

CITY A.M.

Tech resentment in San Francisco is ignoring the real culprit: Government

by Sam Bowman

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RENTS are rising, pushing people on low incomes out of the neighbourhoods they've lived in for years. Resentment towards the rich is growing, with the most profitable and dynamic industries singled out for the most ire. Talk of a cost of living crisis, driven above all by the cost of housing, is dominating politics.

This isn't London, it's San Francisco. In Resentment City, as Time called it this week, discontent has focused on the Silicon Valley workers whose housing needs and high incomes have driven the price of rents out of the reach of many long-time residents. Buses run by Google to carry employees from the Bay to the Valley have become targets. In December, a bus's windows were smashed in Oakland, and flyers have been passed to Google employees saying that "while you guys live fat as hogs... everyone else is scraping the bottom of their wallets, barely existing in this expensive world that you and your chums have helped create."

This echoes the anger channelled by the Occupy Movement in 2011-12, still an undercurrent to political discourse in Britain today. The complaints of San Francisco's protesters are a little different, but in both cases the message is that the cost of living is rising out of control, and the purchasing power of the rich is to blame.

It is hard to escape a feeling that a wealthy class has done less badly during the Great Recession than the rest. In fact, income inequality has fallen in both the US and the UK since 2008, but a drop in real incomes inevitably hurts most those whose absolute purchasing power is lower.

San Francisco's protesters also probably have a good reason to be angry. But they've chosen the wrong target. The problem is not too many rich Silicon Valleyites buying and renting, it's that the city has a housing shortage.

It comes down to supply and demand. As the Cato Institute's David Boaz has noted, San Francisco's strict planning laws have made it much more costly to build new housing to meet rising demand. Zoning laws restrict the construction of higher density buildings on the city's limited land mass. Median rents are now the highest in the US. Over the past ten years, the city's population has risen by 75,000, yet the number of housing units has increased by just 17,000. Paradoxically, rent controls that apply to some parts of the city are probably making things worse – those who live in rent-controlled housing may be OK, but there is no incentive to build more.

This is almost exactly the same story as in London, where the EY Item Club is now warning of a house price bubble. Instead of Google employees, we have bankers and foreigners, but the principle is the same: people are attacking the demand-side, instead of asking why the government has put a stranglehold on the supply-side.

The US economist Karl Smith has pointed out that a new book by Thomas Piketty on the history of equality seems to show that the rise in capital's share of GDP in the West is largely down to land-use planning controls like those of London and San Francisco. If we want to let the market do its job of resolving conflicts over scarce resources, we – and San Franciscans – should be angry at the government, not the rich.

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