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California's War on the Poor

MICHAEL TANNER

Here we are in California, which is a state that has substantial economic growth, pockets of enormous wealth, and extensive social welfare programs. And yet you have the highest poverty rate in the nation, which suggests that something is going wrong. California is a state that, in many ways, has a public policy dedicated to the idea of redistribution of wealth. But somehow you are fourth in the country in terms of wealth inequality. After we published my book *The Inclusive Economy*, I had people point out to me that California is a rather target-rich environment for outreach. So that's why we've launched Cato's Project on Poverty and Inequality in California, and I'm excited to share with you some of what we'll be doing.



MICHAEL TANNER is a Cato senior fellow. He spoke at a Cato seminar in Palo Alto, California, in September 2019.

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Now, when it comes to inequality generally, some of that is the natural outcome of people’s talents in the market, and we have very little problem with that. But too often we find that inequality is imposed by the government or brought about by bad government policies. In my book, I look at a number of areas where I think the government has simply gotten it wrong: criminal justice policies; our education system (which is more dedicated to protecting teachers and administrators than to helping parents and children); the housing situation (which of course everybody’s especially familiar with here in California); financial inclusion and access to critical financial services; and finally regressive regulation that locks the poor out of participating in an otherwise growing economy. California is getting almost every one of these policies wrong.

Let’s start with the criminal justice system. Yes, there has been some reform and some reduction in the number of people in prison. But we still find that overcriminalization is a big problem in this state. Simply put, far too many things are crimes that shouldn’t be crimes. California is locking people up for things like personal drug use rather than dealing with more important

“California is getting almost every one of these policies wrong.”

priorities, like breaking into cars. That’s the number-one crime in San Francisco, and it has a clearance rate of less than 2 percent. Then there are the fines and fees, which fall primarily on lower-income people. The same issues that were documented in Ferguson, Missouri, and that led to a vicious cycle there are also happening in California: For example, somebody gets picked up for having a taillight out and gets a fine; if the fine isn’t paid on time, the government will take that person’s car insurance and driver’s license, and then that person can’t go to work, and the whole thing escalates out of control.

Additionally, if you have a criminal record, you can’t get many of the jobs that are subject to occupational licensing. It seems absurd to me that the same people they let out of prison as emergency help to fight the wild-fires in California can’t become actual firefighters when they’ve completed their sentences because they have a criminal record. I spoke to a gentleman in Fresno not too long ago who had just gotten his master’s degree in social

work. He had been incarcerated and worked to become educated while in prison and then went on to get his master's degree. He can't become a social worker because he has a criminal record, and that's just crazy.

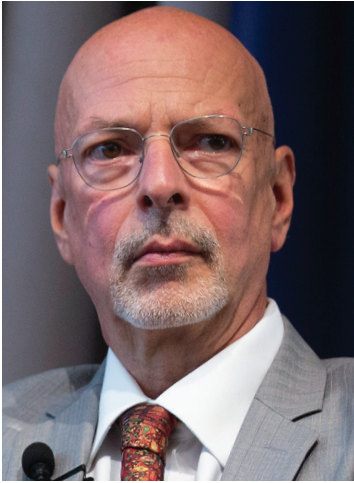
There has also been a backlash against some of the reforms that have been tried because they're turning out to be bad ideas that are having the opposite effect. I'm thinking in particular of the recent decision to eliminate cash bail, which has actually wound up keeping more people in jail longer, so we expect efforts to repeal that.

“ The housing crisis and homelessness are big problems in California. ”

When it comes to education, California lags behind the rest of the country in many ways. You have outcomes that are far worse than the national average both in math and reading. And you have very little competition and very little innovation in the education system because you have very little parental choice. You have no school voucher or scholarship tax credit program. Even your charter-school programs are very limited and heavily regulated, and there are efforts to impose more regulations or a moratorium on them altogether. Needless to say, I think that those efforts would be a very bad idea.

One of the interesting things about speaking to California audiences like this one is that everybody perks up a bit when I talk about the housing crisis and homelessness. We know that that's a huge problem here, and obviously you know it too. Sixty-nine percent of California's homeless population are living on the street. Forty-seven percent of all the unsheltered homeless people in the United States live in California. About a quarter of all homeless people in the United States, including those in shelters, live in California. There are a variety of reasons for this. About a third of all the homeless people in California are what you'd consider traditionally homeless. These are people with mental illnesses and drug and alcohol problems; they are the people you tend to see becoming homeless everywhere in the country. But about two-thirds of California's homeless population are people who have fallen to the street largely for economic reasons. This happens because if you lose your low-cost apartment, you simply can't find any place else to live because there's such a lack of affordable housing in the state.

