ESSENTIAL GOODS

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THE ISSUE: GOVERNMENT POLICIES ARTIFICIALLY INFLATE THE PRICES OF EVERYDAY ESSENTIALS, THUS SHRINKING AMERICAN WORKERS' REAL INCOMES AND LOWERING THEIR LIVING STANDARDS

Washington policymakers tend to forget an immutable truth: all American workers are also American consumers, spending a significant portion of their paychecks on essential goods such as clothing, food, shelter, and energy. Yet our elected officials frequently implement policies—even ones alleged to be "pro-worker"—that intentionally raise the prices of these necessities, thus reducing workers' real (consumption-adjusted) household incomes and living standards.

Necessities generally constitute a larger share of lower-income workers' total compensation, inclusive of taxes and government transfers. As shown in Table 1, for example, shelter, food, transport, utilities, and clothes accounted for approximately 68 percent of the poorest U.S. households' annual expenditures, but only 52 percent of the richest households' spending.[1] The essential nature of these items also means that Americans tend to consume roughly the same amounts of them each month, regardless of whether prices fall or rise (though differences across households surely exist).

Increasing prices of necessities are particularly painful for single-parent families, which spend the largest share of their incomes on basic goods. In 2019, for example, single-parent households devoted almost 5 percent of their annual spending to clothes, shoes, linens, and other miscellaneous houseware, totaling around $2,400 per family. By contrast, wealthy households spent much more on these same items (more than $5,100), but their purchases constituted a much lower share (just 3.5 percent) of their annual incomes.[2]

Thus, rising prices of basic necessities are typically a regressive tax on American households, disproportionately hurting workers at the lower end of the wage scale and larger families that consume more, especially ones led by a single parent. Costlier essentials also undermine government welfare and labor (e.g., food assistance or minimum wage) policies designed to help these same groups.

Unfortunately, numerous government policies inflate the prices of essential goods, to the detriment of most American workers and their families.

As discussed in the Transportation chapter, for example, tariffs, fuel economy regulations, taxes, maritime restrictions (the Merchant Marine Act of 1920, aka the "Jones Act"), and other policies significantly increase automobile and fuel prices in the United States, thus harming the almost 85 percent of Americans who drove to work prior to the pandemic.[3] These transportation taxes are unsurprisingly regressive: the Tax Foundation has estimated, for example, that

TABLE 1 Poorer Americans spend more on necessities

Expense type	Poorest quintile	Richest quintile	Single-parent family	Whole population
Shelter	24.5%	17.7%	21.3%	19.3%
Transport	16.0%	15.8%	17.5%	17.0%
Food	15.3%	11.5%	14.9%	13.0%
Health care	10.0%	6.9%	5.4%	8.2%
Utilities	8.8%	4.8%	7.4%	6.4%
Other	5.9%	21.5%	13.0%	16.0%
Entertainment	3.9%	5.6%	4.3%	4.9%
Household operations and supplies	3.7%	3.8%	4.1%	3.7%
Furniture	3.3%	3.5%	2.9%	3.3%
Apparel	2.9%	2.9%	4.4%	3.0%
Reading and education	2.9%	3.4%	2.2%	2.4%
Personal care	1.3%	1.2%	1.6%	1.2%
Tobacco	1.0%	0.2%	0.5%	0.5%
Alcohol	0.7%	1.0%	0.7%	0.9%

Source: "Table 1101. Quintiles of Income before Taxes: Annual Expenditure Means, Shares, Standard Errors, and Coefficients of Variation, Consumer Expenditure Survey, 2019," Bureau of Labor Statistics, 2019, https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/cu-income-quintiles-before-taxes-2019.pdf; and "Table 1502. Composition of Consumer Unit: Annual Expenditure Means, Shares, Standard Errors, and Coefficients of Variation, Consumer Expenditure Survey, 2019," Bureau of Labor Statistics, 2019, https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/cu-composition-2019.pdf.

