

Regulation

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REGULATION was first published in July 1977 "because the extension of regulation is piecemeal, the sources and targets diverse, the language complex and often opaque, and the volume overwhelming."

REGULATION is devoted to analyzing the implications of government regulatory policy and its effects on our public and private endeavors.

FOR THE RECORD

Arms and the Waterman

THE ARTICLE "A CRISIS OF SECURITY and Economics" by Laurence T. Phillips (Winter 2001) indicated that some ports were less safe because they "did not even bother to... restrict individuals from carrying firearms."

There is neither empirical evidence nor a rational argument that restricting gun possession by non-criminal citizens restrains terrorists. Recent events indicate that terrorists choose targets where they can be confident that the victims are unarmed, such as onboard aircraft. This makes sense — an armed citizenry could certainly disrupt their schemes.

JIM CHANCE
Lafayette, Louisiana

LEMs and Rents

AS AN ADDENDUM TO ALLEN Blackman's excellent article "Testing the Rhetoric" (Spring 2002), I want to call attention to a potential unintended consequence of LEMs. They are "designed" to reduce urban sprawl by enabling families who desire to live in densely populated, transit-rich communities to obtain larger mortgages with the same or smaller down payments. The claim is that people living in such areas drive less or go without a car, and the transportation savings can be used toward a mortgage, providing a nice "free lunch." This, of course, is an "other things equal" argument.

The point I want to emphasize is that,

if LEMs do have this effect, the resulting increase in the demand for high-density housing will likely drive up the scarcity rents for such locations. It is demand-induced higher location land rents that

create the incentive of builders to utilize space more efficiently by building high-density living quarters. That construction, in turn, makes mass transportation economical.

So, if LEMs become incorporated into the price of land and the properties purchased, who benefits? It will be the first generations of investors in properties that are financed with LEMs, along with their neighbors. When they sell, it will be at capital gains that reflect the LEMs' effect on land prices.

Thus, when taxi medallions are introduced to restrict entry into the taxi business to bestow on drivers the benefit of higher

fares, the effect is to create a market demand for scarce medallions. New entrants must buy a medallion from an existing owner who enjoys a capital gain. The higher taxi fares simply increase the residual demand for medallions and raise their price.

The natural scarcity of land location is a form of medallion whose residual value will be bid up by any savings attributable to LEMs.

Are LEMs an instance of the Law of Unintended Consequences? If so, once initiated, they will be as hard to get rid of as taxi medallions, and provide similar benefits or lack thereof.

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