

# The Brookings Institution

Metropolitan Policy Program  
*Matt Fellowes, Fellow*

## **The High Cost of Being Poor:** *Reducing the Costs of Living for Working Families*

**National Community Tax Coalition Annual Conference,  
October 13, 2006**



## The High Cost of Being Poor: *Reducing the Costs of Living for Working Families*

I

Why focus on lowering costs of living?

II

What is the opportunity to lower the costs of living?

III

How are leaders able to lower costs of living?



In general, we help lower income families get ahead by investing in strategies to boost their income.

## 1. One way this is being done is by broadening access to jobs

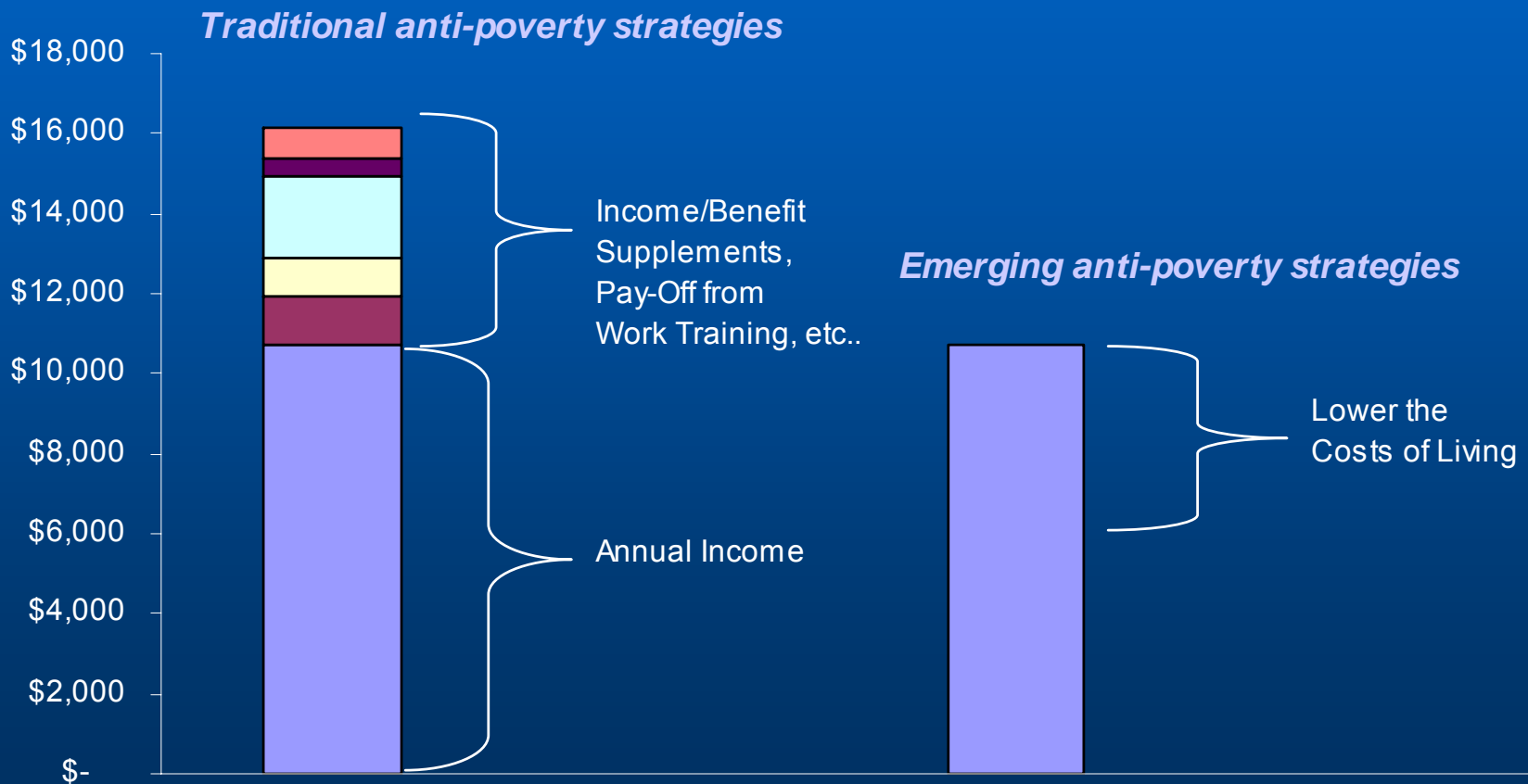
**Includes:** Boosting workforce development, improving spatial access to jobs, re-investing in education, etc..

## 2. The other way is by making work pay

**Includes:** Supporting critical tax enhancements and access to benefits (e.g., EITC, Child Care Tax Credits, etc.), improving access to other federal benefits, promoting asset development, advocating for minimum wage increases, expanding health care benefits, etc..

