

The Law of Unintended Consequences: How the City of Portland Lost Its Hipster Vibe

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KEEP IT WEIRD
PORTLAND

**A decade ago, Portland, Oregon
was considered by many young
people as a hip place to live...**

KEEP PORTLAND WEIRD

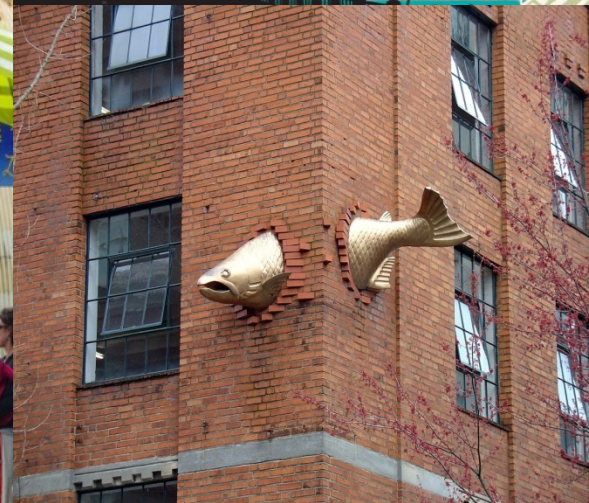
Darth Vader
rides
a unicycle
while playing
the Star Wars



theme song
with his
flaming
bagpipes

KEEP PORTLAND WEIRD

EARTHQUAKE PREPAREDNESS





24 HOUR
CHURCH OF ELVIS
IF THIS DOOR IS SHUT:
SO SORRY, WE
ARE CLOSED!!
USUALLY OPEN
NOON - 5PM DAILY
8-11PM a LOT
CALL 226-3671
FOR REASSURANCE
WORLD
HEADQUARTERS



**Portland's hipster vibe formed
the basis for a TV show...**



“The dream of the 90s lives on.”



PORTLANDIA





**THE 7 BEST
DONUT SHOPS
IN PORTLAND**



Many off-beat, unique, "anti-corporate" small shops opened up, which contributed greatly to Portland's hipster vibe





Vintage clothing shops opened up everywhere.



Coffee shops opened up everywhere.



**Today when you visit Portland,
this is what you see...**



The City has one of the highest homeless problems in the country. Most of the unique, off-beat shops are now gone, and with it, Portland's hipster vibe. Why? What Happened?



We can point to a cascade* of economic “unintended consequences” as the cause for Portland’s rapid decline.

The consequences were predictable to any student of economics.

Apparently, the well-intentioned politicians in Portland never studied economics.

*** Intentional bad pun.**

I. Housing Costs Escalated

✓ Over a recent three year period, rents increased roughly 4 times the national average.

The Three Year Change
(in 2017 dollars:)

US Median +5.86%

Portland +19.85%

✓ Home prices doubled in 6 years

✓ The population of Portland doubled in 8 years, but the construction of new housing did not keep pace.

--Many lower skilled workers came to Portland in response to high minimum wages (discussed later).

--Intel and other STEM jobs moved into the Portland area.

--5,000 STEM jobs added at the new downtown hospital/science university.