a hypothetical 25 percent tariff on imported automobiles would decrease the average after-tax incomes of all taxpayers by 0.47 percent, with those in the top 1 percent facing the lightest (0.39 percent) burden.[4]

The Housing Affordability chapter, meanwhile, shows that federal, state, and local policies substantially increase construction costs, home prices, and rents—especially in many of the country's most attractive labor markets. Lower-income workers are again disproportionately harmed. By increasing developers' construction costs, for example, materials tariffs and federal tax policy encourage them to focus on luxury units with higher profit margins.[5] At the same time, high housing prices in heavily regulated cities with hot labor markets prevent lower-income workers in distressed areas from moving to the cities and improving their job prospects and lifetime earnings.[6]

Government policies also increase the price of food, on which the poorest quintile households spent $4,099 in 2020 (14.3 percent of their total spending, again the highest proportion of any income group). This includes—

- For dairy products (1.1 percent of bottom-quintile household expenditures), the Agricultural Marketing Agreement Act of 1937 artificially raises milk, cheese, and other dairy prices and imposes prohibitive tariffs and nontariff barriers on imports of these products. These policies not only raise prices but also insulate dairy farmers from market signals, encouraging them to produce dairy products almost regardless of market demand. The programs can also lead to shortages, as occurred when tariff-rate quotas and Food and Drug Administration (FDA) regulations effectively walled off the U.S. infant formula market from foreign competition and thereby contributed to empty store shelves for much of 2022.[7]
- The federal government essentially cartelizes the domestic sugar market. The U.S. Department of Agriculture (USDA) facilitates loans to sugar processors using collateral in the form of raw sugarcane and refined beet sugar to create a price floor for the sugar price.[8] To encourage repayment of these loans, the government restricts the supply of domestic sugar, increases demand for sugar through governmental purchases, and finally, restricts imports of sugar. These policies increase sugar prices—the USDA reported that the U.S. raw sugar price was 33.55 cents per pound in 2021, compared to 17.85 cents per pound at the world price—harming American consumers, as well as workers in sugar-consuming industries such as baking and candy-making.[9]
- Beyond dairy and sugar, the United States imposes high (greater than 10 percent) tariffs and tariff rate quotas on numerous food products—such as peanuts, tuna, cantaloupes, apricots, various meats, sardines, spinach, soybean oil, watermelons, carrots, celery, okra, artichokes, sweet corn, Brussels sprouts, cut cauliflower, and so on—costing American importers billions of dollars per year.[10] Also, countervailing duties (i.e., taxes on imports that have been allegedly subsidized by the governments of the origin countries) on imports of fertilizer are paid by U.S. farmers and, by contributing to lower yields and thus reducing food supply, put further upward pressure on domestic food prices.[11]
- Produce marketing orders allow fruit, nut, and vegetable farmers to dictate their commodity's requirements for sale on the fresh food market. Minimum prices, rigid inspection rules, and other terms of sale can insulate farmers from foreign competition, stymie entrepreneurship, increase domestic prices, and distort economic activity—all to American consumers' detriment.[12] For example, the South Texas onions marketing order

implicitly creates quantity restrictions by mandating the quality and size of onions that farmers legally sell in this region. These barriers reduce competition and innovation by preventing farmers with other varieties from accessing the market, and they reduce onion supplies and thus inflate prices.[13] Marketing orders can even encourage collusion among farmers in a particular region, creating cartels that further boost prices.[14]

- The Renewable Fuel Standard (RFS) mandates the amount of biofuels blended into transportation fuel, thus increasing demand for corn-based ethanol. This can raise the prices of not only corn and corn-based products such as animal feed, but also other crops that policy does not encourage. The Congressional Budget Office and other organizations estimate that artificial demand for ethanol raises Americans' total food spending by between 0.8 and 2 percent.[15]

