

To: Senate Committee on Housing

Fr: Richard Wisner, Lincoln County, Oregon

Re: Senate Bill 608 - Testimony in Opposition

Dear Chair Sen. Fagan, Vice-Chair Sen. Girod, members Sen. Golden, Sen. Knopp & Sen. Anderson;

Thank you for taking the time to hear my views on Senate Bill 608. I am writing from the standpoint as a life-long Oregon citizen of sixty-eight years old, retired this month. Two years ago my wife and I, using our life's savings, purchased a small house to rent out so, in addition to social security benefits we also enjoy what net income comes with owning a grand total of one rental unit. Since I am new to the landlord business I will focus on just one aspect of Senate Bill 608, i.e., limiting rent increases for residential tenancies to one per year at a state determined arbitrary index.

Members of the Committee, even I can see that few issues reflect the divergence between good politics and bad economics more clearly than the theory of rent control. I will presume that others have already supplied the numbers, the charts and the graphs making their points, either pro or con, so I will not be providing you with any more. The issue of regulating rent is easily researched on line as I'm sure you and your adjuncts have done the homework. There is an abundance of data on the topic available to anyone. In this letter I will make use of some instructive information and comments because it is my hope that persuasion may win the day over hard facts, as the proponents of Senate Bill 608 seem either unmindful of the facts and evidence or, are simply ignoring them. And, if facts and evidence are to be ignored then we are left with only opinion – and we all know about *opinions*.

No one can claim rent controls are a new, untried idea. Economists of all political persuasions are still highly skeptical that rent controls can be successfully re-imagined. For example, it is difficult to think of another policy where conservative economist Thomas Sowell, who once observed that "the goals of rent control and its actual consequences are at opposite poles," can agree with liberal economist Paul Krugman. As Krugman, a Nobel prize-winner in economics, explains, "introductory economics teaches that artificially compressing rents results in a shortage of rent-able properties. The lower fixed price increases the demand for rental housing while reducing the quantity of it offered for rent." Nobel laureate Milton Friedman also joins in, "When government - in pursuit of good intentions tries to

rearrange the economy, legislate morality, or help special interests, the costs come in inefficiency, lack of motivation, and loss of freedom." He also noted that, "underlying most arguments against the free market is a lack of belief in freedom itself." To which I heartily agree.

Notably, when dealing strictly with economics, there have been too many factual studies over the years to leave any serious doubt about rent control measures being not merely futile but counterproductive. And in the arena of social issues, said C. S. Lewis, "We all want progress. But continuing forward down the wrong road is the opposite of being progressive." Rent control has been tried - and found wanting. Again, Thomas Sowell, professor of economics at Stanford University writes, "Much of the social history of the Western world, over the past three decades, has been a history of replacing what worked with what sounded good."

Faced with the historical evidence, advocates today rather than focusing on the economics of rent control instead emphasize for public presentation the idea of tenant "security" - in other words, how tenants feel, while throwing sound economic principles out the window. Well then, if the turning point is security, then what about landlord security? Why are tenants any more deserving of (legislated) security than the landlords that provide the commodity the tenants desire? I will refrain from mentioning the f - a - i - r word because all of us already know, that life is not. By focusing on "security" the proponents of Senate Bill 608 have turned this from an economic problem into a political one. It seems as if the great *non sequitur* of our times is that (1) things are not right and that (2) the government should make them right. But legislation designed to create greater "fairness" cannot be judged by that goal but must be examined in terms of the processes created in pursuit of that goal. No one regards "unfairness" as desirable in itself, but that is not the issue. I do not doubt the good intentions of the proponents of Senate Bill 608 but I believe the consequences of this legislation are the furthest things from the objectives they are seeking.

A former U.S. President stated that, "Government shouldn't play a part in everyday life. Jefferson said that the people should be left to manage their own affairs. And President Coolidge followed that up with, "In this theory that the people should manage their government, and not be managed by it, he (Jefferson) was everlastingly right." The state of Oregon has no business regulating the rental costs of anything, particularly housing.