Portland-area median home price

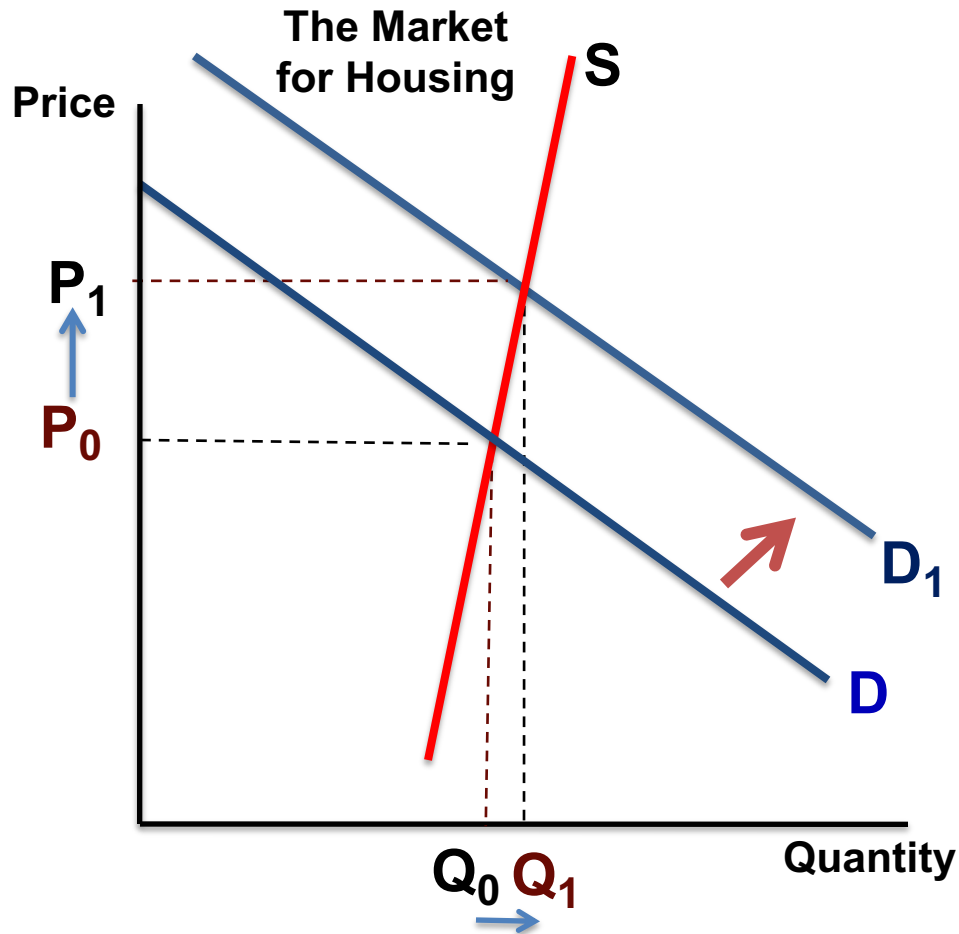
The median home price topped \$400,000 for the first time this year and continues to climb.



Chart: Elliot Njus • Source: Regional Multiple Listing Service • [Get the data](#)



Per Chapter-3 of our textbook, if you increase the number of buyers, it will increase the price.



A change in the number of buyers is a demand curve shift factor. The population increase caused the demand curve to shift upward creating a new equilibrium point.

The new equilibrium point shows an increased cost of housing from P_0 to P_1 . The increase in price induced some new housing additions from Q_0 to Q_1 .

- ✓ **With higher real estate costs, many of Portland's lower skilled residents could no longer afford their rent.**

Because their skills were not transferrable to Portland's higher paying STEM industries, this contributed to the homeless problem.



II. Labor Costs Escalated

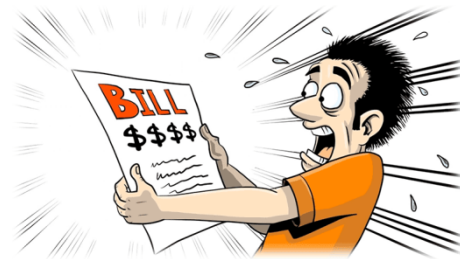
- ✓ The well-intentioned politicians increased Portland's minimum wage by 38.9% over three years

