

# Rent Control – Rent Control as a price Control

## **Price control:**

The setting of maximum prices by law. This may affect particular markets, for example domestic rents are often subject to special controls, or apply in an economy generally. As it is administratively impossible to set millions of prices from first principles, price controls have generally worked by covering a limited number of essential goods, and imposing limits or a total ban on price increases. There is a danger that this will induce firms to divert resources towards goods whose prices are not controlled, and to change the specifications of goods to introduce new products to which the rules do not apply.

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## **Rent control:**

Government control of rents for houses and flats. This may involve setting the levels of rents, or restricting increases. It has been widely adopted, mainly for motives of income distribution, based on the assumption, often but not always correct, that landlords are richer than tenants, so that controlling rents produces a more equal distribution of real incomes. During inflationary periods lags in adjustment tend to make controlled rents fall below market-clearing levels: this produces excess demand, and necessitates protection of security of tenure for tenants. In the long run rent controls discourage investment in housing for rent, and also discourage maintenance work on rented housing, so that its quality deteriorates. A general situation of excess demand for housing impairs labour mobility, as sitting tenants are unable or unwilling to move.

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## **The Politics of Price Controls**

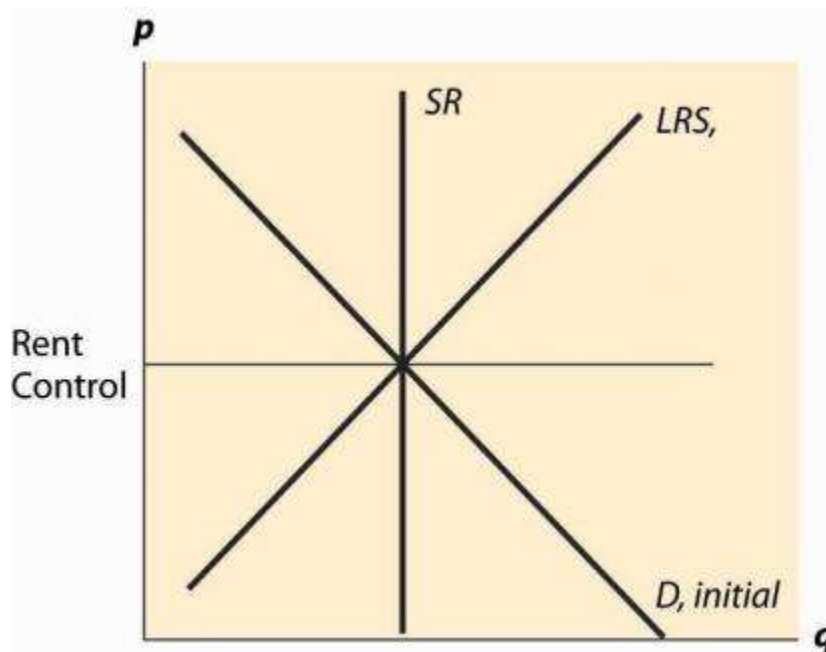
### **Learning Objective**

1. Why does the government meddle in markets?

Both demand and supply tend to be more elastic in the long run. This means that the quantity effects of price floors and ceilings tend to be larger over time. An extreme example of this is rent control, a maximum price imposed on apartments.

Rent control is usually imposed in the following way: As a prohibition or limitation on price increases. For example, New York City's rent control, imposed during World War II, prevented landlords from increasing rent, even when their own costs increased, such as when property taxes increased. This law was softened in 1969 to be gradually replaced by a rent-stabilization law that permitted modest rent increases for existing tenants.