The hard thing for most people to understand is that the only way to get plentiful supply (of anything) at low prices is to allow high prices. High prices are a signal that more is needed, and that people serving that necessary demand can be paid enough to make it worth their while. Want more

affordable housing? Build more housing. Don't impose government mandated rent controls. If this is not true, tell me why it is not.

Depending on one's point of view, it can appear that rent control isn't geared towards helping those without housing to find an affordable place to live. It appears more so that the goal of rent control is to help the people who already have housing. But the goal - and end result - is always touted as 'providing more housing'. Please consider and ask yourselves, how will hindering investments in rental housing construction, for example, provide more housing?

Tenants with rent-controlled apartments benefit financially, as apparently they are more deserving, but there are tradeoffs for them as well. Imagining a worst case scenario, landlords under rent control face incentives to neglect maintenance or upkeep, allowing properties to fall into disrepair until the market price for the unit reflects the rent-controlled price. Additionally, property owners can become more discerning about the types of tenants they want to rent to, making potential tenants jump through enough administrative hoops to be sufficiently vetted.

The economic truth being pushed into the background about housing affordability is what high rental prices communicate, that the supply of rent-able property in the market is scarce relative to demand; Economics 101. The urgent message emanating from many cities is that too few rent-able units have been produced. The historical results of rent control, that it worsens this shortage, is an indisputable fact which apparently is also being pushed into the background. Smoke and mirrors?

Policymakers who care about housing affordability should focus on the primary cause of the problem not the symptom. The main culprit, it has been shown again and again, in a wide variety of locales, are constraints on construction—including zoning and building codes, mandatory guidelines and - more and more frequently - the opposition of anti-growth community groups, which oppresses the capacity of the private market to respond to the demand for more housing. High rents are not the problem, they are the result of the problem.

Availability of affordable housing is purely a supply and demand equation that basic economics can and does solve. Our legislature could solve if it would address land use issues instead of focusing its efforts bucking against the tide of economic realities. Opposing new construction - for whatever reason - does not provide more housing. In limiting rents the actual problem doesn't go away.

The analysis of rent control is among the best-understood issues in all of economics, and apparently - among economists, anyway - one of the least controversial. There is near consensus agreeing that "a

ceiling on rents reduces the quality and quantity of housing." Almost every freshman-level textbook contains a case study on rent control, using its well-known adverse side effects to illustrate the principles of supply and demand. Surely in trying to remedy this problem it is worth knowing that the ills of the housing market are right out of the textbook, that they are exactly what supply-and-demand analysis predicts.

In uncontrolled markets the question of who gets an apartment is settled quickly by the question of who is able and willing to pay the most. That is fair. That is the way the world works. What is wrong with that? "*The most bang for the buck*;" Who among you has not based purchases on that principle? The item in question, whether it be a home or a washing machine, doesn't change the soundness of that principle.

Once more, the idea that government intervention leads to a net increase in social welfare is not a proven position in the prevailing economic literature that's available. Such ignorance of economics weakens political accountability, and can induce some politicians to pursue dangerously misguided policies that prove popular with poorly informed or misguided voters. More importantly we have observed that government intervention begets further government intervention. The old 'camel's head in the door' law. Our economy is not static. How will the legislature make adjustments to a dynamic economy? There will be no end to this interference and constant, continual manipulation of rental pricing certainly will exacerbate a never-ending housing shortage. Rent controls will not fix the problem of too few houses. Isn't a housing shortage is the issue?

To prove this contention, there is an abundance of empirical evidence that in the case of rental housing rent control rather than the "greedy-bastard" landlord may be the real cause of housing shortages in those places it is practiced. Once again, rent control undermines landlords' incentives to provide the services tenants want, because it denies landlords the ability to receive adequate compensation to make their efforts worthwhile. To enjoy, as it were, the return from their investment. Would anyone on this Committee advocate setting a limit on the amount of value a common stock price can increase so those with less resources could afford to purchase those stocks? Or placing a limit on the amount a grocer could raise the price of groceries? Are there state mandated limits on gasoline prices? Would any of those make any better sense than what Senate Bill 608 is advocating on rental pricing?