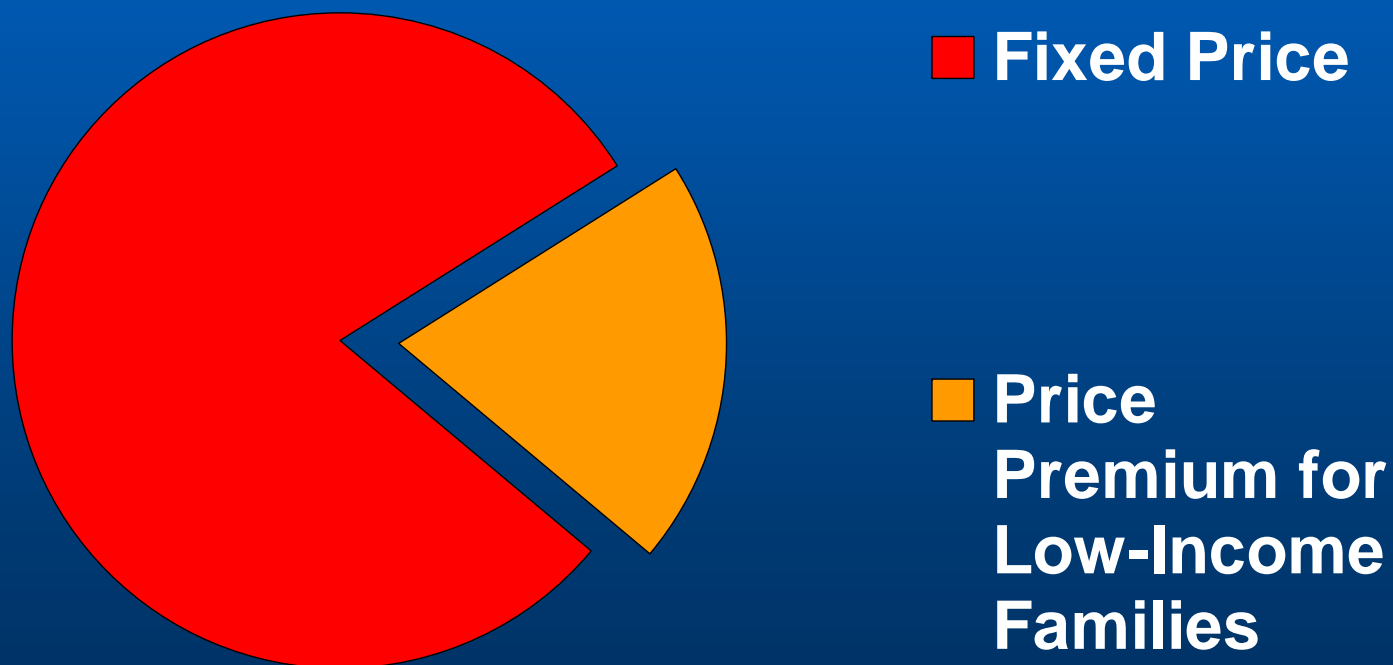


Increasingly, though, leaders are looking at strategies on the other side of a family's ledger, which bring down costs of living.





This focus is motivated, in part, by evidence dating back to at least the 1960s that the poor tend to pay higher prices for basic necessities.





But, attention to costs of living for low-income families is uneven across the country.

Also, most evidence of higher prices is out-of-date and sporadic, which makes it difficult to know how large this opportunity actually is, and what the opportunities actually are.

This lack of evidence makes it difficult to mobilize attention around this issue.



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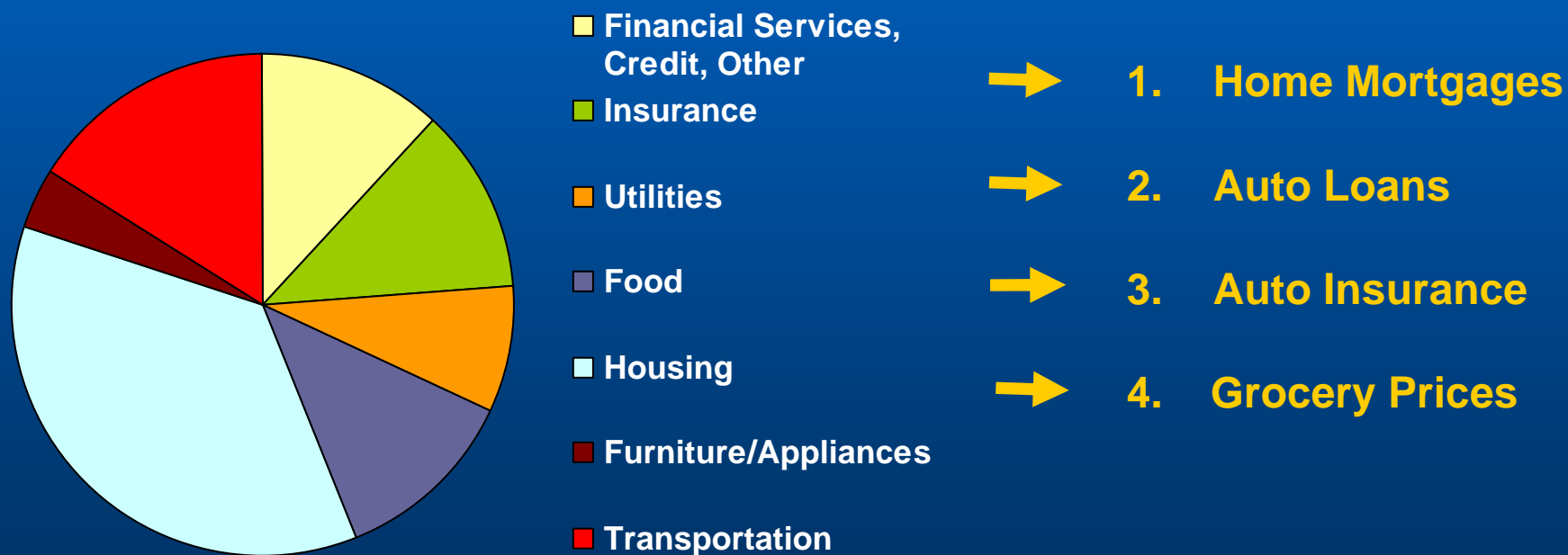
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# What is the opportunity to lower costs of living? Here are five examples from a family's budget:

