What Public Policies Are Hurting Minorities?

Statement for the Record

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"How Overregulation Harms Minorities"

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Chairman Cruz and members of the committee, thank you for the opportunity to submit written comments about the challenges facing low-income individuals and families in today's economy. I am Pamela Villarreal, a senior fellow at the National Center for Policy Analysis. We are a nonprofit, nonpartisan public policy research organization dedicated to developing and promoting private alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector.

Many agree that "more can be done" to ensure economic opportunity for all Americans. A census report on poverty rates found that of the 43 million U.S. citizens living in poverty from 2007- 2011, 76 percent were black, Native American or Hispanic. Over the past 50 years the U.S. government has spent $5 trillion on anti-poverty programs. But the demand that the "more" must be done by government through a stronger safety net, wealth redistribution and mandated equality measures overshadows the years of evidence that more often than not, government programs fail. Over the past 30 years, NCPA has published a number of studies describing the effects of overregulation and its harmful effects on minorities. Many of these efforts discourage wise choices, limit educational opportunities and create burdensome regulations that hinder entrepreneurship.

Affordable and Quality Housing:

- "Smart growth" urban planning (in an effort to reduce "urban sprawl") prices lower- and middle-income families out of the housing market. A study by the Urban Institute (as reported in an NCPA publication) found that smart growth policies reduce both housing affordability and economic opportunity, especially for minorities.
- Efforts to revitalize urban neighborhoods are often hamstrung by government regulations that raise costs. For instance, the federal Davis-Bacon Act sets construction wages at the prevailing level — which turns out to be the level set by the building trades unions. No federal money can go to a project that doesn't pay at this deliberately inflated scale.
- Furthermore, one-size-fits-all federal environmental rules raise housing costs in neighborhoods where environmental problems have long gone untreated. Both developers and banks are naturally wary of taking on a property that may come with liability for pollution discovered in the future but caused by owners decades before. Banks can't take environmental improvements as collateral. Thus the amount of equity financing required for a given project increases.
- Local policies complicate the clearing of titles on abandoned inner-city properties. Developers seeking to acquire these properties are required to pay back taxes, sometimes dating back a quarter-century or more. The message here: Don't buy and improve vacant land that may be dragging down the property values of the entire neighborhood.
- The loss of housing affordability disproportionately affects minority households due to their generally lower incomes; thus, the white non-Hispanic home ownership rate

is 50 percent higher than the ownership rates for Hispanic and African-American households.

Education:

Charter schools are typically found in urban areas and offer parents educational options where previously they may have had none. Charter schools are smaller than conventional public schools and serve a disproportionate and increasing number of poor and minority students. Despite some attempts by liberal policymakers (such as the New York City mayor) to defund charter schools, parents whose children attend them overwhelmingly support them.

- According to the Center for Education Reform (as reported in NCPA research) charter schools are smaller than conventional public schools and serve a disproportionate and increasing number of poor and minority students.

- Charter school students are more likely to be proficient in reading and math than students in neighboring conventional schools, achieving the greatest gains among African-American, Hispanic and low-income students.

Employment Opportunities:

Advocates of mandated minimum wages say they will help the working poor, yet they often price the lowest-skilled workers out of the market so they are essentially earning nothing. Black teenagers bear most of the burden, as NCPA notes:

- From 1948 to 1955, the unemployment rate of black and white teenage males was essentially the same, 11.3 percent and 11.6 percent, respectively. However, after the minimum wage was raised from 75 cents to $1 in 1956, unemployment rose significantly for both black and white teenage males, with blacks bearing more of the burden. By 1969, the unemployment rate was 22.7 percent for black teenage males and 14.6 percent for white teenage males.
- Economists Donald Deere, Kevin Murphy and Finis Welch found that minimum wage increases totaling 27 percent in 1990 and 1991 reduced employment for all teenagers by 7.3 percent and for black teenagers by 10 percent.
- Historically, minimum wage and prevailing wage laws were supported by almost exclusively white unions in order to remove the competitive advantage of blacks who were willing to work for less.