From \$9.00/hr in 2016 to \$12.50/hr in 2019

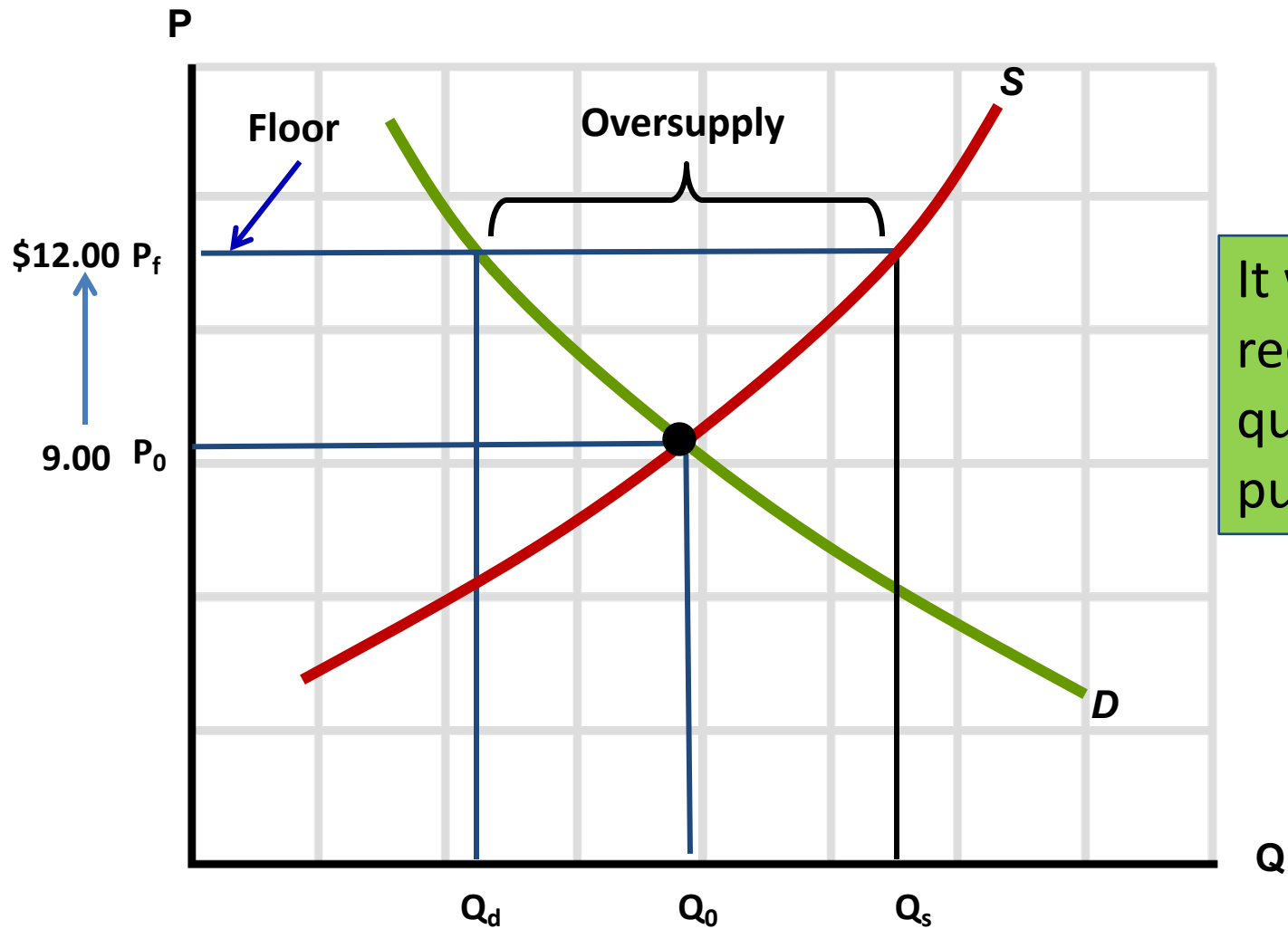
- ✓ Unlike most states, Oregon does not allow a tip credit against the state's minimum wage.

Thus, wait staff and bartenders must be paid the full state minimum wage in addition to any tips or gratuities received.

As a result, restaurant prices in Portland are higher than most places.