**Figure 5.8. Rent control, initial effect**

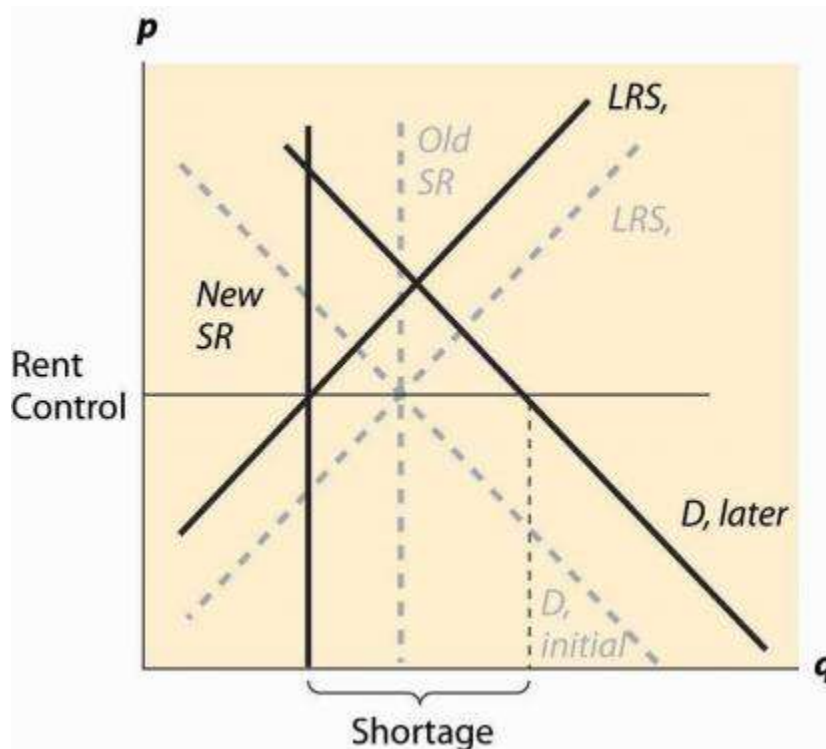


Thus, the nature of rent control is that it begins with, at most, minor effects because it doesn't bind until the equilibrium rent increases. Moreover, the short-run supply of apartments tends to be extremely inelastic, because one doesn't tear down an apartment or convert it to a condominium (there were limitations on this) or abandon it without a pretty significant change in price. Demand also tends to be relatively inelastic because one has to live somewhere, and the alternatives to renting in the city are to live a long distance away or to buy (which is relatively expensive), neither of which are very good substitutes for many consumers. Long-run demand and short-run demand are not very different and are treated as being identical. Finally, the long-run supply is much more elastic than the short-run supply because, in the long run, a price increase permits the creation of apartments from warehouses (lofts), rooms rented in houses, and so on. Thus, the apartment market in New York City is characterized by inelastic short-run supply, much more elastic long-run supply, and inelastic demand. This is illustrated in [Figure 5.8, "Rent control, initial effect"](#).

We start with a rent-control law that has little or no immediate effect because it is set at current rents. Thus, in the near term, tenants' fears of price increases are eased and there is little change in the apartment rental market. This is not to say that there is zero effect—some companies considering construction of an apartment building on the basis of an expectation of higher future

rents may be deterred, and a few marginal apartments may be converted to other uses because the upside potential for the owner has been removed, but such effects are modest at best.

**Figure 5.9. Rent control, long-run effect**



Over time, however, the demand for apartments grows as the city population and incomes grow. Moreover, as the costs of operating an apartment rise due to property tax increases, wage increases, and cost of maintenance increases, the supply is reduced. This has little effect on the short-run supply but a significant effect on the long-run supply. The supply reduction and demand increases cause a shortage but results in few apartments being lost because the short-run supply is very inelastic. Over time, however, apartments are withdrawn from the market and the actual quantity falls, even as the demand rises, and the shortage gets worse and worse. These changes are illustrated in Figure 5.9, “Rent control, long-run effect”. Dashed gray lines illustrate the old values of demand, short-run supply, and long-run supply. The new values, reflecting an increase in demand, a fall in long-run supply, and a reduction in the number of available apartments (where the rent control covers the long-run cost) are shown in dark black lines.