Occupational licensing is supposed to protect the public from unsafe and untrained operators but in many professions, it is unnecessary and increasingly keeps individuals from starting their own businesses. One example of overreach is the licensing and training requirements for African hair braiders.

- In 2006 Pennsylvania passed a law requiring African hair braiders to obtain a cosmetology license. Now braiders must complete at least 300 hours of training, or

have three years of experience and complete 150 hours of training. As of 2008, 16 other states and the District of Columbia also had hair braiding license requirements, according to the Institute for Justice.
- Licensing decreases the rate of job growth by an average of 20 percent and costs the economy an estimated $34.8 billion to $41.7 billion per year, in 2000 dollars, reports the Reason Foundation.

Entrepreneurial Opportunities:

The NCPA's review of the recent Dodd-Frank legislation reported that the Consumer Financial Protection Bureau (CPFB) places cumbersome regulations on financial products such as pre-paid debit cards, auto loans, electronic payments, mortgages, and payday lending.

- The FSOC new designation of Systemically Important Financial Institutions (SIFI) to insurers such as American International Group will raise consumers' aggregate life insurance premiums $3 billion to $8 billion a year.
- 2,000 community banks and credit unions have closed or merged since 2012 due to high compliance costs required by Dodd-Frank.
- In order to survive, many main street banks have stopped offering home mortgages, home equity lines of credit, overdraft protection or credit cards.
- The passage of the Durbin Amendment made the average minimum monthly holding requirement for no-fee banking triple from $250 to $750. This fee increase made the banking system too expensive for about a million people, largely the poorest sector of society.

Healthcare:

In a recent Congressional Brief the NCPA found that the total spending on health care in the U.S. has doubled since 1975 with Medicare, Medicaid and tax subsidies accounting for approximately half of total health spending. Government policies artificially increase demand, raise costs, and limit availability of care.

- A NCPA task force found that although the cost of care patients receive from non-physician clinicians is lower than physician performed services the quality is the same.
- Increased education required to obtain a license has a negative impact on low income families especially those in underserved areas.
- For-profit hospitals are more likely to develop innovative practices, yet were banned in the 2010 Patient Protection and Affordable Care Act.
- The federal Stark laws result in rigid physician group practices that are not convenient or economical for patents.

Marriage and Families:

Even though marriage is a wealth-generating institution, it has been on the decline for several decades. Only one-third of black women ages 30 to 44 were married in 2007, compared to 62 percent in 1970 reported the NCPA. Out-of-wedlock births are the second key cause of poverty (next to lack of employment). But the structure of the tax code and welfare benefits encourages single parenthood and family breakups:

- For families earning less than $40,000 the marriage penalty is significant, with two unmarried individuals living together qualifying for larger federal subsidies than they would if they were married.
- The poverty rate for female-headed households with children is 44.5 percent, compared to 7.8 percent for married couples with children.
- The poverty rate for married black Americans is only 11.4 percent, while the rate for black female-headed households is 53.9 percent.
- African-American children comprise about 25 percent of children who end up in foster care.

Most welfare benefits are restricted to families with children. Thus, having a baby offers a gateway to a generous package of government benefits. But if the mother marries a man who earns a significant income, the benefits are lost. Indeed, if the mother marries a man who is not working, but the government requires him to take available work before benefits are paid, then the benefits will be lost in any event, whether he refuses to work, or if he works and earns an income that eliminates them. Government is effectively paying women to have children out of wedlock.

Child care costs also have seen an increase in subsidies and stringent regulation. The NCPA's task force report on Enterprise Programs found that families with less than $1,500 in monthly family income spend 30 percent of their income on child care on average. Although child care price continue to increase, child care providers are still one of the lowest wage earning groups in the country.

- The Child and Dependent Care Income Tax Credits only allows parents to deduct child care expenses up to 35 percent or a max of $3,000 per child per year.
- Head Start Child Care programs give grants so child care providers can offer services to low income families. The program's average cost per child was $7,600 per year.
- Even though regulatory burdens for child care have increased, providers are unable to increase costs since parents respond strongly, and instead cut staff wages leading to high turnover and decreased quality of child care.

Thank you for the opportunity to submit these written comments.