The "Meteoric Rise" Of Confusion About Housing Economics

Forbes, by Roger Valdez, May 14, 2018 @ 09:30 AM, Contributor Opinions expressed by Forbes Contributors are their own.

Two things struck me about a recent CNN story following controversy over the tax on jobs in Seattle that many want targeted at Amazon. First, was the headline. Meteors don't rise, they fall. The other was the ease with which today's folk economics (something I've compressed into the term, 'folkenomics') has penetrated every level of the discussion about housing in the United States. You see, according to folkenomics, companies like Amazon come to a town bringing jobs which then cause "meteoric rises" in prices.

There is a correlation, they say, between the arrival of a company like Amazon rising prices. Watch out cities, they say, you're likely to have the same thing happen if Amazon choses you for HQ2. Maybe ordinary people and even politicians could be excused for confusing *correlation* with *causation*. It is true that Amazon's rise in Seattle was accompanied by a similar rise in the presence of homeless tent encampments. But how does taxing Amazon or any other company for creating jobs help solve the problem?

The CNN story follows a familiar pattern.

The dispute in Seattle has arisen from the rapid escalation in housing prices and a resulting surge in homelessness, due in no small part to the influx of highly paid workers employed by Amazon and other area tech companies.

There is a little wiggle room there with the "due in no small part" phrase, but clearly the implication here is that highly paid workers cause homelessness. Usually, the assertion goes, that's because the swarm of high paid workers either drives up the cost of existing housing or greedy developers price their housing higher knowing the workers can pay more or both. This means, according to this view, that people get priced out of their housing and can't afford anything newly built because it's all luxury housing.

Slapping a tax on hours worked by people in these bigger companies will wring money out of the companies (after all they caused the problem, right) to pay for units of affordable housing. I've already talked about how even if all this made sense, Seattle's tax does next to nothing for the housing problem. "But something must be done!", say local officials, even if that something doesn't actually do anything.

What's really happening? Yes, lots of jobs mean lots more money in the economy and yes, more demand for housing. But housing is unlike many other products in that it doesn't sit on a shelf at the local Housing Store; it takes time to produce housing as demand rises. When demand does rise, people who are already housed get upset by change and by rising prices, and that goads local government to slap more rules, fees, regulations, and taxes on housing production. That regulatory regime means slower more costly production and thus a spike in prices for housing.

The lack of production and resulting lack of inventory of housing does not *correlate* to higher prices; it is the *cause* of higher prices. Taxing the jobs is a non-sequitor and merely punitive. And using that money to build more housing which has been made difficult to build is like trying to put out a fire with gasoline, the more you do it the worse the problem gets. Taxing housing to make more of it because its too expensive ensures an upward inflationary spiral.

When correlation is confused with causation bad policy results, and when the press and other produce data that is confirmatory to elected officials they feel more sure of themselves in creating that bad policy. The consultancy McKinsey and Company posted about a study they did for the Greater Seattle Chamber of Commerce (the Chamber opposes the tax on jobs) which called homelessness the unintended consequences of jobs and prosperity.

The number of homeless has fallen in most US communities. But it is climbing in affluent coastal cities such as Seattle, in King County, Washington. The exhibit suggests why: the cost of housing. In King County, homelessness has risen in line with the fair-market rent (FMR), which has in turn increased in line with the county's strong economic growth, propelled by the swelling ranks of high-income digital workers.

Even the chart showing their data clearly uses the word correlation: "Rent increases in Seattle's King County show a strong correlation with homelessness." It took only a few hours for the Seattle Times and Crosscut to produce stories with McKinsey's conclusion that to "solve" the problem of homelessness would cost $400 million per year, a figure that was quoted by a Councilmember when the jobs tax measure passed out of a Seattle City Council Committee last week. The Seattle Times headline actually reads "King County needs to spend $400 million a year to solve homeless crisis, new report says." The $400 million figure in those stories is now being cited all over town by advocates suggesting that the problem is even bigger than the $75 million price tag for the tax.

Correlation is not causation (Alex Berezow has written a great take down of the McKinsey post), and even if new jobs caused homelessness, taxing them would not help the homeless problem; even proponents say the price tag is only a scratch for the big companies. And at the rate Seattle is proposing, only a tiny number of units will be produced, years from now. The City Council will take a vote on the tax on jobs later today. When I think of local and national media and well paid consultants who should know better and politicians eating up these reports and headlines to support bad policy, a lyric comes to mind:

> Ya got trouble, folks, right here in River City.
> Trouble with a capital "T"
> And that rhymes with "P" and that stands for pool!

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