

# Affordability is a concern

When students first learn economics, they invariably ask how so many economically inefficient government policies can continue to exist. The answer, of course, is that politicians are trying to win elections, not adopt good economic policies.

Politicians have a long history of ignoring advice from economists. For instance, in 1971 President Richard Nixon imposed wage and price controls over the vocal objection of many economists. Nixon ignored their advice because he thought that preventing wages and prices from increasing would help him win the 1972 election.

In the last year, economists (including myself) have been arguing against President Trump's large increases in tariffs. Economists pointed out that the higher tariffs would increase prices. Trump and his team ignored our advice.

However, in this case, I think economists still did a lot of good, mostly because they did not merely give advice to public officials. Economists also used Trump's policies as a teaching moment, and they spoke directly to the American people. Economists created a narrative that tariffs will increase prices. Evidence piled up that the economists were correct. Americans saw dramatic price increases in the goods that economists predicted would experience large price hikes. The price hikes occurred for coffee, beef, bananas, footwear, clothes, and furniture – just like the economists predicted.

The narrative economists created caused voters to blame Republican policies for the high prices that reduced their standard of living. And when given the opportunity, voters punished the Republicans at the polls. For instance, Democrats won victories in the governor races in Virginia

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and New Jersey by claiming Republican policies have increased prices, a dynamic they described as a reduction in affordability.

While politicians ignore economists, they listen to voters. After the recent

election results came in, many Republicans worried that they were on track to lose many Congressional seats in next year's midterm elections. Trump, no doubt also worried, reduced tariffs on coffee, beef, bananas, and many other grocery items.

Currently, politicians are focused on affordability. Over the next year, I suspect that it will remain a prominent political issue. To win elections, Republicans and Democrats will both craft policies that make our typical purchases more affordable. Of course, both parties will put forth different plans and voters will have to determine which plan seems more likely to be successful. With voters trying to evaluate the effectiveness of different plans, economists will have another teaching opportunity. Economists will again be able to create a narrative that influences how voters cast ballots. And as we know by now, politicians are willing to ignore economists. But politicians are unwilling to ignore voter preferences since ignoring those preferences keeps politicians from winning elections.

So where should politicians concentrate their efforts if they want to make America more affordable? The Bureau of Labor Statistics provides an answer. In calculating the inflation rate, the bureau calculates the cost of a basket of goods purchased by the typical consumer.

Food makes up 14.5 percent of the typical consumer's purchases, so Trump's roll back of tariffs is a good start. However, it ignores the biggest opportunity to increase affordability. The typical consumer devotes 44 percent of its spending to housing purchases. Because housing is the largest component of spending, any big effort to improve affordability must address housing costs.

Economists have an opportunity to talk directly to the voters about the two most likely proposals that will be put forward. The first proposal will be price controls, which prevent landlords from increasing rent prices. Unfortunately, at lower rental prices, landlords will build fewer apartments and refrain from performing some maintenance. Both of these actions will reduce the housing supply. The second proposal will be policies that reduce the cost of building new apartments and homes. These policies might include making zoning laws more lenient and reducing regulations to make it costly to build new properties. This second proposal has the advantage that it will increase the housing supply.

Economists have an opportunity between now and the midterm elections. Economists should inform the public about where the greatest opportunities are for making living in the U.S. more affordable. They should also inform the public about the merits and drawbacks about the policy proposals that will be put forward. The American public is paying attention to economists on the issue of affordability. Economists should take advantage of this attention because it may not last long.

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