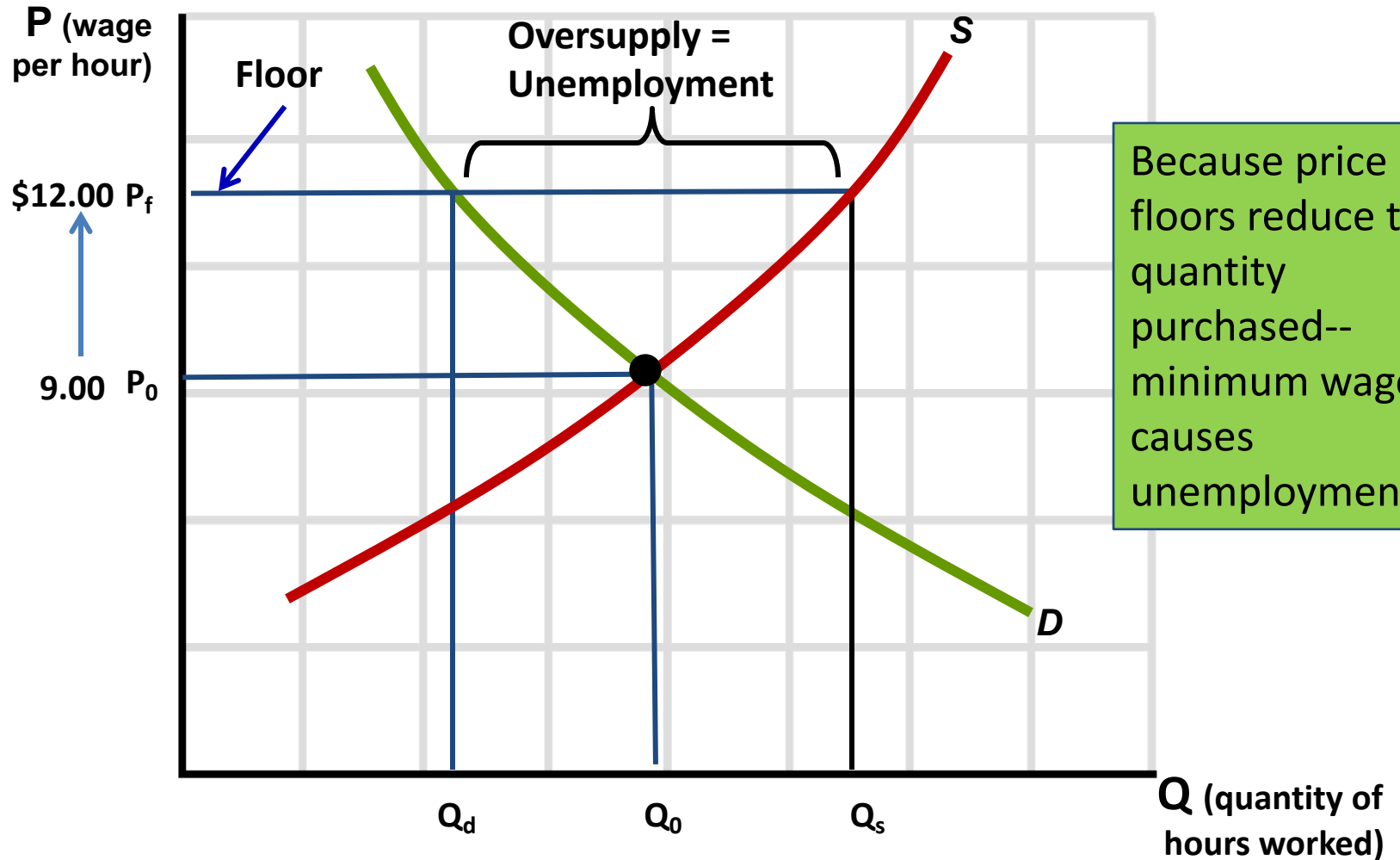
Per Chapter-4 of our textbook, when a price floor is imposed on something, it will create an oversupply of that item.



It will also reduce the quantity purchased

Price Floor Application: Minimum Wage

The Market
for Labor



- ✓ As shown on the previous graph, the high minimum wage compared to most of the country induced more lower-skilled workers to move to Portland.