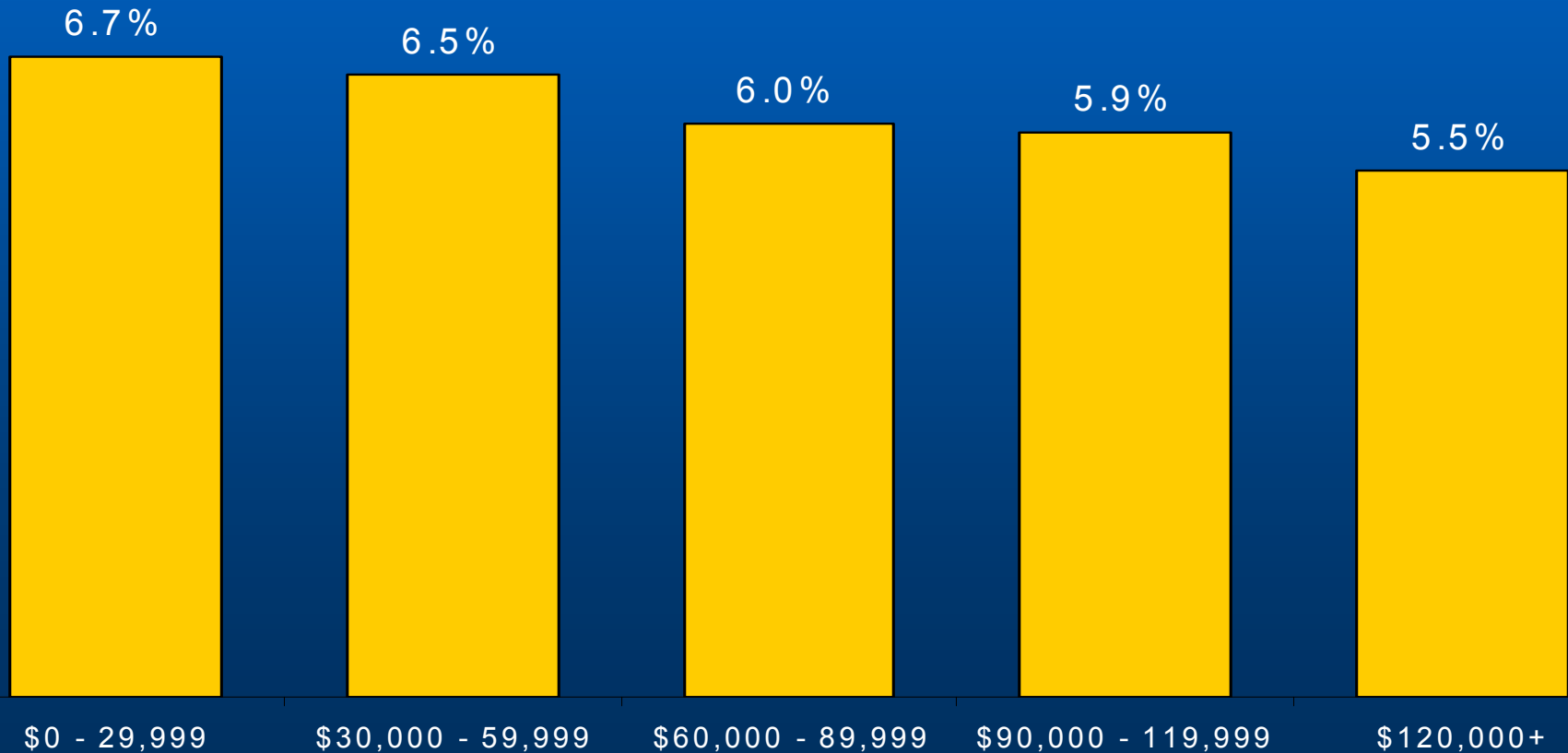






**Example 1:** More than 4.2 million lower income households pay higher than average mortgage prices.

■ = Average Mortgage APR ('04)