Government policies also increase the cost of energy, beyond just gasoline, and thus reduce Americans' real incomes and wealth. For example, state energy codes regulating a home's carbon footprint can reduce home values for low-income households by 8 to 12 percent, likely because these regulations end up reducing the number of bedrooms and square footage of homes in these lowest-income households.[16] Evidence also shows that this loss of wealth has not been offset by reduced energy use (and thus lower energy bills).[17] The Jones Act, meanwhile, increases the cost of both building offshore wind power facilities and shipping petroleum products between American ports (effectively prohibiting liquified natural gas shipments due to a lack of ships).[18] Federal energy projects, including those subsidized by the 2022 Inflation Reduction Act, are routinely larded down with costly Buy America rules that require the projects to use domestic materials.[19] And onerous state and federal environmental regulations, such as the National Environmental Policy Act (NEPA), have blocked or delayed *dozens* of hydropower, solar, wind, and geothermal projects across the country.[20] (See the Transportation chapter for more on the Jones Act, as well as NEPA and its state-level equivalents.)

The United States also applies trade remedy (antidumping, countervailing duty, and safeguard) restrictions on imports of numerous energy-related products, such as solar panels, wind turbines, electrical transformers, and oil and gas pipes, further increasing the cost of producing and distributing energy in the United States. Indeed, a 2022 trade remedies investigation of solar panels from several Southeast Asian nations so threatened the U.S. energy market that President Biden was forced to issue a legally dubious "emergency" declaration, pausing any potential duties, to ensure that "the United States has access to a sufficient supply of solar modules to assist in meeting our electricity generation needs."[21] Yet this sword of Damocles still hangs over the U.S. solar industry, potentially depressing domestic investment while leaving many other, similarly damaging duties on imported energy products in place.

American workers also pay more for clothing and footwear because of U.S. policy. Most notably, imports of these necessities face average tariffs of about 11 percent—some of the highest in the tariff code—thanks to the Smoot-Hawley Tariff Act of 1930. As a result, American companies and consumers have paid more than $300 billion in tariffs since the infamous law was enacted.[22] Adding insult to this injury, the tariff code systematically subjects lower-value versions of these essential goods to higher tariffs than their more expensive counterparts.[23] As shown in Table 2, for example, a cashmere sweater is subject to a 4 percent tariff, compared to 17 percent and 32 percent for wool and polyester sweaters, respectively. Cheap children's shoes, meanwhile, face a whopping 48 percent tariff, while designer men's loafers pay only 8.5 percent. Given that children's shoes and clothing must be purchased more often as kids grow, these tariffs are a particularly onerous burden for large, lower-income American families—and especially damaging, given the near-total absence of an apparel and footwear industry in the United States.[24]

Women's clothes and footwear also tend to be subject to higher tariffs than men's versions of these same items.[25]

TABLE 2 Tariffs are higher on mass-market products than luxury goods

Product	Luxury good	Medium-end good	Mass-market good
Shoes	8.5% (men's leather dress shoes)	20.0% (running shoes)	48.0% (valued at $3 or less)
Sweaters	4.0% (cashmere)	16.0% (wool)	32.0% (acrylic)
Men's shirts	0.9% (silk)	19.7% (cotton)	32.0% (polyester)
Handbags	5.3% (snakeskin)	10.0% (leather valued at $20 or less)	16.0% (canvas)
Pillowcases	4.5% (silk)	11.9% (cotton)	14.9% (polyester)
Necklaces	5.0% (gold)	6.3% (silver)	13.5% (silver jewelry valued at $1.50 or less)
Scarves	1.5% (silk)	9.6% (wool)	11.3% (polyester)
Blankets	0.0% (wool)	8.4% (cotton)	8.5% (polyester)

Source: U.S. International Trade Commission Tariff Database, https://dataweb.usitc.gov/tariff/database.
Note: The tariff codes for these products are: 64035960, 64029142, 64029160, 61101210, 61101100, 61103030, 61059040, 61051000, 61052020, 42022130, 42022160, 42022215, 63022900, 63022130, 63022210, 71131921, 71131110, 71131120, 61171040, 61171010, 61171020, 63012000, 63013000, and 63014000.