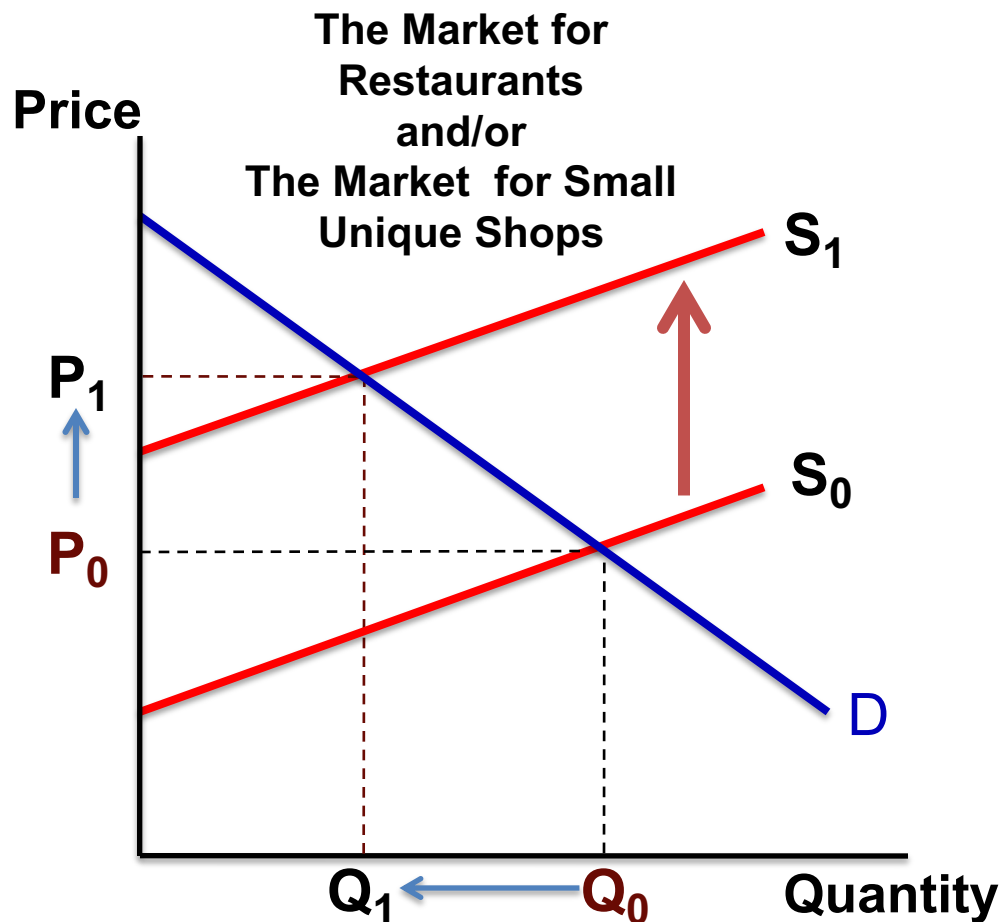
- ✓ As also shown in the previous graph, the increase in minimum wage decreased the number of lower skilled jobs available.

This caused people to lose their jobs.

Because their skills were not transferrable to Portland's higher paying STEM industries, this contributed further to the homeless problem.

III. The Restaurants and the Unique Small Shops Got Clobbered by Both the Higher Real Estate and Higher Labor Costs

Per Chapter-3 of our textbook, if you increase the cost of producing something, you will get less of it.



Input costs are one of the supply curve shift factors. Higher wage and real estate input costs for a restaurant or a small unique shop causes the supply curve to shift upward creating a new equilibrium point.

The new equilibrium point shows the total cost of operating a business increased from P_0 to P_1 . The number of restaurants and shops decreased from Q_0 to Q_1 .

- ✓ **With higher real estate and labor costs, many of Portland's restaurants and unique shops closed down.**

In turn, many lower skilled workers lost their jobs.

Because their skills were not transferrable to Portland's higher paying STEM industries, this contributed further to the homeless problem.



IV. Subsidies for the Homeless

- ✓ To address their growing homeless problem, the well-intentioned politicians of Portland voted to give the homeless significant subsidies including food and healthcare.

They even put together a Homelessness Toolkit.

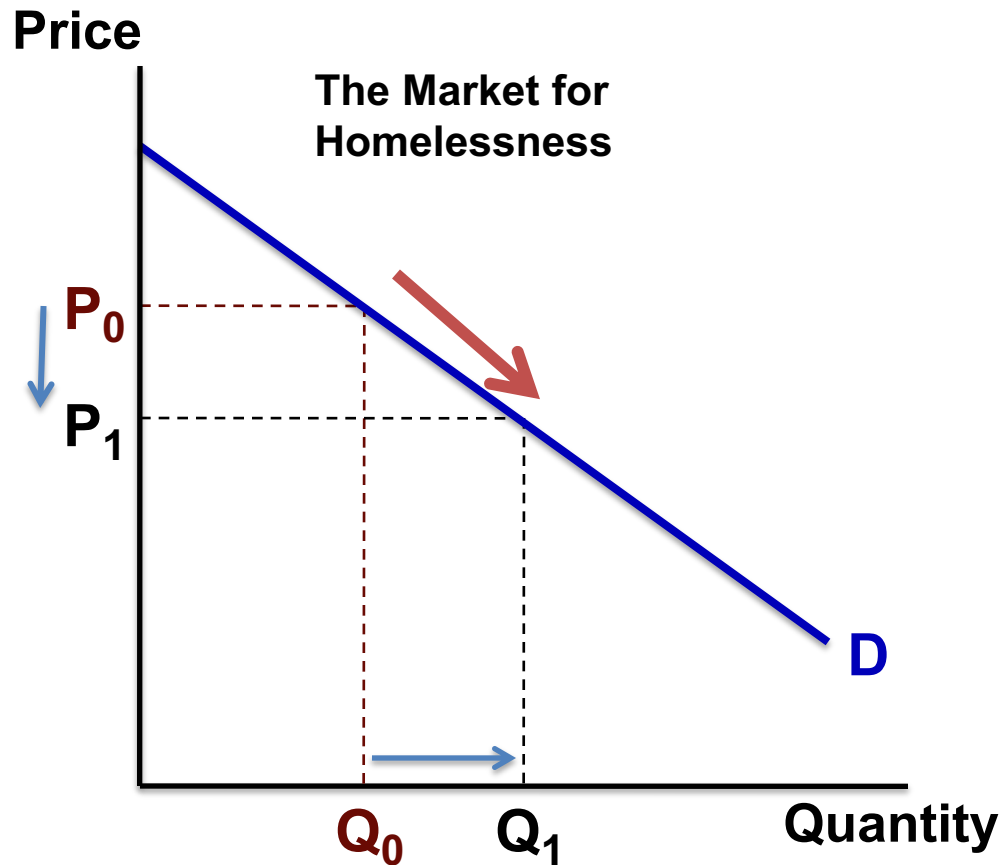
(This photo is from the cover of that toolkit.)