There are a lot of reasons why there's no affordable housing in California. Chief among them are zoning regulations. It varies between 50 to 75 percent in different studies, but about two-thirds of all developable land is zoned solely for single-family housing. You can't build multifamily housing or



high-density units in most of the state. Local fees, permitting codes, and regulations can add 6–18 percent to construction costs. In many areas of the state, the cost of the fees and permitting is more than the cost of the land. It is brutal how these permitting processes can drag on. And on top of all that, you have the California Environmental Quality Act (CEQA). This law pretty much allows anybody anywhere in the state to stop almost any project by threatening law-

suits. I've been told by politicians on both sides of the aisle about how this has been increasingly weaponized. It is used by special interest groups and unions making demands, threatening to file CEQA lawsuits unless those demands are met. It gets almost comically corrupt sometimes and has nothing to do with sound environmental protection.

My next point is financial inclusion. Most poor people don't have any savings, which is not surprising. That's why they're poor! We do know that you don't get out of poverty by spending more money, you get out of poverty by increasing your savings. We want to encourage people to save and to build up money, and yet under CalWORKs, if you have more than \$2,250, you lose your public assistance benefits. Think of what that means. You get your welfare check, and you can go down to the store and buy the latest running shoes, or whatever other immediate consumption consumer good, and the state says that's fine! Spend every penny you've got. But if you put any of that money in a 529 account so that your kids can go to a better school someday, then the state is going to take away your benefits. It seems to me like we've got that exactly wrong.

And then finally there is the whole problem of regressive regulations. People do tend to worry about regulations all across the board, of course, and how they hurt business. But I particularly worry about how these regulations hurt the poor. Things like occupational licensing laws, occupational zoning, and childcare regulations make it difficult for poor people to afford childcare. In

a lot of these cases, we're talking about single mothers, and it's very hard for them to find affordable childcare. That can keep people out of the labor force. Minimum wage and prevailing wage laws are so high that they keep people away from that first rung on the ladder out of poverty because they can't get that first job. Environmental regulations drive up utility costs, which on top of housing costs can keep poor people from being able to find shelter.

So what are we going to do about it? Well, that's where Cato comes in with our Project on Poverty and Inequality in California. Cato has decades of expertise on these subjects. We have been studying issues like regressive regulation, criminal justice reform, and education reform for years. We have some of the best scholars in the world working at Cato on these issues, and we have access to other scholars from around the country who are also

“It's about building those relationships.”

dealing with these sorts of issues. We can tap into that expertise. But we don't want to simply parachute into California and say, “Hey, we figured it all out: We're from Washington and we're here to help!” So we want to actually take the expertise we've developed and apply it specifically to California and the problems you're facing here. We want to learn from you and learn how you think we can best utilize that expertise and what we can do better; ultimately, we want to figure out what we can do to best help you improve. It's about building those relationships.

I have been coming to California and talking to the people on the front lines who are dealing with these issues. Of course, that includes talking to politicians and policymakers from across the spectrum, but it also means talking with activists—the people who are dealing with this on the streets—and talking to the people who are suffering from all this: those who are actually homeless, who are finding it tough to get a job, and who are out of work. We're trying to talk to all these folks, and we want to incorporate them into this process. That's why I'm so excited about the Project on Poverty and Inequality in California, and I think we're already starting to see some exciting first steps. This is a novel undertaking. I don't think anything quite like it has been tried before. So I am very glad that through Cato I can be a part of it and thankful for your support in making it possible. ■



CATO PROFILE

Peter Goettler

Peter Goettler is the president and CEO of the Cato Institute. For this edition of *Cato's Letter*, he answers some questions about Cato's institutional response to the COVID-19 emergency.

How has the pandemic affected Cato's operations?

Like everyone else, we've been working to quickly adapt to the public health emergency. Cato has moved to a work-from-home posture, and we've unfortunately had to close our beautiful building on Massachusetts Avenue except for limited essential access. The health and safety of Cato's employees is my top priority, and I take that very seriously.

How have Cato scholars responded to the public policy challenges that the emergency has raised?

There is still a great need for the sound, principled, nonpartisan policy analysis that Cato's reputation is built on. In each of their respective policy areas, Cato scholars are providing timely and important insights, and I am very proud of the deep pool of talent and expertise they've been able to bring to bear on these difficult questions. There is new content on the website every day, and Cato scholars have been closely following the flood of developments in fields ranging from health care to monetary policy and everything in between. Few organizations have the breadth of policy coverage that Cato does, and we've been firing on all cylinders and being very proactive. For example, I wrote a letter with attached guidance for policymakers, available on our website, outlining our experts' recommendations on how to respond to the pandemic.

Has the switch to working from home affected Cato's regular content?

At Cato, we value our working environment and the company of our colleagues, and we all miss that. But the important

work continues without interruption, and I appreciate how all of Cato's employees have worked hard to make it a smooth transition under difficult circumstances. Everybody's days have been packed with video conferences and telephone calls, plus writing and recording from home. We are still producing our regular lineup of studies, books, podcasts, and media interviews, all of which can be found at Cato.org, and mail deliveries of periodicals—such as this *Cato's Letter*—will continue.