Even "free trade" agreements (FTAs) contain restrictions on footwear and apparel imports. Beyond simply keeping many high tariffs in place or delaying their phase-out for years, bilateral and regional trade agreements also impose convoluted "yarn forward" rules conditioning lower apparel tariffs on, among other things, the goods' use of American textile inputs.[26] As a result, foreign apparel producers pay more for U.S. materials or simply ignore the yarn forward rule and pay the higher, non-FTA tariff. Either way, American consumers lose.[27]

Federal trade policy similarly raises the price of homewares, such as small appliances and other household goods, on which poorer Americans again spend more of their incomes than do wealthier ones. (For example, low-income families spend almost 2 percent of their expenditures on these goods.) Silverware, plates and cups, and drinking glasses are subject to an average tariff of 11 percent, which is almost 16 times the average tariff for all other goods.[28] In fact, tariffs on a small set of home consumer goods made up well over half of all tariff revenue ($144 billion out of $2.33 trillion) as of 2017, even though these goods only make up 6 percent of total imports.[29] Even school supplies are more expensive because of U.S. trade policy. Ballpoint pens and notebooks, for example, are each subject to tariffs of about 10 percent; backpacks and gym bags face 28 percent tariffs.[30] Indeed, as annually documented by the National Taxpayers Union (NTU), when you combine these tariffs with the ones on shoes and clothing, almost everything an American student needs for school is subject to some sort of import tax.[31] Given that parents must buy their kids new or different supplies almost every school year (if not even more frequently), these tariffs constitute another significant and regular burden on working families.

Finally, federal immigration policy—quotas, processing delays, wage floors, and endless paperwork—could further inflate the cost of many essential goods by restricting the available supply of workers in related industries, especially ones employing a disproportionate share of immigrants. As noted in the Housing Affordability chapter, for example, immigration restrictions have contributed to labor market tightness in the construction industry, which relies heavily on foreign-born workers. Other industries, such as agriculture, food service, transportation, and warehousing, have faced similar hiring challenges during the pandemic.[32] Given that immigrants also consume essential goods, the precise effect of immigration restrictions on the prices of housing, food, clothing, and other necessities is uncertain. But the last two years have repeatedly demonstrated that these policies prevent the efficient functioning of several essential industries.

THE POLICY SOLUTIONS: LOWER THE COSTS OF FOOD, CLOTHING, AND OTHER ESSENTIAL GOODS BY REFORMING TARIFFS AND OTHER GOVERNMENT SUPPLY-SIDE RESTRICTIONS

Instead of trying to subsidize workers and families through a complex and distortionary system of tax credits, vouchers, and wage controls, governments should work to increase Americans' real incomes by lowering the costs of food, clothing, and other essential goods. Toward this end, the federal government should reform or repeal existing laws and regulations that raise the price of these necessities, to all workers' detriment.

To lower food prices in the United States, the federal government should enact several supply-side reforms—

- First, Congress should eliminate the U.S. dairy program either immediately or as part of broader reform of the Farm Bill, which is set to expire in 2023. Doing so would allow prices to reflect supply and demand for domestic dairy products and should free up tax dollars. To maximize competition in the dairy sector, Congress also should remove all tariffs and tariff-rate quotas on dairy products so that Americans can import cheaper varieties of milk, butter, cheese, and infant formula.[33] Congress took a small step toward liberalization with the 2022 Fixing Our Regulatory Mayhem Upsetting Little Americans, or FORMULA Act, by temporarily suspending tariffs on infant formula imports in response to largescale national shortages. However, for consumers to fully benefit, Congress should permanently remove these and other dairy tariffs while also directing the FDA to admit imported dairy and other food products that have already been approved by a competent regulatory body abroad (e.g., the European Food Safety Authority).
- Second, Congress should repeal all aspects of the U.S. sugar program, which distorts the domestic sugar market and enriches wealthy sugar companies at American consumers' expense. Doing so would lower the domestic price of sugar to more closely match the world price, providing particular benefits for workers in sugar-consuming industries and large, low-income households that tend to consume more processed foods.
- Third, Congress should repeal all remaining tariffs on imported foods, which raise domestic prices and needlessly protect and enrich a globally dominant U.S. agricultural industry. According to a 2021 report by the USDA, the elimination of agricultural tariffs would increase consumer well-being by $3.5 billion.[34]