- ✓ To further make life easier for the homeless, laws were passed preventing homeowners, shopkeepers, and police from moving/relocating the homeless from any public place.

This includes the entryway to a business, a municipal parking lot, or a residential sidewalk.

Per Chapter-3 of our textbook, if you subsidize something, you will get more of it.



A change in the price of something results in a movement along the demand curve. Subsidies to the homeless decrease the cost of living on the street which causes a movement along the demand curve creating a new equilibrium point.


The new equilibrium point shows the total cost to live on the street fell from P_0 to P_1 . The number of homeless increased from Q_0 to Q_1 .

- ✓ As shown on the previous graph, Portland's lower cost of living on the street due to the subsidies induced other homeless to move to Portland.

This made an unfortunate situation worse and exacerbated Portland's homeless problem.



For those that didn't get the earlier intentional bad pun, Portland lies within the Cascade Mountain range. Groan.



In Conclusion...

A cascade of economic “unintended consequences” caused the unfortunate loss of Portland’s hipster vibe.

- Mismanaged Population/ Housing Growth**
- Minimum Wage**
- Subsidies**

The consequences were predictable to any student of economics.

Portland is an example that well-intentioned politicians need to heed basic economic principles.

...And That’s How the City of Portland Lost Its Hipster Vibe

Addendum Slides

“The Dream of the 90s is Alive in Portland”
can be found at the following link:

www.youtube.com/watch?v=U4hShMEk1Ew

**Outdated Medical Practices and
Outdated Economic Policies,
an analogy...**



Outdated Medical Practices and Outdated Economic Policies

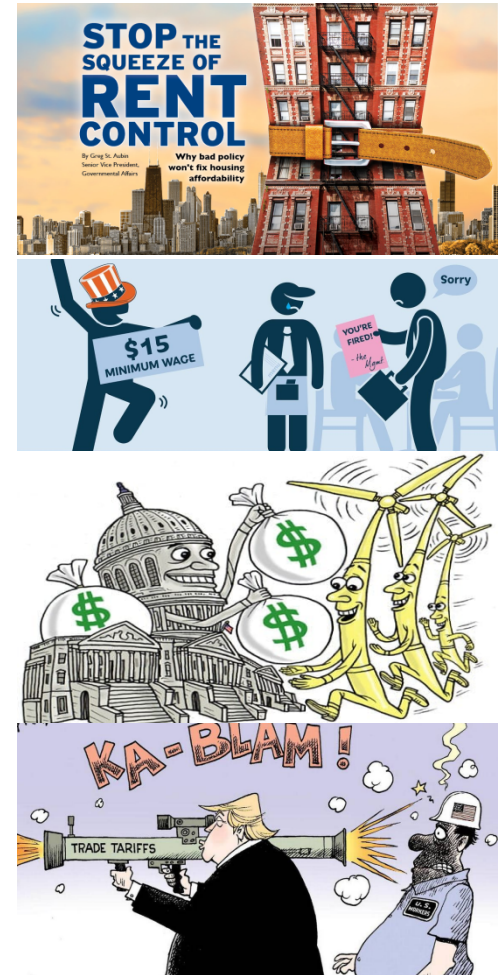
- Bloodletting was a common medical practice thought to have started in ancient Egypt and continued through the Middle Ages.
- Bloodletting was performed by cutting veins or arteries in the forearm or neck, or by the use of leeches.
- The objective, appearing somewhat logical on the surface, was to remove “bad” blood from a patient.
- Although it was performed by well-intentioned medical practitioners, bloodletting usually made the patient worse. Today, we know better.