The shortage is created by two separate factors—demand is increasing as incomes and population rise, and supply is decreasing as costs rise. This reduces the quantity of available housing units supplied and increases the demand for those units.

How serious is the threat that units will be withdrawn from the market? In New York City, over 200,000 apartment units were abandoned by their owners, usually because the legal rent didn’t

cover the property taxes and legally mandated maintenance. In some cases, tenants continued to inhabit the buildings even after the electricity and water were shut off. It is fair to say that rent control devastated large areas of New York City, such as the Bronx. So why would New York City, and so many other communities, impose rent control on itself?

The politics of rent control are straightforward. First, rent control involves a money transfer from landlords to tenants, because tenants pay less than they would absent the law, and landlords obtain less revenue. In the short run, due to the inelastic short-run supply, the effect on the quantity of apartments is small, so rent control is primarily just a transfer from landlords to tenants.

In a city like New York, the majority of people rent. A tiny fraction of New Yorkers are landlords. Thus, it is easy to attract voters to support candidates who favor rent control—most renters will benefit, while landlords don't. The numbers, of course, don't tell the whole story because, while landlords are small in number, they are wealthier on average, and thus likely have political influence beyond the number of votes they cast. However, even with their larger economic influence, the political balance favors renters. In the 100*ab* zip codes of Manhattan (the first three digits are 100), 80% of families were renters in the year 2000. Thus, a candidate who runs on a rent-control platform appeals to a large portion of the voters.

Part of the attraction of rent control is that there is little economic harm in the short run, and most of that harm falls on new residents of New York City. As new residents generally haven't yet voted in New York, potential harm to them has only a small effect on most existing New Yorkers, and thus isn't a major impediment to getting voter support for rent control. The slow rate of harm to the city is important politically because the election cycle encourages a short time horizon—if successful at lower office, a politician hopes to move on to higher office and is unlikely to be blamed for the long-run damage to New York City by rent control.

Rent control is an example of a political situation sometimes called the tyranny of the majority, where a majority of the people have an incentive to confiscate the wealth of a minority. But there is another kind of political situation that is in some sense the reverse, where a small number of people care a great deal about something, and the majority are only slightly harmed on an individual basis. No political situation appears more extreme in this regard than that of refined sugar. There are few U.S. cane sugar producers (nine in 1997), yet the U.S. imposes quotas that raise domestic prices much higher than world prices, in some years tripling the price that Americans pay for refined sugar. The domestic sugar producers benefit, while consumers are harmed. But consumers are harmed by only a small amount each—perhaps 12 to 15 cents per pound—which is not enough to build a consensus to defeat politicians who accept donations from sugar producers. This is a case where concentrated benefits and diffused costs determine the political outcome. A small number of people with strong incentives are able to expropriate a small amount per person from a large number of people. Because there aren't many sugar producers, it is straightforward for them to act as a single force. In contrast, it is pretty hard for consumers to become passionate about 12 cents per pound increase in the domestic sugar price when they consume about 60 pounds per year of sugar.

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[Robert Batemarco](#)

## **[Three Fallacies of Rent Control](#)**

# **We Can't Always Have Everything We Want**

By [Robert Batemarco](#) • June 1997

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From New York to Boston to Toronto, rent control is under attack. Not surprisingly, beneficiaries of this legislated plunder of providers rental housing are sparing no effort to maintain their unmerited privileges. In so doing, they resort to a wide variety of fallacious arguments. Three in particular stand out and will be discussed here.