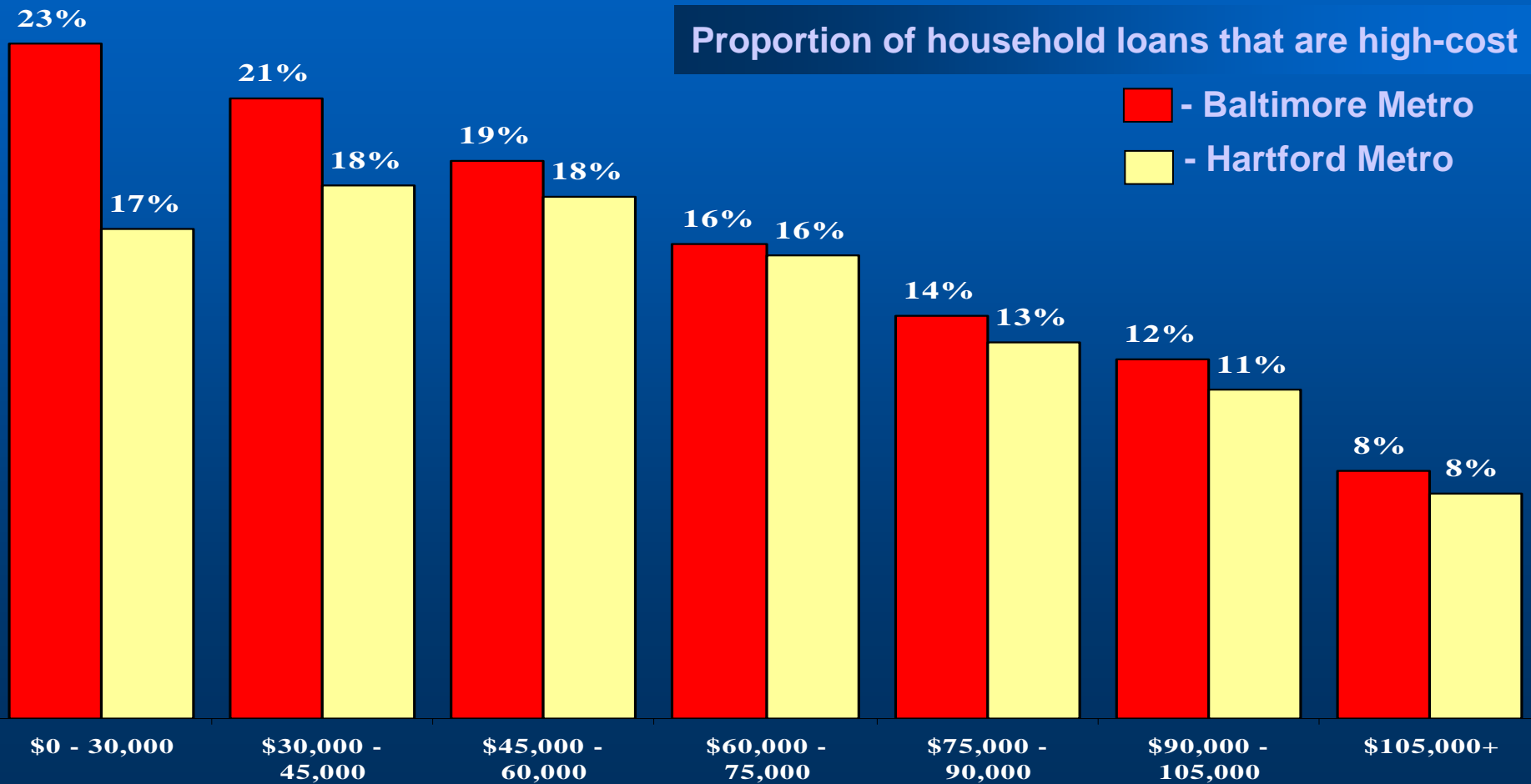




This is reflected locally by their higher propensity to buy high-cost mortgages. For instance:

Proportion of household loans that are high-cost

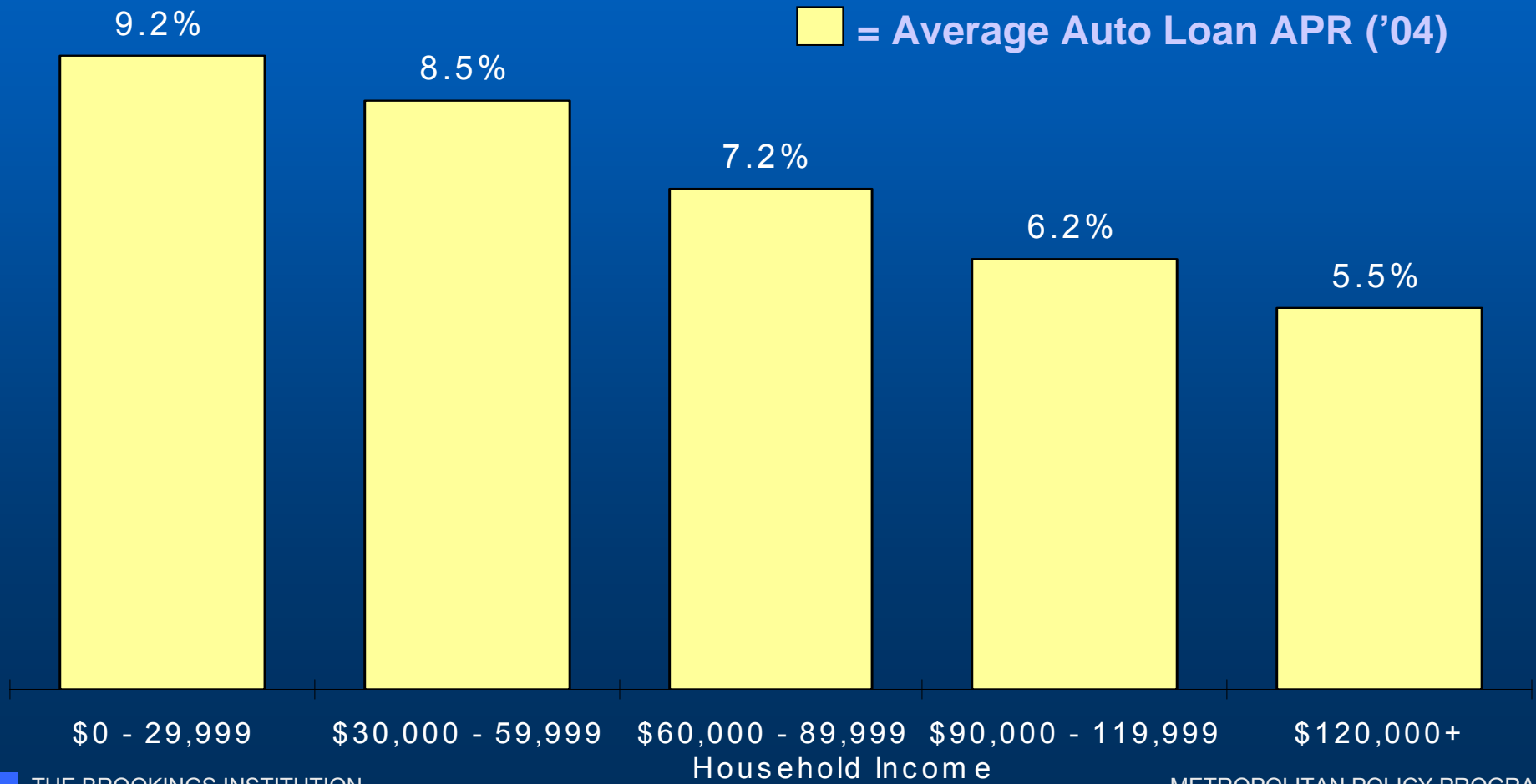
■ - Baltimore Metro  
■ - Hartford Metro