- Similarly, there are a number of well-intentioned politicians that practice outdated, disproven economic policies*.

While appearing somewhat logical on the surface, they make people worse.

Today, we know better.



*Such as tariffs, minimum wage, rent control, misapplied subsidies, just to name a few.

Solutions:

Portland must accept that “artsy” spots come and go, and once gone don’t come back. They move elsewhere. Haight-Asbury and SoHo provide good precedents.

Increase the supply of housing. Housing within a constrained area does not satisfy the definition of a competitive market. It meets the definition of market failure which requires proper government oversight to ensure that supply meets demand (or close to it).

No housing subsidies. They won’t help here -- they will only push existing housing prices higher. It’s really all about supply. See the following charts.

Repeal the recently enacted rent control law. As economics shows, and history has proven, rent control reduces the supply of housing. Again, if you want lower rents, then increase the supply of housing.

Solutions, cont'd:

Minimum wage. Must be altered to prevent inducement of low skilled workers coming in from other states. Better yet, abolish minimum wage and replace it with something like a negative income tax.

Job training is key. This is the cornerstone of what needs to be done. All short term “safety nets” such as wage support and homeless subsidies must be linked to job training whenever possible. No job training, no safety net.

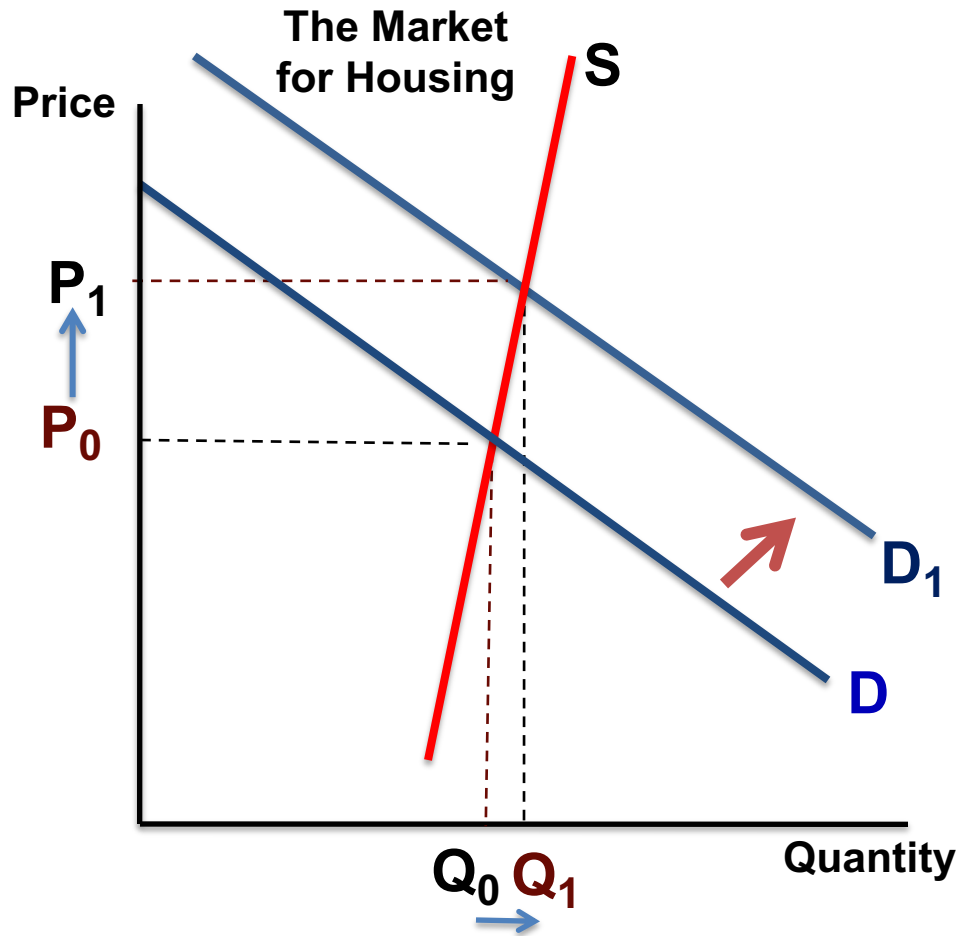
Subsidies. The subsidy program for the homeless must be altered a) to prevent the inducement of homeless from other states from moving to Portland and b) linked to job training.

