



MACKINAC CENTER  
FOR PUBLIC POLICY

# THE REAL COST OF AFFORDABILITY

HOW GOVERNMENT POLICY INFLATES  
EVERYDAY EXPENSES





# INTRODUCTION

Everyone seems concerned about affordability. Political candidates frequently say they are going to address kitchen table issues and help make life more affordable for families. But government policies are responsible for much of this problem, and policymakers rarely mention their own role in making things more expensive than they need to be.

Here is a sample of appeals made by candidates in their campaign literature for recent elections:

- **The candidate “understands that Michigan families are struggling with rising costs.”**
- **“She works with both parties to drive down costs and protect Michigan jobs.”**
- **The politician vows to “lower the cost of living to make life more affordable.”**
- **The candidate promises to “bring down costs on groceries, food, and gas.”**

Republicans and Democrats make similar claims — both out of a concern for affordability. They must believe this is an issue that a lot of people care about.

Elected officials can deliver on these promises, but it would require reforming current laws and regulations. Look at any major expense families face, and you’ll find government policies that push up the price.

This report covers three household expenses: housing, transportation and childcare. Housing and transportation are the two largest expenses for the average American household. Childcare can be a significant burden for young families and receives considerable attention from politicians. Government policy makes all of these more expensive.



# HOUSING

Housing is the biggest expense for Americans, according to the Bureau of Labor Statistics. It accounts for a third of household spending. The cost of housing in Michigan increased by 48% over the past five years, according to the federal government. It's a large and growing expense.

Few industries face more government regulations than the housing industry. There are federal laws and rules about home financing and environmental standards, among others. State policies include land use regulations, “affordable housing” mandates and building codes. At the local level, zoning ordinances, permitting and infrastructure requirements are examples of regulations that impact the cost of housing.

As with any other good or service, governments can reduce the price of housing if they allow the supply to increase. Existing laws and regulations make it expensive and cumbersome to build new homes. Government officials have created building codes and other mandates with little regard for the impact these have on the cost of constructing more housing. It is practically impossible to build inexpensive homes, for instance, even though these would meet many people's needs and help lower the cost of living for everyone.



Lawmakers have ruled that people cannot build what they want on their own property and have banned all but single family home construction in most parts of cities. Even when people are allowed to build, there are additional rules on how close houses can be to neighbors and the roads, how much parking there must be, and more. The regulations add to the expense, sometimes for no other reason than esthetic preferences.

Federal policy also raises housing costs. Tariffs on construction material, such as Canadian lumber, make housing more expensive.

Hiring workers to build homes comes with its own set of regulations, not just for wage and workplace conditions, but also for workers who need government permission to perform certain jobs. The state requires a license to construct a roof, paint a wall, and do much of the work needed to build a home. These do little to protect the public and instead raise the costs to enter the profession and to hire workers to build.



# TRANSPORTATION

Transportation is the next highest expense for American households. This includes the costs of owning and operating personal vehicles. People care a lot about the price of gas, and governments increase that price. The state collects 53 cents on every gallon of gas sold in Michigan, while the federal government collects another 18 cents. That's more than what the local gas station makes on the sale of gasoline.

There are more government mandates that increase the costs of transportation. Drivers are required by the state to purchase state-regulated insurance, which requires a minimum level of coverage. Politicians determine how much coverage they think people should need. These mandates often do not consider what is a reasonable amount as determined by the necessary tradeoff between an individual's tolerance for risk and what is affordable.

Vehicle manufacturers are subject to a byzantine series of federal regulations around safety mandates and fuel economy. Some consumers might opt to pay more for enhanced safety components and better gas mileage, but federal policymakers force everyone to pay more for the vehicles with these features. This isn't market-driven demand, and manufacturers pass on the cost of compliance to consumers.

Mandatory equipment includes airbags, automatic brakes and back-up cameras. Emissions regulations have caused



automakers to add turbochargers, hybrid technologies and other expenses. And it's ruined the market for cheap vehicles. The new vehicle that costs less than \$30,000 is on its way out.

As is the case with housing materials, federal tariffs raise the cost of transportation. These apply to foreign-made vehicles, auto parts and the raw materials used in manufacturing cars built in America. This is especially a problem when so much of the auto supply chain for vehicles used in the United States is spread across North America.