- Fourth, Congress should reform the Agricultural Marketing Agreement of 1937, which authorizes the imposition of produce marketing orders that do not address food safety and instead simply raise prices and restrict competition and innovation. By eliminating the legal authority to impose these orders, Congress would help American consumers enjoy more and cheaper produce, improving both their budgets and health.
- Fifth, Congress should repeal the Renewable Fuel Standard to reduce demand for corn, thus putting downward pressure on corn prices and freeing up land for alternative crops. Since corn is often used as feed by dairy and meat farmers, they would also benefit from lower corn prices, likely passing on some of these savings via lower dairy and meat prices. Processed food products that use corn (e.g., cereal) would similarly benefit.

On energy, state governments should repeal energy codes that increase energy prices and decrease housing affordability. To further increase domestic energy supplies and lower prices, Congress should repeal the Jones Act, which needlessly restricts energy shipments between U.S. ports and makes offshore wind projects more costly; reform environmental regulations that have blocked or delayed numerous energy projects; and repeal energy-related subsidies and related localization mandates (e.g., Buy America rules) that distort the domestic energy markets and increase costs.

Furthermore, Congress should reform trade remedies to allow administering agencies (i.e., the Department of Commerce and International Trade Commission) to consider potential duties' effects on the broader public interest, including the energy market and American households. Where duties would compromise U.S. energy security or impose an unbearably high cost on American households, the agencies would decline to impose them. Congress should also give producers in import-consuming industries (e.g., solar panel installers or U.S. oil companies) legal standing to participate fully in trade remedy proceedings, and allow agencies to suspend duties in times of national emergency or to impose lower duties where doing so would achieve the laws' remedial objectives.

For apparel and footwear, Congress should eliminate all tariffs, yarn forward rules, and other restrictions on imported textiles, apparel, and footwear, which raise clothing and shoe prices yet protect few (if any) jobs. Given that Americans have paid hundreds of billions of dollars in apparel and footwear tariffs alone over the past 90-plus years, removing all import restraints on these goods would generate substantial consumer savings, especially for larger and poorer households that need to stretch their budgets.

Congress also should eliminate all tariffs on home goods and school products to alleviate the tax burden on parents' wallets so that they can allocate financial resources to other things, such as funds for home improvement or their children's education.

More broadly, the federal government should liberalize immigration to ease current labor pressures in agriculture, food services, transportation and warehousing, construction, and other industries that supply essential goods and disproportionately rely on immigrants. In particular, Congress should streamline the onerous employer-sponsored processes for H-2B visas, H-2A visas, J-1 visas, and green cards. Current caps on admissions should be eliminated, or at least drastically increased to accommodate employers' needs. The entire bureaucratic process also should be reformed to take no more than 30 days and to require a single application. It should be easier for the average American household to directly hire a foreign worker (e.g., as a housekeeper, landscaper, or au pair).

Furthermore, temporary visas should not be limited only to short-term jobs and should be renewable for as long as the worker is employed. Finally, the market should set wages, and foreign workers should be able to change jobs if the initial wage offer is at a below-market rate. If government continues to set wages, and no American worker accepts the higher wage offer, the employer should be able to pay the foreign worker any agreed-upon wage. Market wages would increase access to jobs and lower prices for household help, food, and other necessities.

Finally, Congress and state governments should pursue the reforms discussed in the Housing Affordability, Transportation, Child Care, and Health Care chapters to lower prices of these essential goods and services.