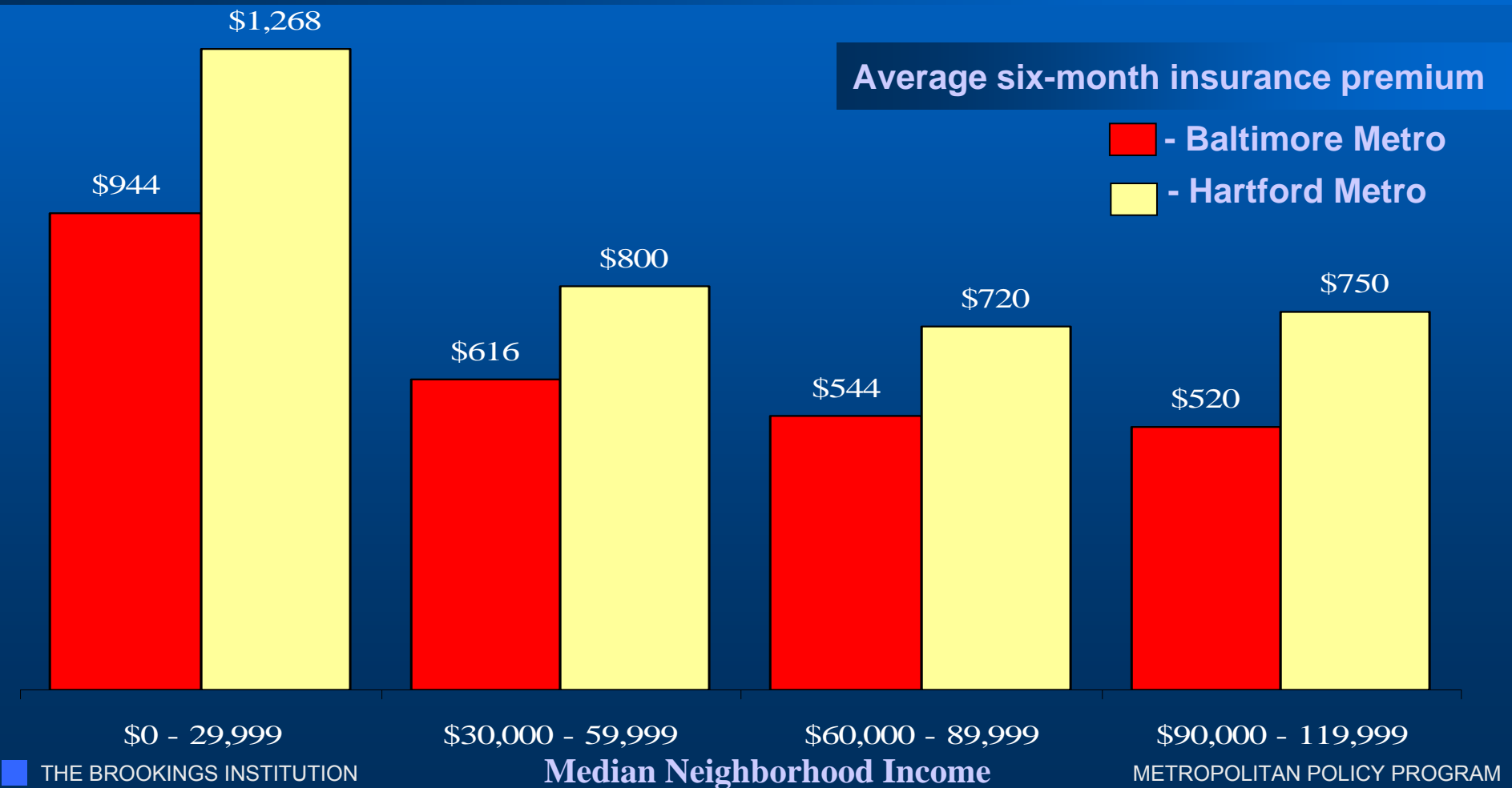
**Example 2:** Nearly 4.5 million lower income households also pay higher than average auto loan rates.

■ = Average Auto Loan APR ('04)