Michigan laws increase the price of purchasing vehicles by limiting how they can be sold. The state's car dealership law adds a "middleman tax" to buying an automobile. Only franchised dealers can legally sell cars, and the law prevents competitors from opening new dealerships unless they meet "good cause" mandates. Research suggests this adds thousands of dollars to the sticker price.

Other government policies make it more expensive to own and operate a vehicle. Lawmakers increase the costs to build and maintain roads through state and federal prevailing wage rules, which require road builders pay union-scale wages regardless of the current market rates. Government policy also drives up costs by limiting who can qualify for road-building contracts and what materials may be used. These policies prevent taxpayers from getting the best roads at the best price.




# CHILDCARE

One more expense that receives a lot of attention from politicians is the cost of childcare. Day care is an enormous expense for parents who need it. It is also a highly regulated industry, often with ill-defined rules that include expensive fines for noncompliance. For example, day care operators must provide “35 square feet per child of safe, usable, accessible indoor floor space, not including bathrooms and storage areas.” They also must maintain certain staff-to-child ratios, cleaning standards, and much more.

Day care providers are subject to a licensing regime that limits who can offer care to parents. This limits supply and increases costs. Childcare employees also must meet licensing requirements, which dampens supply and raises costs for providers. Like all other government mandates on businesses, these costs get passed down to consumers — in this case, to young families.

## THE ROLE OF SPECIAL INTEREST GROUPS

Many of the policies that increase costs — building codes, occupational licensing laws, vehicle standards — carry the veneer of improving safety. There are alternatives to this heavy-handed approach that can reduce risks to safety without raising costs. There are trade-offs for everything, and current policies cost too much while producing too few benefits.



The policies that drive up the costs of services are not all about public safety. Many are crass favoritism benefiting special interest groups. Prevailing wage policies get their primary support from construction unions that benefit from driving out cheaper competition for government jobs. Occupational licensing laws are called for by existing practitioners who want to prevent new entrants. Interest groups use the veneer of improving public safety to carve out higher profits or other benefits for themselves.

The ability to concentrate benefits for some groups and spread the costs over a larger group is a common problem at local, state and federal levels. Special interest groups fight hard for their favors while the people who pay the costs — taxpayers and consumers — have little incentive to rally against it.

## **WHY POLICYMAKERS FAIL TO ACT**

The success of these interest groups means that there is a target-rich environment for political candidates who want to do something to improve affordability. People concerned about costs may not have paid attention as the policies stacked up to make things more expensive, but they provide an incentive for politicians to revisit these policies.

Yet it's rare for lawmakers to call out these policies that increase costs. They ignore the causes of worsening affordability and offer only limited remedies. They ask for more day care subsidies, larger welfare payments and more spending on other government subsidy programs. These do not lower costs; they simply transfer them to taxpayers.

One reason elected officials are hesitant to call out government policies is that there is an attractive story behind each of these. Tariffs protect American jobs, if you don't look at the results too closely. Emission standards prevent climate change, with harmful unintended consequences. Zoning rules protect the character of a neighborhood, at a huge expense to local residents.

# CONCLUSION

There is a lot that can be accomplished if both voters and candidates want to lower costs for American families.

All the policies mentioned above can be revisited. There are plenty of mandates and requirements on people and businesses that serve no other purpose than to increase costs on consumers and households.

The Mackinac Center has developed recommendations that would lower the costs of housing and energy, and even reduce the direct costs imposed by governments, such as taxes. Beyond this, the Cato Institute has a new handbook that provides dozens of reforms to federal, state and local government policies that would reduce expenses.

This is no easy task — special interests groups are often well-heeled, and they vehemently defend the concentrated benefits the law provides them. There are not very many political incentives for elected officials to tackle these problems. Yet people want lower costs, and politicians could gain popularity by implementing policies that reduce prices for goods and services the typical voter faces. Surmounting these political challenges are necessary if politicians want to make life more affordable.

# ONLINE RESOURCES



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Michigan Capitol Confidential reports with a free-market news perspective.



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**James M. Hohman** is the director of fiscal policy at the Mackinac Center for Public Policy.



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