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Economics, a San Francisco Treat?

Have you ever wondered why it seems like some places have a high concentration of elected officials with little to no economic knowledge whatsoever? I have. While I don't have a solution for this deficiency, I'd like to highlight one city in particular where this seems to be the case: San Francisco.

The COVID-19 pandemic now underway in the United States is, of course, wreaking havoc throughout our economy. Fortunately, entrepreneurs and corporate managers have been trying to figure out how to transform their operations in order to keep their businesses afloat. Thank goodness for the profit motive!

One industry has moved impressively fast: food service. It didn't take long for restaurants to shift their energy and resources toward selling food for pickup or delivery. Throughout the country, consumers are now as never before ordering food from their favorite joints — fancy and greasy spoons alike — to enjoy in the comfort of their homes.

This has caused a surge in demand for drivers to deliver the food. Precoronavirus, many restaurants didn't deliver at all, so they had to create home-delivery capacities from scratch. Others have had to step up capacity by adding more drivers. And many restaurants now increasingly rely on delivery services like UberEats and Grubhub. Following this sharp increase in demand for driving services, delivery fees have risen. This increase in fees is exactly what economics predicts *will* happen and recommends *should* happen. The higher fees reflect the increased demand for delivery services while simultaneously giving stronger incentives to more people to become delivery drivers.

However, San Francisco legislators don't get it. On April 10, the city of San Francisco issued an emergency order mandating that delivery companies that wish to continue to operate in the city cap the fees they charge restaurants at 15% of each order's amount. Mayor London Breed explained, "These fees typically range from 10% to 30% and can represent a significant portion of a restaurant's revenue, especially at a time when the vast majority of sales are for delivery. This commission fee can wipe out a restaurant's entire margin."

Yes, these fees will eat up some of the restaurants' profits if restaurants decide not — or are unable — to shift at least some the higher costs on to their customers. But having too few or no delivery drivers won't help their business either, and this government-imposed cap on fees will reduce the number of drivers. Unable to charge higher fees, delivery services cannot pay drivers higher wages. This results in fewer drivers and longer delivery times.

Capping these fees also reduces incentives for entrepreneurs to start new delivery services — new services that would ensure fees stay as low as possible over time.

Meanwhile, following San Francisco's emergency order, companies like Grubhub and UberEats explained why the fee cap would force them to reduce the scope of their services. UberEats noted that the limit on fees makes it difficult to cover operating costs, so they would need to stop delivering food to Treasure Island, a lower-income neighborhood further away from the city center. This predictable response triggered an equally predictable but economically ignorant outrage from politicians.

San Francisco Supervisor Matt Haney tweeted, “This is DESPICABLE, outrageous behavior from @UberEats.” According to him, “The caps on commissions are to protect small businesses and ensure they can survive during a GLOBAL PANDEMIC.” Haney’s disregard for the law of supply and demand underscores the fact that when governments make it impossible for companies to cover the costs of supplying some service, they’ll stop supplying that service.

San Francisco politicians constantly treat reality as if it’s optional. For instance, through strict zoning and other land-use regulations, they have artificially inflated the wealth of single-family homeowners by obstructing the building of multifamily homes. As a result, San Francisco is one of the least affordable cities for younger and lower-income people. Its politicians then double down with rent-control regulations to try to fix the negative impacts of their zoning rules. Yet these regulations only further reduce the supply, and further raise the price, of housing in the city. Yet to this day, elected officials there persist in their misguided policymaking, against the advice of every economist.

If politicians in San Francisco really want to help their citizens, they may want to brush up on basic economics. That would be a treat.

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