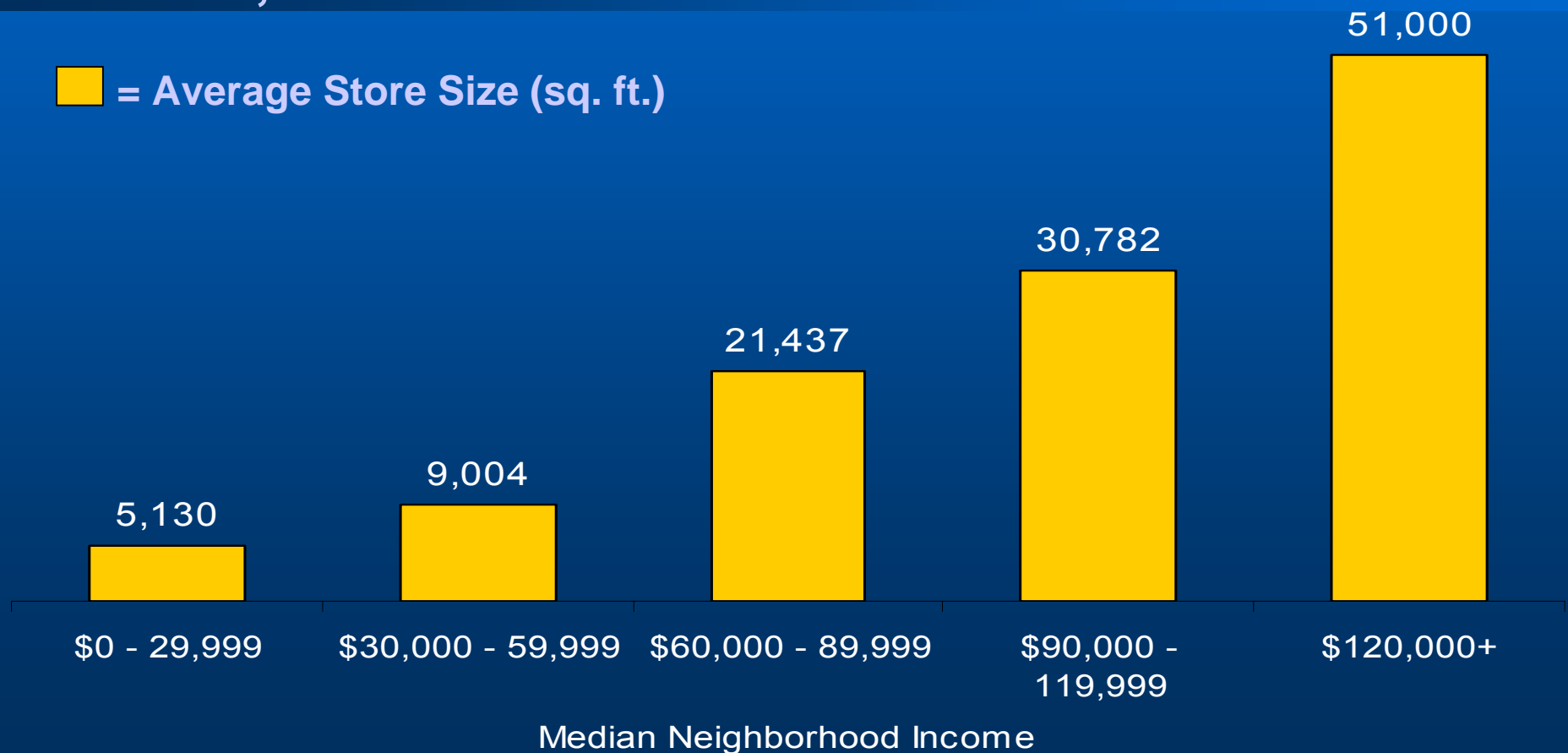
**Example 3:** Lower income drivers also tend to pay higher prices for auto insurance premiums than higher-income drivers.





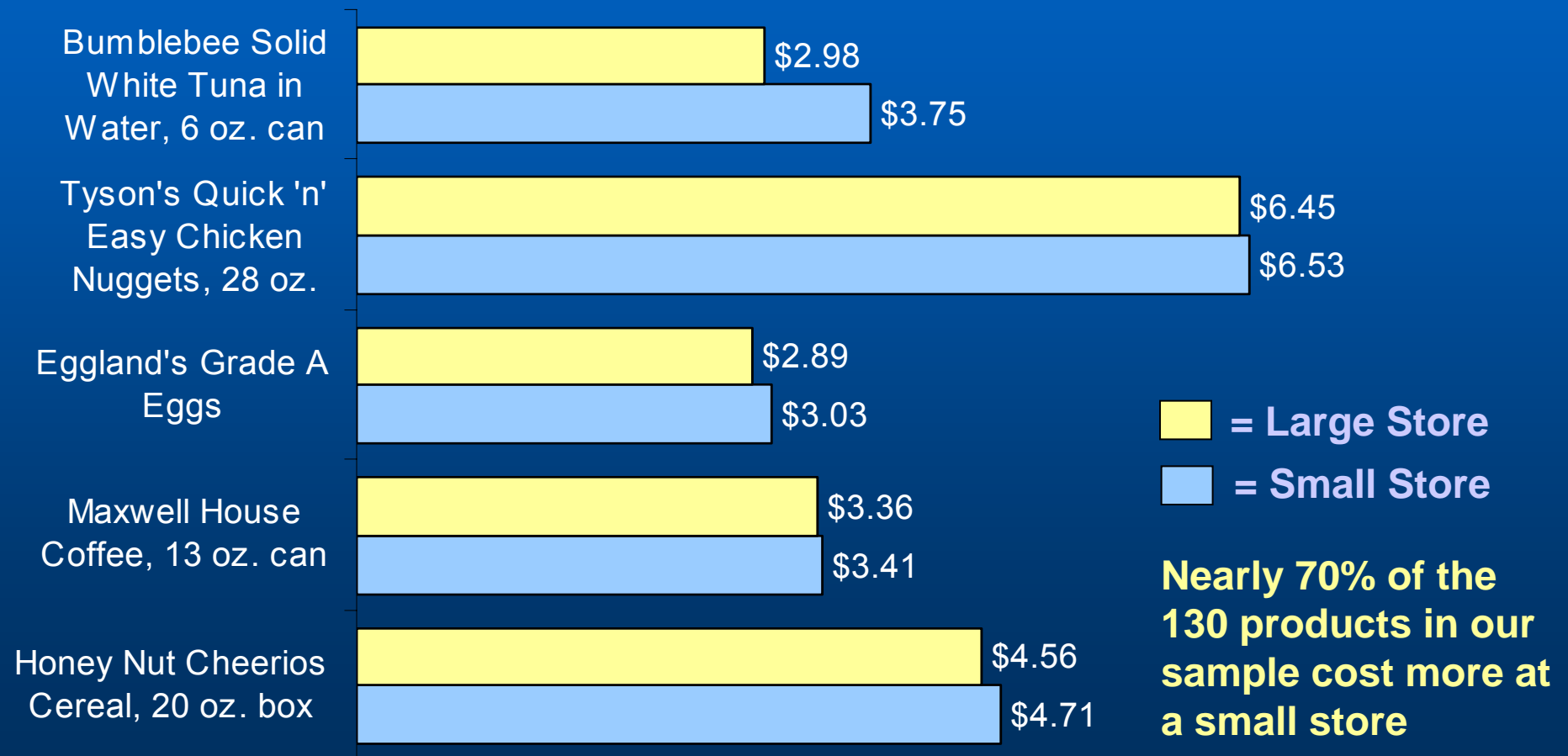
**Example 4:** And, we now know that lower income, neighborhoods in metro areas tend to have smaller grocery stores than higher-income neighborhoods. For instance, in Atlanta:

