-income consumers consistently do less comparison shopping than higher-income consumers. Worse, they know less about personal finance issues than higher-income families. For instance, knowledge about the impact of credit scores on loan and insurance access and costs is strongly related to household income.[69] Lack of market transparency puts lower-income consumers at a disadvantage when buying basic necessities and sets them up to fall victim to high-priced, unscrupulous businesses.

FIGURE 6: COMPARATIVE SHOPPING BEHAVIOR FOR CREDIT-BACKED GOODS, BY INCOME GROUP



Note: See FELLOWES, *supra* note 1, at 11.

Findings such as these have spurred a number of recent initiatives to bring down prices for lower-income families by boosting the amount of information with which they shop. The theory is that greater market transparency will give lower-income consumers a better opportunity to find the lowest possible price for a necessity, while also protecting them from unscrupulous businesses.

Many states have sought to boost market transparency by offering general financial literacy courses in K–12 schools. Idaho, Illinois, Kentucky,

[69] GEN. ACCOUNTING OFFICE, GAO-05-223, CREDIT REPORTING LITERACY: CONSUMERS UNDERSTOOD THE BASICS BUT COULD BENEFIT FROM TARGETED EDUCATIONAL EFFORTS 33-36 (2005), *available at* http://www.gao.gov/new.items/d05223.pdf.

Georgia, New York, and Utah require high school students to take such a class before graduating. Similarly, Alabama has recently required that personal finance classes be offered as early as middle school; and Pennsylvania, among other states, is now providing financial education training to public school math and science teachers.[70]

Other financial education initiatives focus on adults. Courses vary widely, from those that provide comprehensive information about budgeting, saving, and investing to those that focus on a particular purchase, like buying a house or saving for education.

Although there is some evidence that a financial education can positively change behavior, the effectiveness of these investments is constrained by our limited knowledge about which financial education programs are most effective.[71] Among the problems: financial education offerings in a particular market are generally uncoordinated, there are few best practices for providers, no standards for evaluation exist, and the few studies that are available often suffer from sample-selection bias (i.e., recipients of financial education may self-select, and thus be systematically different from non-recipients) or validity problems (there are so many different outlets for education, it is often difficult to generalize).[72]

Financial education is not the only path to boost the amount of information with which lower-income consumers shop: states are also looking at strategies to boost the transparency of prices in different markets. Several states, for instance, now provide a consumer shopping guide for auto and home insurance shoppers. These guides typically provide a list of all of the businesses in the state licensed to sell these services and a sample of prices offered for comparable products. Too often, though, these are buried deep on state government web pages, limiting the potential spread of this information.

Businesses, too, are addressing this need for market transparency. Companies like lendingtree.com, carbargain.com, einsurance.com, grocerystore.com, and dozens of others are based on a business model that gives consumers a one-stop destination to find different prices for the exact same necessity.[73] Similarly, some insurance companies, like Progressive, are now providing prospective customers with quotes from other major insurance companies and an explanation to consumers about why prices vary across

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[70] NAT'L COUNCIL ON ECON. EDUC., SURVEY OF THE STATES: ECONOMIC AND PERSONAL FINANCE EDUCATION IN OUR NATION'S SCHOOLS IN 2004, at 3 (2005), *available at* http://www.ncee.net/about/survey2004/NCEESurvey2004web.pdf.

[71] For an excellent review of existing initiatives, however, see LESLIE PARRISH & LISA SERVON, POLICY OPTIONS TO IMPROVE FINANCIAL EDUCATION: EQUIPPING FAMILIES FOR THEIR FINANCIAL FUTURES 4–5 (2006), *available at* http://assetbuilding.org/AssetBuilding/Download_Docs/Doc_File_1494_1.pdf.

[72] *See generally* Angela C. Lyons et al., *Are We Making the Grade? A National Overview of Financial Education and Program Evaluation*, 40 J. CONSUMER AFF. 208 (2006).

[73] Note that none of these sites provides comprehensive information about the market, but they do provide much more information than previously available in a single location.

companies. To help more lower-income families access these resources (over half of which still lack access to the Internet), Congress should restore funding for the Community Technology Centers Program, which was eliminated in 2006 after five years of cuts. Linking a discount for a computer purchase to the Earned Income Tax Credit is another option for Congress to consider.

For policymakers, the next steps needed to further boost the transparency of prices for the poor involve more coordination and research around already existing efforts. One possible model for federal action is the Bank on San Francisco initiative described earlier. As part of that program, a nonprofit organization has taken on the responsibility of updating an inventory of financial education investments in the city and disseminating that information to city and community leaders and organizations.

Congress ordered something similar in 2002, when it established the Financial Literacy and Education Commission.[74] However, the Commission has met only seven times and has not made any specific recommendations to policymakers to improve financial education.[75] High-level Congressional or White House attention is now needed.

Following more academic evaluations of financial education curriculum in K–12 schools, it may also be appropriate to incorporate financial education questions into the standards testing mandated by the No Child Left Behind Act. This will serve as an incentive for more states and local governments to incorporate financial literacy curricula into public schools. Similarly, after more evaluations have been completed, it may be appropriate for Congress to consider providing incentives to businesses for offering financial education training in the workforce, particularly in industries with relatively high proportions of low-wage workers.

IV. Conclusion

Public and private leaders now have a wealth of evidence that millions of lower-income families are paying higher prices for basic necessities. Those higher prices impede the ability of families to get ahead and dilute the efficacy of government investments in income-boosting initiatives. Leaders also have a collection of state and local initiatives that offer clues for how to effectively lower prices. Now is the time to act.

The ideas discussed in this Essay take a different approach than most antipoverty policy, which focuses nearly exclusively on boosting the income of the poor through direct subsidies (like the Earned Income Tax Credit or Food Stamps) or indirect incentives that expand access to well-

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[74] Fair and Accurate Credit Transactions Act § 513, *supra* note 56.

[75] Among the accomplishments to date, the Commission created an online resource devoted to financial education. MyMoney.gov, http://www.mymoney.gov (last visited Mar. 7, 2007).

paying jobs (like job-training or education subsidies). Income is important to be sure, but cost-savings on the other side of a lower-income family's ledger make as real an impact on buying power as any income-boosting initiative.

Clearly, though, there is no silver bullet that will solve these problems because of the multiple of factors that contribute to higher prices. Lowering business costs, curbing unscrupulous businesses, and boosting financial education should all be part of the toolkit that leaders put to work to lower these higher prices for the poor. This last tool—financial education—is particularly important since it can help lower-income families make wise use of the savings brought about by these cost-lowering initiatives. Of course, some families will need to use the savings to better meet the nutritional or child care needs of their children. But other families will have expanded opportunities to put savings into wealth-building investment accounts.[76]

Together, these cost-lowering initiatives will help propel the economic and social mobility of the poor, expand business opportunities in lower-income markets, and increase the effectiveness of extant programs that boost the income of the poor.

[76] For some excellent federal proposals to promote this goal, see Michael S. Barr, *An Inclusive, Progressive National Savings and Financial Services Policy*, 1 Harv. L. & Pol'y Rev. 161 (2007).