Solutions, cont'd:

Protect existing revenue generating sources. The City should revise the lax homeless laws to induce existing businesses (that provide jobs and tax revenue) to stay in the City. Nor can the City let revenue from tourism decline due to lax homeless laws.

Drug laws must be studied further. There's only anecdotal evidence so far regarding the impact of Oregon's marijuana legalization.

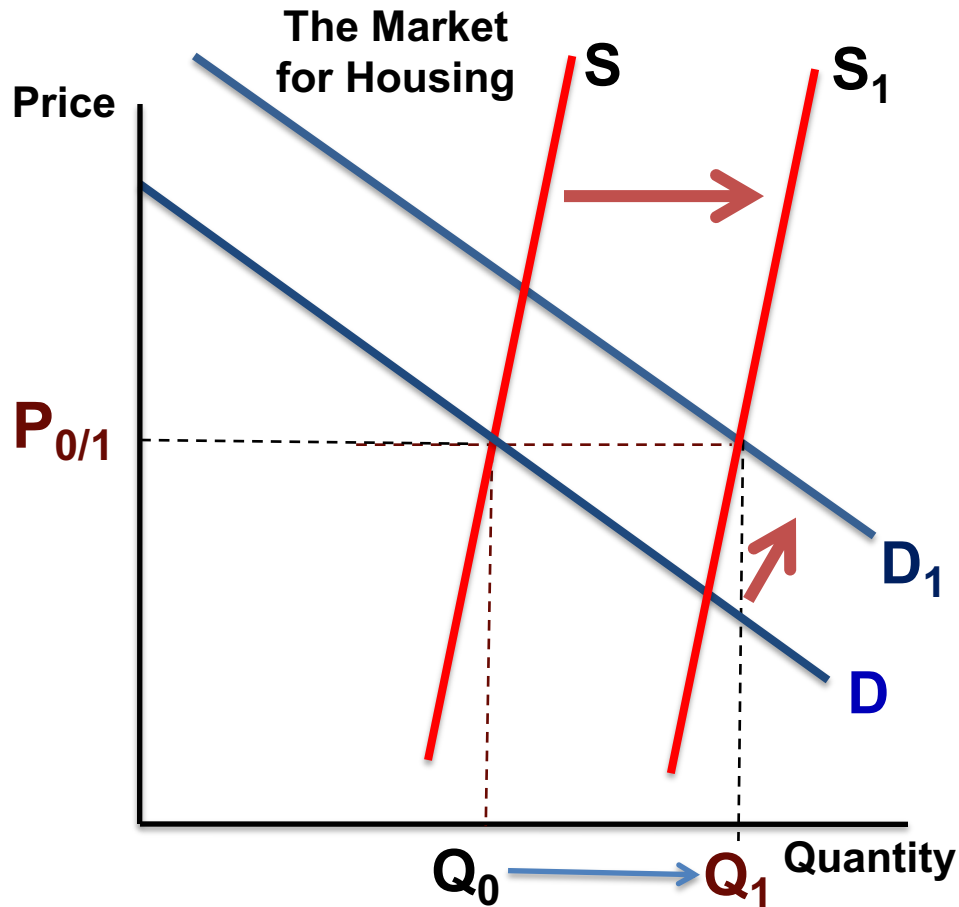
As addressed in Chapter-3, if you increase the number of buyers, it will increase the price.



A change in the number of buyers is a demand curve shift factor. The population increase caused the demand curve to shift outward creating a new equilibrium point.

The new equilibrium point shows an increased cost of housing from P_0 to P_1 . The increase in price induced some new housing additions from Q_0 to Q_1 .

As addressed in Chapter-3, if you increase the number of buyers, it will increase the price— unless supply is increased simultaneously.



A change in the number of buyers is a demand curve shift factor. The population increase caused the demand curve to shift outward creating a new equilibrium point.

But when supply is also increased, there is little or no change in price.