### **1. Rent control may not be needed everywhere, but my city is a special case.**

Whole schools of economic thought have formed around the idea that all economic principles are special cases with no universal validity. This notion is actually an attack on the very status of economics as a science. As Ludwig von Mises noted, an attack on economics itself is the only way to undermine the irrefutable case that economic analysis makes against all kinds of interferences with the market. If one tries to refute the devastating criticism leveled by economics against all these interventionist schemes, one is forced to deny the very existence . . . of a science of economics. . . .<sup>[1]</sup>

The special case argument has been used by partisans of rent control. New York City's rent control regulations are actually codified in legislative enactments of New York State. Recent attempts to weaken, if not eliminate, rent control regulations have been spearheaded by upstate lawmakers. This led New York State Assembly Speaker Sheldon Silver, who represents a Manhattan district, to quip in reference to its housing situation: I would suggest that New York City is a lot different from Troy.<sup>[2]</sup> The implication is that while rent control may not be necessary and effective in Troy, it works wonders for New York City. Yet one of the hallmarks of economic law is its universal validity. In this case, whenever government prevents the charging of prices high enough to clear the market, shortages will occur. This is true in New York, in Troy, or in Timbuktu, regardless of whether the market is for rental housing, gasoline, or medical care.

### **2. A free market would make housing unaffordable for most people.**

The longevity of rent controls has worked to the advantage of its supporters. Most New Yorkers have lived with rent regulation for so long that they have no conception of how the market sets rents in the absence of controls. For the lack of both experience with a free housing market as well as theoretical understanding, they are willing to believe the most ludicrous horror stories. For instance, Speaker Silver suggests that repeal of rent stabilization laws would drive the

middle class out of the city, asserting that If the rents were tripled it would drive tenants out of the city.<sup>[3]</sup> My impression is that the period of rent controls has itself been characterized by a massive outflow of middle-class people from the city, which, as theory tells us, is no accident. The very logic of rent control is to make it possible for lower-income people to compete more successfully with the middle class for the limited stock of rental housing.

Furthermore, how can anyone know that rents would triple? There was no tripling of oil prices when petroleum was decontrolled. Indeed, the fact that rents are not triple in similar lodgings in neighboring Nassau or Westchester counties, or in New Jersey, or for uncontrolled units within the five boroughs would keep rents from rising to anywhere near those levels. Moreover, had all New York City rents been held to as little as one-third of market levels, the harm done would have been even greater than it in fact was.

In Toronto, where an entrenched rent control law is also under attack, the scare tactics are equally ludicrous. One advocate of Ontario's rent regulations went so far as to assert that a free market would make housing unaffordable for most citizens. If this were true, it would mean that landlords would rather let their property sit idle and generate no income at all than charge affordable rents which would yield them a return on their investment. In a normally functioning market affordable rents would be profitable. The only situation in which they would not be profitable would be if government provided massive subsidies for the construction and maintenance of rental housing and then suddenly cut those same subsidies off. Such subsidies actually would induce suppliers to make more housing services available than consumers could afford. Their cessation would permit consumers to reassert their preferences for less housing and more of other goods and services. As a result, the rents they would be willing and able to pay would no longer yield a profit to landlords. Clearly, however, this would be an example of government failure, not market failure.

The idea that there is something sacrosanct about current rents has also permeated the consciousness of most tenant advocates. This belief is predicated on the notion that there is a just price independent of all market considerations. Such a view, which reflects lack of understanding of the need for markets to adapt to change may have been understandable (if no more valid) during the Middle Ages when it was developed. However, given the dizzying pace of change in the twentieth-century United States, there is no excuse for it. If anything, its espousal is more an emotional reaction against such change than a reasoned response to it.

### **3. Tenants' wishes should be given precedence over landlords' rights.**

Tenants' rights have often been invoked in support of rent control. The 1994 referendum abolishing rent control in Massachusetts was characterized by one rent control advocate as the shattering of the tenant rights movement.<sup>[4]</sup> Legitimate rights, whether those of tenants or of anyone else, are all derived from the right of people to dispose of their property in any way they see fit that does not infringe upon the equal right of others to do the same.