Return on investment, whether the investment be in labor or time or money or all of the above, is what 'work' is all about. Prospering. Improving one's lot in life. Enjoying the fruit of one's labors and the sweat of one's brow. Eliminating a landlord's ability to enjoy the return from investing in higher-quality housing means, again, eliminating the landlord's incentive to invest in basic upkeep. Having enough money to invest and wanting to keep what one earns is not greed. Being uninformed and wanting to take money from someone who has earned it, however, is. When the ubiquitous 'hard-working Americans struggle for higher wages, this is hailed as a 'social gain'; but if business people struggle for higher profits, this is damned as 'selfish greed'. What's going on here?

As I have already mentioned, few issues reflect the divergence between "good" politics and "bad" economics more clearly than rent control. And yet some in the legislature seems to think Oregon residents will somehow be immune to these immutable laws of economics. The truth of the arguments here are not very complicated. What gets complex is evading this truth. There is no doubt that there are people in need of help, and charity is one of the nobler human motivations. To paraphrase Walter Williams he notes, "The act of reaching into one's own pockets to help a fellow man in need is praiseworthy and laudable. Reaching into someone else's pockets - is not."

It is difficult to fathom how this Committee could ignore the evidence of centuries of economics and pass this Bill. After all, the law of supply and demand is not on the cutting edge of economic knowledge. After so many variations of price setting having been attempted in the past the results of rent control(s) are not unknown, nor is their inevitable result a mystery.

Again, as a rental owner I am flummoxed by the requirement put on opponents of Senate Bill 608 to produce convincing certainty and perfection of their argument while those supporting the Bill have only to make promises and express good intentions. As Milton Friedman warned, "One of the great mistakes is to judge policies and programs by their intentions rather than their results." What hard evidence have the proponents of Senate Bill 608 provided to show that rent controls will indeed lead to the alleviation of the housing shortage? My opinion is that there is a high degree of uncertainty in the efficacy of implementing any of the measures contained in Senate Bill 608.

Consider for a moment what is known as the Precautionary Principle. A popular and reasonable definition of which can be stated as, 'do not do something unless you have proof it will do no harm'.

Indeed, a variation of the Hippocratic Oath. The term is often in the news concerning just about any environmental or health issue. It isn't a new idea, the term having been in use since at least 1995 and, growing up many of us heard our elders admonish us, "better safe than sorry". Considering this then, lets step back and take a breath. Has it indeed been determined that the actions of Senate Bill 608 will indeed alleviate the housing shortage? Has it? Will it promote new construction to house Oregon's growing population? Just how so? Or, as history shows, will it aggravate the shortage and curtail investment in new construction and maintenance for what is already available? Using the Precautionary Principle suggests that threats of harm that are more certain should take precedence over those that are less certain. And if economic and social history are used as guides, the negative affects of rent control do indeed have a higher probability of occurrence than does the alleged goal of alleviating the housing shortage.

Lastly, it is most egregious this bill contains an Emergency Clause, which only removes the decision from the will of the electorate.

I will close with a short excerpt from Thomas Sowell's 2002 book, "The Quest For Cosmic Justice" -

The inefficiency of political control of an economy has been demonstrated more often, in more places, and under more varied conditions, than almost anything outside the realm of pure science. Put differently, property rights and the associated rights of free contract in a free market have a major impact on the economic well-being of masses of people, far beyond those relatively few who own substantial property or who are in a position to hire others or engage in major economic transactions. The property rights guaranteed to the few are essential to the economic well-being of the many, just as the freedom of the press is not just a special-interest benefit to journalists. Yet property rights are often treated as if they were in fact only special-interest benefits for the more fortunate and therefore rights to be sacrificed in pursuit of cosmic justice for others.

For the good of the citizens of the great state of Oregon I urge the Committee not to pass Senate Bill 608. Just who precisely will pay the price if Senate Bill 608 does indeed prove wrong?