

# Homeequity Advantage

## Affordable housing and morality

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The affordable housing initiative in Santa Fe includes ordinance requiring builders to build a specified per cent of low cost homes, and the proposed transfer tax where the owners of more expensive homes will be taxed on the sale of their property to provide tax revenues to fund affordable housing. This topic brings about much discussion seeking answers. But answers to these kind of proposals are elusive. The policy makers provide a list of the benefits to support their initiatives, and an assumption of this policy initiative is that the richer pay less than their fair share of taxes. Steven E. Landsburg in his book “*The Armchair Economist*” illustrates: “Jack & Jill draw equal amounts of water from a community well. Jack’s income from the well is \$10,000 on which he is taxed 10%, or \$1,000, to support the well. Jill’s income is \$100,000, of which she is taxed 5%, or \$5,000, to support the well. In which direction is that tax policy unfair?” Landsburg points out that to answer this question a moral philosophy is required, and that economics may be of help.



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In policy analysis, it is understood that one can never prove the worth of a policy just by listing its benefits. Any policy you can dream up has advantages. To defend a policy, you have to show that it does **more** good than harm. And the problem here is what is meant by **more**? If it can be demonstrated that the affordable housing initiative can deliver \$25 million dollars worth of new housing to the area’s needy families, and that the wealthy home owners taxes are increased by \$30 million, does this program cause more benefits than losses? How do you balance one type cost against another type of benefit? This is trying to compare apples to oranges.

Landsburg points out that “In the real world, any meaningful policy proposal must entail a huge number of trade offs involving innumerable gains and losses to innumerable people. Anybody with something substantive to say about how we should compare those gains and losses must surely have something substantive to say about...this proposal that does nothing but enrich the poor by ...” \$25 million and impoverish the rich by \$30 million. At some point in time, it needs to be decided where how many *cons* outweigh a particular *pro*.

When a policy maker wants to argue for affordable housing, he needs to explain more than why this will benefit the poor. He needs to bring to the table his moral philosophy and explain why it is good to help the poor and hurt the rich, i.e., to show why one income distribution is preferable to another. Who is more deserving is a moral question.

From an economist’s standpoint, taxes will always do more harm than good. To collect a dollar, you have to deprive someone of a dollar. Inevitably, you discourage a person from buying a dinner, building a house, buying a second home. When a policy does more harm than good, economists deem it inefficient, and discourage it. If an affordable housing initiative discourages builders from building and homeowners from selling, then the anticipated loss of economic value back to the community should be weighed against the expected economic gain of the initiative.