An agreement to rent property is a voluntary exchange. Neither party to that exchange has a right to terms that the other does not agree to. Yet precisely such a right is constantly asserted by rent control advocates. Thus, we hear people such as tenant activist Bill Rowen saying that without

regulation, Any landlord in New York who doesn't want a tenant would immediately move to do something about it.<sup>[5]</sup> While such action may not be fair in many cases, in a free society it would be well within the rights of any landlord not bound by contractual arrangements to the contrary. Tenants have no more right to stay permanently in an apartment of a landlord wishing to make a better deal with someone else than an employee has to be kept on the payroll by an employer who no longer finds his services necessary.

Another complaint which is supposed to be a persuasive argument in favor of rent control comes from tenants who say they couldn't live in Manhattan without rent control.<sup>[6]</sup> Since when is living in Manhattan an inalienable right? If it is, do non-renters have a similar right? While I would not exercise an inalienable right to live in Manhattan if I had one, I would much prefer to live in Chappaqua or Irvington than Peekskill where I do live. Does that desire translate into a right? Hardly. In a market order, no one has the right to consume more than he produces. If I wish to consume more housing services by living in a more expensive area, I basically have two choices: consume less of something else or produce more, by taking a second job, working hard enough to get promoted on my current job, or switching to a field where what I produce is more valuable to consumers. The frenzied insistence of so many that they deserve better accommodations without taking any of those steps shows how deeply ingrained the desire to get something for nothing is in our day and age.

The nature of reality is that we can't always have everything we want. Trade-offs must be made and markets, housing markets no less than others, make those trade-offs clear. Indeed, the fact that markets tell us that some of the trade-offs required mean that some things we want are unobtainable goes a long way toward explaining the antipathy of so many toward markets. Realizing that there is no Santa Claus (who never requires trade-offs) is a big, if painful, step in the maturation process from childhood to adulthood. For believers in rent control, then, it's time to grow up.

<http://www.thefreemanonline.org/departments/three-fallacies-of-rent-control/#>

## RENT CONTROLS

New York State legislators defend the War Emergency Tenant Protection Act—also known as rent control—as a way of protecting tenants from war-related [HOUSING](#) shortages. The war referred to in the law is not the 2003 war in Iraq, however, or the Vietnam War; it is World War II. That is when rent control started in New York City. **Of course, war has very little to do with apartment shortages. On the contrary, the shortage is created by rent control, the**



**supposed solution.** Gotham is far from the only city to have embraced rent control. Many others across the United States have succumbed to the blandishments of this legislative “fix.”

**Rent control, like all other government-mandated [PRICE CONTROLS](#), is a law placing a maximum price, or a “rent ceiling,” on what landlords may charge tenants. If it is to have any effect, the rent level must be set at a rate below that which would otherwise have prevailed. (An enactment prohibiting apartment rents from exceeding, say, \$100,000 per month would have no effect since no one would pay that amount in any case.) But if rents are established at less than their equilibrium levels, the quantity demanded will necessarily exceed the amount supplied, and rent control will lead to a shortage of dwelling spaces. In a competitive market and absent controls on prices, if the amount of a commodity or service demanded is larger than the amount supplied, prices rise to eliminate the shortage (by both bringing forth new [SUPPLY](#) and by reducing the amount demanded). But controls prevent rents from attaining market-clearing levels and shortages result.**

**With shortages in the controlled sector, this excess [DEMAND](#) spills over onto the noncontrolled sector (typically, new upper-bracket rental units or condominiums). But this noncontrolled segment of the market is likely to be smaller than it would be without controls because property owners fear that controls may one day be placed on them. The high demand in the noncontrolled segment along with the small quantity supplied, both caused by rent control, boost prices in that segment. Paradoxically, then, even though rents may be lower in the controlled sector, they rise greatly for uncontrolled units and may be higher for rental housing as a whole.**

**As in the case of other price ceilings, rent control causes shortages, diminution in the quality of the product, and queues. But rent control differs from other such schemes. With price controls on gasoline, the waiting lines worked on a first-come-first-served basis. With rent control, because the law places sitting tenants first in the queue, many of them benefit.**