What about planned Cato events?

We have had to suspend all in-person events. Some have been postponed, and others are instead occurring online only via live stream. We'll be in touch if you've registered for an upcoming event, and Cato.org/events will have the latest updates. There also are lots of great events archived on our website if you're looking for something to watch at home! We're taking this as a chance to think innovatively about how Cato does events, so if you'd like to start receiving our regular emails, sign up at Cato.org/ecommunity.

How do you envision Cato's role moving forward?

Cato will continue to produce insightful, innovative work to address novel policy challenges. Defending the importance of freedom is especially vital during an emergency, and Cato will proudly stand by that role as we have for more than 40 years. Extraordinary times sometimes require extraordinary measures, but the principles of life, liberty, and the pursuit of happiness are still very much needed. ■

Securing Liberty for the Future



“Freedom is never more than one generation away from extinction,” warned then governor Ronald Reagan in his 1967 inaugural address. These words highlight exactly why Cato’s mission is so crucial. Defeating COVID-19 will not happen through some top-down government solution but through the cooperation and collaboration of millions of free individuals. In times of adversity, we come together voluntarily to advance our shared values. That is the legacy of liberty we are committed to defending.

As Cato scholars continue to analyze the responses to the crisis, they will be looking for signals that policymakers are learning from this experience—that they will make the pro-liberty reforms necessary to combat future national emergencies and offer true protection against pandemics. While politicians attempt to take advantage of this crisis to consolidate power and enact their own policy agendas, Cato’s Sponsors empower the Institute to continue fighting for individual liberty, limited government, free markets, and peace.

In addition to providing absolutely essential annual support for Cato, in recent years the Institute’s Legacy Society Sponsors—individuals who have created planned gifts to Cato—have been providing tremendous resources, and starting important conversations, for Cato’s future.

Please let us know if you’ve created or are interested in creating a planned gift—including simple charitable gift annuities, bequests, beneficiary designations for retirement assets,

complex trusts, and endowed chairs—so we can welcome you into our Legacy Society. As a Legacy Society Sponsor, you will enjoy a variety of benefits, including invitations to exclusive Cato events and complimentary access to special books, commentary, and multimedia.

We also want to update you on several short-term tax law changes related to charitable giving (courtesy of the \$2 trillion emergency bill):

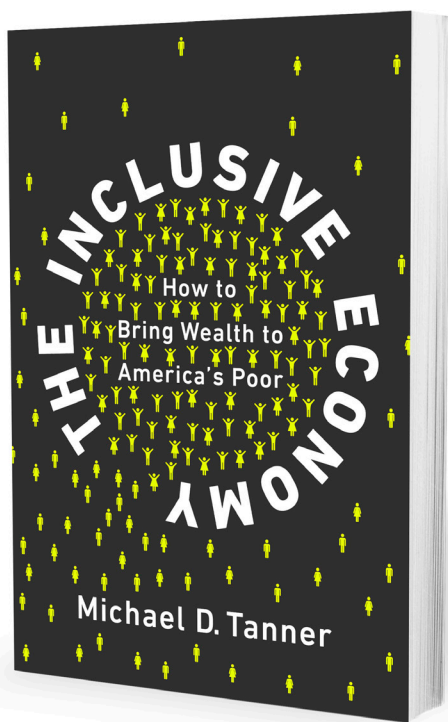
- The CARES Act allows nonitemizers to make a charitable deduction, in addition to the standard deduction, on contributions of up to \$300 for gifts made in 2020 and claimed in 2021.
- The act lifts the existing cap on annual contributions for itemizers from 60 percent of adjusted gross income to 100 percent.
- The act includes a temporary suspension of required minimum distributions from defined contribution plans and IRAs.
- Corporate giving has also been affected by the new legislation, raising the annual contributions limit from 10 percent of adjusted taxable income to 25 percent.

It is important to understand the full implications of these and other recent changes as a result of the CARES Act. Please speak with your tax advisors to receive the best and most relevant advice for you and your family’s financial and philanthropic priorities.

One of the greatest honors for Cato is working with our Sponsors to help them realize their vision for their own legacy for liberty. And these challenging times demonstrate how critical our ideas are to ensuring a flourishing world. ■

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Empowering people



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—ANDREW STERN
President emeritus, Service Employees International Union

“Tanner’s excellent new book bypasses the left-right divide to take the problem of poverty seriously.”

—JASON BRENNAN, *Georgetown University*

Author Michael Tanner offers a new anti-poverty agenda that includes criminal justice reform, educational freedom, housing deregulation, banking reform, and more inclusive growth—all focused on empowering people, enabling them to take greater control of their lives.

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