

## **The Unintended Consequences of Drug Prohibition, Rent Control and Minimum Wage on the Urban Underclass**

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Rent controls, minimum wage laws and the drug war have left the urban poor in a no-win cycle of crime, violence, and homelessness which is seen by many as the scourge of America. Why does a country which is so wealthy, where there are more obese people than underfed, have an underclass? The answer is the “unintended consequences” of public policy.

All these laws (rent control, minimum wage and drug prohibition) were passed to help people, but in fact have hurt them and have hurt the worst those they were intended to help the most. This is the definition of unintended consequences, and it has devastating effects on those whom the laws intend to help. Each law, individually, has its own unintended consequence, combined, these laws set-up a system where the urban poor have no “legal” way out of poverty.

It is well known that America has the world’s highest per-person rate of incarceration in its criminal justice system, this too is the scourge of America. In summary, to use another economic term, “incentives matter”. The signals sent to the urban poor after several if not many generations of these laws has set-up a system of the underclass in America.

The drug war means that there are excess profits to be gained by selling drugs for those willing to take the risk of protecting their turf through violence and who are willing to go to jail as a cost for gaining these excess profits. The law enforcement agencies limit the competition of those who sell drugs. Instead of having to sell drugs based on quality, competition is limited to those who are willing to break the law.

Drug use, like alcohol use, hurts (or helps) only those who use the drugs. Like many “victimless” crimes, the laws against the activity, be it gambling, prostitution, or drug use, do not curtail the activity, just drive the activity underground where the activity becomes outside of law, creating criminals

of those who partake in the activity. This then of course can lead to more criminal activity – a “culture of criminality” - and makes the notion of legal and illegal, victim and victimless, a fuzzy line where that line should be a bright, clear, clean line that says it is illegal to harm others.

Rent control has also its unintended consequences. The law is intended to make housing affordable to the poor. In fact it does the opposite. It only makes housing less expensive to those who are lucky enough to have rent-controlled housing. Those who are not lucky enough to have rent-controlled housing, or able to sublease from a friend or relative who does, are out of luck. Putting a cap on the rents that landlords can charge distorts the market. There is no incentive for more people to put more housing on the market because they are only able to charge a legal maximum for the housing. They have no incentive to make more housing available. In theory, if more housing is available then the prices would go down, and, the quality would go up as landlords compete for tenants.

But we do not know if this is the case because of rent control. Landlords do not have the incentive to maintain their rent-controlled apartments to a standard which the market would require because they are not able to get back their investment costs. This drives down the quality of housing which is rent-controlled, and, makes less low-cost housing available.

Therefore, as part of the cycle of crime and poverty in urban America, housing that is not rent-controlled becomes more expensive than it should be. One way the urban poor can afford this housing is through criminal activity which increases income to afford the over-priced non-rent-controlled housing. In addition rent control creates a black market, and a market for unnecessary and inefficient middlemen, for rent-controlled housing. People are willing to pay bribes (again only those that can afford it) to leaseholders, or fees to real-estate brokers, to obtain rent-controlled housing. This again prices out the poor, who need to resort to illegal activity, including many people living together in small apartments, to stay in the city, to afford the artificially high cost of housing due to rent control.

Another unintended consequence of rent control is to create a “class system” with attendant perceived and unnecessary power struggles between landlords and renters. The landlords must lobby the government to gain increases in rents, and the renters must lobby the government to keep rents low. Instead of each landlord and tenant being able to negotiate individually, each group

is represented as a class, where there are winners and losers, instead of winners and winners. The landlords do not have incentives to improve their properties or treat their tenants kindly – in fact have the incentive to treat their tenants unkindly so that they will move out after the lease is up and thus are able to raise the rent by some small percentage. And the tenants do not have the ability to negotiate rent reductions or rent increases based on work the tenant him or herself does at the apartment unit compared to the other “class” of tenants at the unit. Under rent control there are just no incentives for mutual cooperation.

The last public policy issue to be addressed here as contributing to the urban underclass is that of minimum wage legislation. This is the law with the most egregious unintended consequences for it hurts most those who need jobs the greatest and those who need flexible and inexpensive labor the greatest. By setting a minimum wage, the government forces those at the bottom end of the labor market out of a job. Those with criminal records, those with drug or alcohol abuse problems, those with unstable employment records, are unable to get started in the official workplace because those that are slightly better off get the jobs. By placing a minimum wage on a job, you are not able to take a chance and hire someone who may be more of a risk and pay them less. You are not able to “help someone out” or “give them a break” because you have to pay them too much.

This adds to the cycle of homelessness and crime. If you can’t get a legitimate job you must work on the black market or in unsafe illegal conditions. If you can’t get a job you can’t afford an apartment.

If you are a new start-up company, whose product or service is untested and whose demand is less certain, you need flexible, perhaps unskilled, labor with whom you can work to build your business. The restrictive labor laws make this more difficult than it should be. This limits the growth of this entrepreneurial sector, the sector which accounts for most of America’s growth and innovation, which indeed has allowed the US to become the world’s economic giant. As a start-up employer you may have to resort to illegal and black market labor, this again creates and perpetuates the cycle of criminality.

Rent control, the drug war and the minimum wage remove the rules of the market-place where buyers and sellers have the incentive to build positive

reputations in the market to get better prices and services, and to innovate in product and distribution. These laws have economic consequences.

These laws which remove the legal line between harm done to others and voluntary contract effecting only the parties who agree, which say that voluntary activity between consenting adults is illegal, removes the incentives for people to treat each other, and good laws themselves which protect the legitimately wronged, with dignity and respect. And that is what the court system is for, to bring redress against those who are wronged, not to force victimless activity underground; this has an unintended consequence of bringing shame and lack of respect for the criminal justice system and the court system in general. It is this disrespect for the rule of law which is the biggest “unintended consequence” of regulating victimless crime, which has created and perpetuated the American urban underclass. These laws have cultural and legal consequences.

The solution to this cycle of poverty, crime and homelessness is not an easy one. The answer of course is to remove the impediments against people contracting freely where others are not harmed. However, there are many institutional barriers to this better world. There are many special interest groups preventing reform. Government likes to be seen as helping those that need help, that is why these laws were passed in the first place. The tenants who have rent-controlled housing would like to keep their rents low, the drug enforcement officials would like to keep their jobs and believe in their cause, the labor unions would like to keep the minimum wage in place so in-turn labor union members can keep their relatively high wages, employers who are large and well-established like to keep their market power and ability to hire those at minimum wage whereas start-up companies are not able to. These are the challenges to creating an America without an underclass; it is not an easy battle. These laws have political consequences.

But most importantly these laws have moral consequences. The greatest argument against rent controls, minimum wage laws and the drug war is not economic but one of the right to exercise one’s free will as long as no one else is harmed in the process. These laws prevent people from freely contracting with others. These laws remove *liberty* and the right to work with others in a free society. These laws take away what it is to be human, to be able to make mistakes and to learn and to grow; this is the biggest unintended consequence of all.