## **The Effects of Rent Control**



**Economists are virtually unanimous in concluding that rent controls are destructive.** In a 1990 poll of 464 economists published in the May 1992 issue of the *American Economic Review*, 93 percent of U.S. respondents agreed, either completely or with provisos, **that “a ceiling on rents reduces the quantity and quality of housing available.”**<sup>1</sup> Similarly, another study reported that more than 95 percent of the Canadian economists polled agreed with the statement.<sup>2</sup> The agreement cuts across the usual political spectrum, ranging all the way from Nobel Prize winners [MILTON FRIEDMAN](#) and [FRIEDRICH HAYEK](#) on the “right” to their fellow Nobel laureate [GUNNAR MYRDAL](#), an important architect of the Swedish Labor Party’s [WELFARE](#) state, on the “left.” Myrdal stated, **“Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision.”**<sup>3</sup> His fellow Swedish economist (and socialist) Assar Lindbeck asserted, **“In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing.”**<sup>4</sup> **That cities like New York have clearly not been destroyed by rent control is due to the fact that rent control has been relaxed over the years.**<sup>5</sup> **Rent stabilization, for example, which took the place of rent control for newer buildings, is less restrictive than the old rent control. Also, the decades-long boom in the New York City housing market is not in rent-controlled or rent-stabilized units, but in condominiums and cooperative housing. But these two forms of housing ownership grew important as a way of getting around rent control.**

Economists have shown that rent control diverts new [INVESTMENT](#), which would otherwise have gone to rental housing, toward greener pastures—greener in terms of consumer need. **They have demonstrated that it leads to housing deterioration, fewer repairs, and less maintenance. For example, Paul Niebanck found that 29 percent of rent-controlled housing in the United States was deteriorated, but only 8 percent of the uncontrolled units were in such a state of disrepair. Joel Brenner and Herbert Franklin cited similar statistics for England and France.**

**The economic reasons are straightforward. One effect of government oversight is to retard investment in residential rental units. Imagine that you have five million dollars to invest and can place the funds in any industry you wish. In most businesses, governments will place only limited**

**controls and taxes on your enterprise. But if you entrust your money to rental housing, you must pass one additional hurdle: the rent-control authority, with its hearings, red tape, and rent ceilings. Under these conditions is it any wonder that you are less likely to build or purchase rental housing?**

**This line of reasoning holds not just for you, but for everyone else as well. As a result, the quantity of apartments for rent will be far smaller than otherwise. And not so amazingly, the preceding analysis holds true not only for the case where rent controls are in place, but even where they are only threatened. The mere anticipation of controls is enough to have a chilling effect on such investment. Instead, everything else under the sun in the real estate market has been built: condominiums, office towers, hotels, warehouses, commercial space. Why? Because such investments have never been subject to rent controls, and no one fears that they ever will be. It is no accident that these facilities boast healthy vacancy rates and relatively slowly increasing rental rates, while residential space suffers from a virtual zero vacancy rate in the controlled sector and skyrocketing prices in the uncontrolled sector.**

Although many rent-control ordinances specifically exempt new rental units from coverage, investors are too cautious (perhaps too smart) to put their faith in rental housing. **In numerous cases housing units supposedly exempt forever from controls were nevertheless brought under the provisions of this law due to some "emergency" or other. New York City's government, for example, has three times broken its promise to exempt new or vacant units from control. So prevalent is this practice of rent-control authorities that a new term has been invented to describe it: "recapture."**

**Rent control has destroyed entire sections of sound housing in New York's South Bronx and has led to decay and abandonment throughout the entire five boroughs of the city. Although hard statistics on abandonments are not available, William Tucker estimates that about 30,000 New York apartments were abandoned annually from 1972 to 1982, a loss of almost a third of a million units in this eleven-year period. Thanks to rent control, and to potential investors' all-too-rational fear that rent control will**