 = Average Store Size (sq. ft.)





This is important because smaller grocery stores have higher prices than larger grocery stores. For instance,





**Added all up, these higher prices amount to hundreds, sometimes thousands, of dollars in higher costs of living for low-income families.**

- **\$100s** more to buy the same car
- **\$100s** more to borrow the same amount of money for an auto loan
- **\$100s to \$1,000s** more to insure the same car and driver
- More to buy food in their neighborhood
- **\$100s** more to access the same amount of money
- **\$100s** more to borrow the same short-term loan amount
- **\$100s** more to establish the same type of utility service
- **\$100s** more to borrow the same amount of money for a home loan
- **\$100s** more to insure the same value of a home
- **\$100s** more to buy the same appliances and furniture



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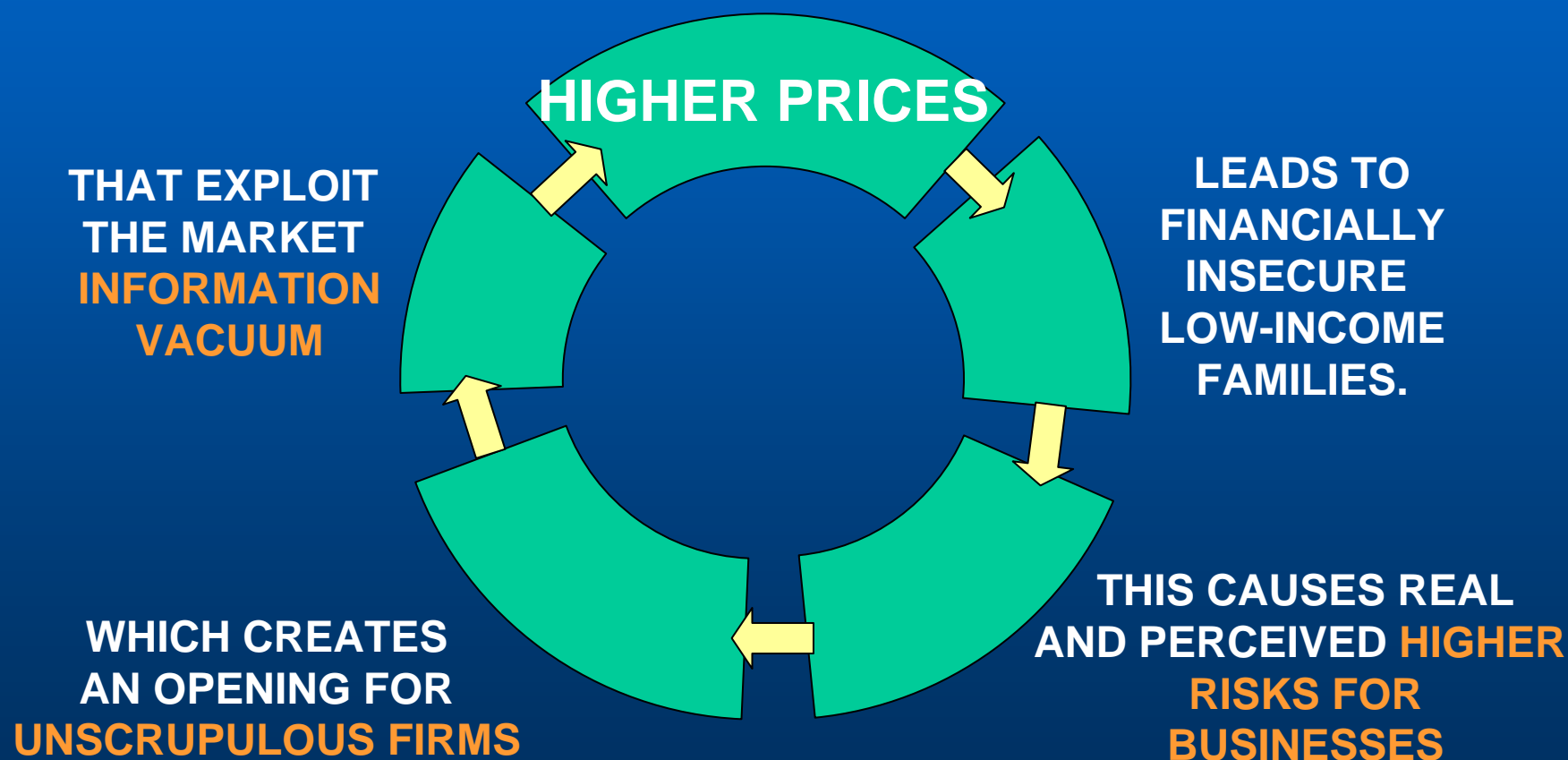
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How are leaders able to lower costs of living?





