

Unintended Consequences

(Kamala Harris Is as Dumb as Alexandria Ocasio-Cortez)

To deal with a health issue, your doctor will often prescribe medication. The medicine may have some side effects. That could lead to another prescription to deal with those side effects. But that second drug may also have side effects, which can lead to a prescription for yet another drug. Often the side effects can be anticipated, and competent physicians and pharmacists are familiar with those of most common medicines. Of course, in some cases a patient may be better off with no medications, instead changing his diet and exercise routine. It is far better to address the cause of the problem than to mask the problem by only addressing its symptoms.

Politicians regrettably often believe they have the cure for every problem, great or minor, that affects society. Rather than prescribing drugs, they pass legislation to address the problems. Almost invariably the legislation has multiple side effects, the unintended consequences that the legislators may or may not anticipate. The politicians then set about drafting additional legislation to address those unintended consequences—often not realizing it was their past legislation that resulted in those consequences in the first place. This process is how the Federal Register—which contains all federal rules and regulations—came to require 95,894 pages for 2016 alone.

One example of how the unintended consequences of (often absurd) regulations can prompt even more complicated and absurd regulations is a July 2018 proposal by Senator Kamala Harris (D-CA). Concerned that many residents of her state spend more than 30 percent of their monthly income on rent, Harris is calling for federal subsidies for households in high-rent areas. Low-income households would receive a one-dollar tax credit for every dollar they spend on rent that is above 30 percent of their income. (The subsidies would be less for households with higher incomes.)

A reasonable person would ask, “What is it that makes rents so expensive in certain areas of California?” If the *symptom* of the problem is high rent prices, it makes more sense to find out what is *causing* rents to be so high than to demand that taxpayers from the other 49 states bail out renters in California. The underlying problem or “disease” is not high rents. High rents are only a symptom of the underlying problem: a shortage of rental units. The solution is to take actions that would result in the construction of more housing units, which would result in the lowering of rents, *not* to pass legislation that would shift the rental costs to anonymous taxpayers across the country.

In a normal market environment, a shortage of a product or commodity results in higher prices. That is entirely logical and should be obvious. If a landlord has

a newly-vacated apartment and 50 people are eager to rent that apartment, he can obviously charge the highest rent someone in that group of 50 is willing to pay. But if there is an overabundance of apartments, the landlord may find few or even no people interested in renting. As a result, he may have to lower the rent. This is the law of supply and demand at work. It is a basic economic principle that everyone should learn in high school (if not earlier). Regrettably, many students are not taught that concept. (Kamala Harris certainly was not.)

In some areas of California there is a dramatic shortage of apartments and homes because few new units are being built. But if there are huge numbers of people clamoring for homes and apartments, *why are more not being built?* The answer is that a monumental number of irrational and dreadful zoning and building rules and regulations have been put in place by California's state, county, and city legislatures. Each of those regulations comes with a cost that boosts the price of new housing units. Some local governments prefer single-family homes and limit or even prohibit the construction of new apartment buildings, townhomes, and condominiums. Some demand that lot sizes for new homes be much larger than is typical across America. One new California regulation will even require solar panels for new homes built after a certain date.

Such regulations significantly boost the cost of new homes, pricing people out of the market. Californians who cannot afford homes therefore seek apartments. But there is a shortage of those as well. Many homeowners lobby their city councils to prohibit the construction of apartments in their communities. This NIMBY ("not in my back yard") position is not uncommon. People who have expensive homes want them to retain their value, and a Silicon Valley software engineer with a \$2 million home does not want hundreds of "mere middle-class workers" moving into apartments a few blocks away. There may be investors who would be happy to build new apartments, but the NIMBY practitioners block their construction.

To make matters worse, various rent control regulations may also be in effect. To combat rising rents—and placate voters—the politicians impose limits on the amount by which rents can be raised. The landlord's expenses may be increasing at a rate of 10 percent per year, but the local city council may prohibit him from raising rents by more than three or four percent. His income is restricted by a local ordinance, but his property taxes have certainly not been limited. Nor has the cost of repairs to his building.

Faced with limits on their income, but increasing costs to maintain their properties, the owners of the apartments buildings often must allow the units to fall into disrepair. The tenants then complain and are even more resentful of even minimal rent increases. But while there may be limits on rent increases, there are no limits on the prices of condominiums. What happens? The landlords convert their apartment buildings into condominiums. The tenants who cannot

afford to buy \$650,000 condos are forced to move out. The shortage of reasonably-priced apartments intensifies.

Investors are obviously aware of the regulations and they respond in an entirely predictable manner: they do not construct new apartment buildings. Why would they? Why would someone make a huge investment where the income is limited by law, but the expenses are not? Would you invest your life savings in a new restaurant if the city prohibited you from making more than five percent profit each year? Would you accept a nine-to-five job if the employer told you during the job interview you would never get a raise greater than two percent each year?

No one should be surprised that the many rules and regulations discourage the construction of new homes and apartment buildings in California. Although many people have had enough of the state and are moving out, some areas continue to attract new workers. If you are offered a great software industry job in the San Francisco area, you have no choice but to live in or near the city. But because the number of people looking for a place to live exceeds the number of homes and apartments available in the area, the prices have skyrocketed. Although the millionaires can handle the rising housing costs, average middle-class families cannot. That is why many of them are fleeing the state and moving to Nevada, Arizona, and Texas.