**become even more stringent, no sensible investor will build rental housing unsubsidized by government.**

### **Effects on Tenants**

**Existing rental units fare poorly under rent control. Even with the best will in the world, the landlord sometimes cannot afford to pay his escalating fuel, labor, and materials bills, to say nothing of refinancing his mortgage, out of the rent increase he can legally charge. And under rent controls he lacks the best will; the incentive he had under free-market conditions to supply tenant services is severely reduced.**

**The sitting tenant is “protected” by rent control but, in many cases, receives no real rental bargain because of improper maintenance, poor repairs and painting, and grudging provision of services.** The enjoyment he can derive out of his dwelling space ultimately tends to be reduced to a level commensurate with his controlled rent. This may take decades, though, and meanwhile he benefits from rent control.

In fact, many tenants, usually rich or middle-class ones who are politically connected or who were lucky enough to be in the right place at the right time, can gain a lot from rent control. Tenants in some of the nicest neighborhoods in New York City pay a scandalously small fraction of the market price of their apartments. In the early 1980s, for example, former mayor Ed Koch paid \$441.49 for an apartment then worth about \$1,200.00 per month. Some people in this fortunate position use their apartments like hotel rooms, visiting only a few times per year.

**Then there is the “old lady effect.” Consider the case of a two-parent, four-child family that has occupied a ten-room rental dwelling. One by one the children grow up, marry, and move elsewhere. The husband dies. Now the lady is left with a gigantic apartment. She uses only two or three of the rooms and, to save on heating and cleaning, closes off the remainder. Without rent control she would move to a smaller accommodation. But rent control makes that option unattractive.** Needless to say, these practices further exacerbate the housing crisis. **Repeal of rent control would free up thousands of such rooms very quickly, dampening the impetus toward vastly higher rents.**

What determines whether or not a tenant benefits from rent control? If the building in which he lives is in a good neighborhood where rents would rise appreciably if rent control were repealed, then the landlord has an incentive to maintain the building against the prospect of that happy day. This incentive is enhanced if there are many decontrolled units in the building (due to "vacancy decontrol" when tenants move out) or privately owned condominiums for which the landlord must provide adequate services. Then the tenant who pays the scandalously low rent may "free ride" on his neighbors. But in the more typical case the quality of housing services tends to reflect rental payments. This, at least, is the situation that will prevail at equilibrium.

**If government really had the best interests of tenants at heart and was for some reason determined to employ controls, it would do the very *opposite* of imposing rent restrictions: it would instead control the price of every *other* good and service available, apart from residential suites, in an attempt to divert resources out of all those other opportunities and into this one field. But that, of course, would bring about full-scale socialism, the very system under which the Eastern Europeans suffered so grimly. If the government wanted to help the poor and was for some reason constrained to keep rent controls, it would do better to tightly control rents on luxury unit rentals and to eliminate rent controls on more modest dwellings—the very opposite of the present practice. Then, builders' incentives would be turned around. Instead of erecting luxury dwellings, which are now exempt, they would be led, "as if by an invisible hand," to create housing for the poor and middle classes.**

## **Solutions**

**The negative consequences of rent legislation have become so massive and perverse that even many of its former supporters have spoken out against it. Instead of urging a quick termination of controls, however, some pundits would only allow landlords to buy tenants out of their controlled dwellings. That they propose such a solution is understandable. Because tenants outnumber landlords and are usually convinced that rent control is in their best interests, they are likely to invest considerable political energy (see [RENT SEEKING](#)) in maintaining rent control. Having landlords**

**“buy off” these opponents of reform, therefore, could be a politically effective way to end rent control.**

**But making property owners pay to escape a law that has victimized many of them for years is not an effective way to make them confident that rent controls will be absent in the future. The surest way to encourage private investment is to signal investors that housing will be safe from rent control. And the most effective way to do that is to eliminate the possibility of rent control with an amendment to the state constitution that forbids it. Paradoxically, one of the best ways to help tenants is to protect the [ECONOMIC FREEDOM](#) of landlords.**