Individually, these and other current policies might only cost American households a few extra dollars per year. Collectively, however, the burdens can be significant—especially for large, low-income families—and reforming them would thus provide a tangible improvement in American workers' living standards. Consider, for example, recent International Trade Commission estimates finding that U.S. restrictions on imported food and clothing significantly increase the prices of these goods (see Table 3). Restrictions on butter and cheese, in particular, increase prices of these products by 20.8 percent and 15.3 percent, respectively—thus forcing Americans in the bottom quintile to pay an estimated $71.48 more per year (if they consumed only imported butter and cheese).[35] Given the wide array of restrictions on imports of other necessities and tariffs' inflationary effect on similar domestically produced goods, eliminating all of these import taxes would likely save American households hundreds of dollars per year.

TABLE 3 Trade restrictions make food, clothing, and manufactured goods more expensive

Sector	U.S. tariff rate	U.S. tariff-rate quota	Total
Refined sugar	1.6%	55.0%	56.6%
Raw cane sugar	1.3%	28.0%	29.3%
Butter	5.8%	15.0%	20.8%
Cheese	7.3%	8.0%	15.3%
Apparel	12.8%	0.0%	12.8%
Canned tuna	12.3%	0.0%	12.3%
Leather and allied product manufacturing (including footwear)	10.1%	0.0%	10.1%
Costume jewelry and novelties	7.5%	0.0%	7.5%
Carpets and rugs	6.3%	0.0%	6.3%
Other textile products	5.5%	0.0%	5.5%
Fiber, yarn, and threads	5.2%	0.0%	5.2%
Fabrics	5.0%	0.0%	5.0%
Beef	1.0%	0.0%	1.0%

Source: U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints, Special Topic: Effects of Tariffs and of Customs and Border Procedures on Global Supply Chains," Investigation no. 332-325, Publication 4726, September 2017, p. 14, https://www.usitc.gov/publications/332/pub4726.pdf.
Note: Tariff is an ad valorem equivalent share of the cost, insurance, and freight (c.i.f.) value of imports. Tariff-rate quota is measured as an export tax equivalent—that is, the degree to which it increases the "export price" of a commodity (defined as the price before entry into the United States).

ACTION PLAN

While it may seem intuitive to help workers by trying to directly subsidize their nominal incomes, these policies generate numerous distortions and unintended consequences—including higher prices for the very goods and services that these policies target. Embracing market-oriented reforms to reduce the costs of basic necessities is a better approach to improving the real incomes of all American workers, while giving them more control over their expenditures in the process.

Congress should therefore

- unilaterally remove tariffs and duties on necessities including food, clothing, shoes, automobiles, auto parts, homewares, school supplies, and construction materials, including tariffs imposed under Section 232 on steel and aluminum, and Section 301 tariffs on Chinese imports;
- repeal the Jones Act, or, at the very least, exempt energy shipments from the law and repeal its U.S.-built requirement that dramatically raises the cost of purchasing new vessels, including tankers;
- include in the next Farm Bill provisions cutting the dairy and sugar programs, or at least removing tariff-rate quotas on imports of dairy and sugar products;
- require the FDA to admit imported infant formula and other dairy products already approved by competent regulatory bodies abroad, such as those in Europe and New Zealand;
- reform the Agricultural Marketing Agreement of 1937 to repeal all agricultural marketing orders;
- repeal the Renewable Fuel Standard to free up land for alternative uses and to lower food prices;
- eliminate subsidies for all energy products and eliminate all localization mandates (Buy America rules) tied to U.S. energy and transportation projects;
- reform antidumping and countervailing duty laws to account for downstream impact and to give downstream stakeholders legal standing in proceedings; and
- remove caps on H-2B and J-1 visas; base wages for H-2B and H-2A visas on skill level; and create a guest worker program specifically for construction and related year-round jobs.

The executive branch should

- form an agreement with Canada to remove the export quota and tax on Canadian exports of infant formula stipulated in the United States-Mexico-Canada Agreement.

State and local governments should

- repeal energy codes.

NOTES

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