But that creates another problem. There are only so many millionaires to pay the extraordinarily high California taxes. The homeless people living on the street pay no taxes. The low-income residents of the state pay little or no taxes and collect welfare benefits. The reality is that the middle-class is where the bulk of the tax dollars come from. California simply cannot afford to lose too many middle-class workers. But those workers not only cannot afford to buy homes, many of them also cannot even afford apartments.

Kamala Harris and others decide they “must do something.” What they *should* do is slash rules and regulations to encourage the construction of tens of thousands of new housing units. But slashing regulations goes against the grain of the busy-body politicians—especially those with socialist leanings. Instead of addressing the problem (a housing shortage), they instead come up with a hair-brained scheme to placate voters who cannot cope with high housing costs.

Harris has decided that if the rent of a San Francisco area resident’s apartment exceeds 30 percent of his monthly income by \$250 (for example), everyone else in the country who is not living beyond his means should pay higher taxes to give that Californian a \$250 per month tax credit. A few years ago, no Senator in his or her right mind would have proposed such a crackpot idea. Either times have changed dramatically, or Harris is not in her right mind.

Harris' "solution" is, of course, not a solution at all. It would do absolutely nothing to keep rents from increasing. In fact, it would have the *opposite* effect. The landlord may never be able to receive more than 30 percent of a tenant's income for rent, but he can count on the government to subsidize every dollar he charges *over* that 30 percent! In a normal, rational world, a tenant would resist a \$500 increase in his monthly rent. He would probably move out. But if the taxpayers are going to pay that additional \$500 *for him*, why should the tenant care how much the landlord charges? He knows his rent will never exceed 30 percent of his income!

The lunacy of Harris' proposal is more obvious if it is applied to new cars, rather than rent. Let's say you can afford \$500 per month for a payment on a new car. With \$500 as your limit, you know you cannot afford a \$75,000 vehicle. But what if Kamala Harris came along and said, "No problem! Uncle Sam will pay anything over the \$500 per month you can afford!" What do you think would happen? Everyone out shopping for a new car would shun the less expensive models and pick out the most expensive vehicle on the lot! *Why wouldn't they?* What would the unintended consequence of *that* be? The automakers and car dealers would boost the prices of their cars. *Why wouldn't they?* After all, the customer won't care if the car that used to cost \$35,000 now costs \$100,000, because his cost is limited to \$500 per month. Sales of affordable compact cars would plummet, while sales of Escalades and Land Rovers would skyrocket.

If Harris' proposal were enacted, there would be some new apartments, but one would expect investors to build mostly luxury apartments. After all, they would not be worried about finding tenants because every prospective tenant would eagerly sign a rental agreement knowing that the luxury apartment would cost him no more than 30 percent of his income.

Further, the landlord would now not have to worry about the cost of repairs and improvements to his property. If, for example, he needs \$50,000 for a new roof for the building, he knows precisely where that money will come from: the taxpayers! The landlord will raise the rent to cover the \$50,000 expense, but the tenants who have already reached their 30 percent "out of pocket" maximum will simply pass the increased rent on to every American taxpayer not lucky enough to receive a rent subsidy.

Now consider this situation: Friends Kim and Lisa work together. A good apartment in a safe California neighborhood near their place of employment costs more than they can afford. They value their privacy and would rather live alone, but because each can afford only \$1,000 per month they share a \$2,000 per month apartment. Their salaries are identical and \$1,000 represents 30 percent of their individual incomes.

Kamala Harris now comes along and says, “Don’t be concerned with reality! If you can only afford \$1,000 per month for the nice apartment you want, I will force taxpayers across the country to cover the rest of what you need!” Kim and Lisa may not be wealthy, but they are not stupid. Kim stays in the \$2,000 per month apartment, for which she will now pay only \$1,000 per month, and Lisa finds a nearby apartment that is also \$2,000 per month but which will also cost her only \$1,000. The taxpayers will be shelling out \$2,000 per month so that Kim and Lisa do not have to share an apartment. What a country! (Don’t be surprised if the landlords increase the rent to \$2,500 on those \$2,000 apartments because the demand has gone up dramatically.)

Now take it one step further. Kim and Lisa find boyfriends to move in with them. Each boyfriend helps by contributing \$400 per month toward the rent. But the friends are intelligent enough not to have their boyfriends’ names added to the leases. Kim and Lisa are each paying only \$600 per month toward the \$2,000 rent, but “on paper” they appear liable for the \$1,000 amount which is their 30 percent limit. They each therefore receive the full rent subsidy generously provided by Harris.

Meanwhile, in Dubuque, Iowa a middle-class family living in a modest house with a mortgage that is slightly lower than 30 percent of its income learns it will have to pay higher income taxes so that Kim, Lisa, and their boyfriends can better enjoy their lives in a California suburb.

You may be asking, “How in the world would Harris be able to prevent Californians from gaming the system?” The answer is that she would not. If her legislation were to pass, the government would no doubt establish a new and expensive bureaucracy to monitor renters in the Golden State and keep them from abusing the rules. The agency would fail, but it might at least provide jobs for unemployed ICE agents. Perhaps Harris will even propose legislation demanding that once you have a roommate you must keep that roommate forever.

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