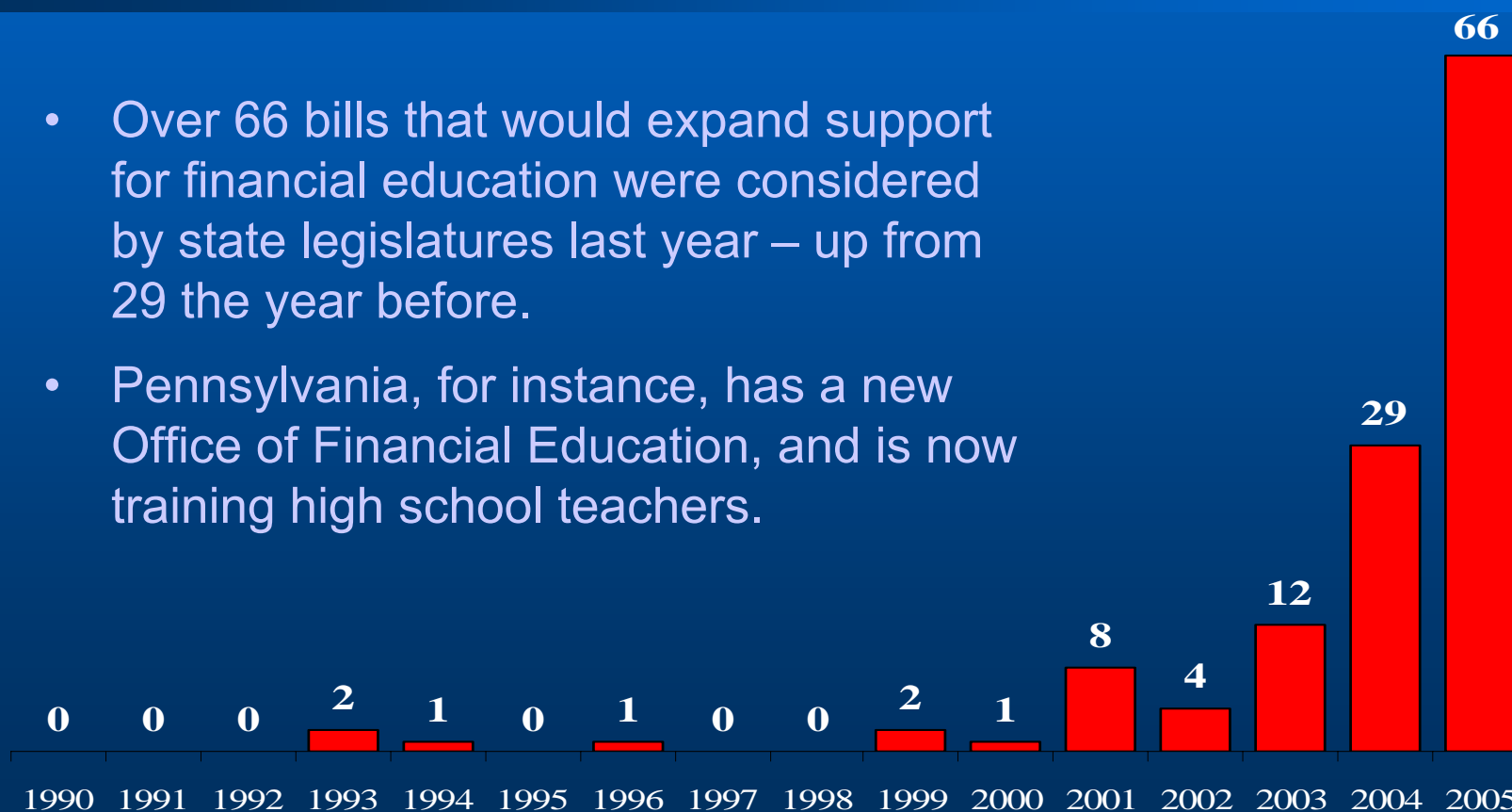
Leaders are selectively trying to attack different causes of higher prices for necessities, which trap low-income families in a cycle of financial insecurity.





## First, both public and private leaders are supporting a number of initiatives that boost consumer responsibility and information. For instance:

- Over 66 bills that would expand support for financial education were considered by state legislatures last year – up from 29 the year before.
- Pennsylvania, for instance, has a new Office of Financial Education, and is now training high school teachers.





Second, public and private leaders are supporting a number of initiatives that **curb unscrupulous business practices**. For instance:

- Tucson has a new zoning limit on the density of alternative check cashing and short-term loan businesses
- States around the country are curbing mortgage lending abuses
- Entrepreneurs in San Francisco and Seattle are forming businesses to compete with high priced financial service providers
- Dozens of banks and credit unions have created new, low-priced products to compete with high-priced financial service providers
- California's Ready Return Tax Initiative aspires to provide free tax preparation services for millions of tax filers



Finally, public leaders are embracing a number of policies that ***bring down higher costs of doing business*** with low-income families. For instance:

- Pennsylvania's Fresh Food Financing Initiative subsidizes grocery store development in underserved neighborhoods.
- New York's Banking Development Districts subsidize banks in low-income neighborhoods.
- California's Low-Income Auto Insurance Program pools together the higher costs of insuring low-income drivers.
- Over 30 states have curbed the use of credit histories in insurance premium pricing models.



**But, many of these reforms are new, and have yet to be embraced around the country.**

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*The Washington Times*  
June 21, 2004

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