<http://www.econlib.org/library/Enc/RentControl.html>

## **Economics in One Lesson**

**by Henry Hazlitt**

### **The Lesson Applied**

## **WHAT RENT CONTROL DOES**

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GOVERNMENT CONTROL of the rents of houses and apartments is a special form of price control. Most of its consequences are substantially the same as those of price control in general, but a few call for special consideration.

Rent controls are sometimes imposed as a part of general price controls, but more often they are decreed by a special law. A frequent occasion is the beginning of a war. An army post is set up in a small town; rooming houses increase rents for rooms; owners of apartments and houses increase their rents. This leads to public indignation. Or houses in some towns may be actually

destroyed by bombs, and the need for armaments or other supplies diverts materials and labor from the building trades.

Rent control is initially imposed on the argument that the supply of housing is not “elastic”—i.e., that a housing shortage cannot be immediately made up, no matter how high rents are allowed to rise. Therefore, it is contended, the government, by forbidding increases in rents, protects tenants from extortion and exploitation without doing any real harm to landlords and without discouraging new construction.

This argument is defective even on the assumption that the rent control will not long remain in effect. It overlooks an immediate consequence. If landlords are allowed to raise rents to reflect a monetary inflation and the true conditions of supply and demand, individual tenants will economize by taking less space. This will allow others to share the accommodations that are in short supply. The same amount of housing will shelter more people, until the shortage is relieved.

**Rent control, however, encourages wasteful use of space. It discriminates in favor of those who already occupy houses or apartments in a particular city or region at the expense of those who find themselves on the outside. Permitting rents to rise to the free market level allows all tenants or would-be tenants equal opportunity to bid for space.** Under conditions of monetary inflation or real housing shortage, rents would rise just as surely if landlords were not allowed to set an asking price, but were allowed merely to accept the highest competitive bids of tenants.

**The effects of rent control become worse the longer the rent control continues. New housing is not built because there is no incentive to build it. With the increase in building costs (commonly as a result of inflation), the old level of rents will not yield a profit. If, as often happens, the government finally recognizes this and exempts new housing from rent control, there is still not an incentive to as much new building as if older buildings were also free of rent control.** Depending on the extent of money depreciation since old rents were legally frozen, rents for new housing might be ten or twenty times as high as rent in equivalent space in the old. (This actually happened in France after World War II, for example.) Under such conditions existing tenants in old buildings are indisposed to move, no matter how much their families grow or their existing accommodations deteriorate.

Because of low fixed rents in old buildings, the tenants already in them, and legally protected against rent increases, are encouraged to use space wastefully, whether or not their families have grown smaller. This concentrates the immediate pressure of new demand on the relatively few new buildings. It tends to force rents in them, at the beginning, to a higher level than they would have reached in a wholly free market.

Nevertheless, this will not correspondingly encourage the construction of new housing. Builders or owners of preexisting apartment houses, finding themselves with restricted profits or perhaps even losses on their old apartments, will have little or no capital to put into new construction. In addition, they, or those with capital from other sources, may fear that the government may at any time find an excuse for imposing rent controls even on the new buildings. And it often does.

The housing situation will deteriorate in other ways. **Most important, unless the appropriate rent increases are allowed, landlords will not trouble to remodel apartments or make other improvements in them. In fact, where rent control is particularly unrealistic or oppressive, landlords will not even keep rented houses or apartments in tolerable repair. Not only will they have no economic incentive to do so; they may not even have the funds. The rent-control laws, among their other effects, create ill feeling between landlords who are forced to take minimum returns or even losses, and tenants who resent the landlord's failure to make adequate repairs.**

A common next step of legislatures, acting under merely political pressures or confused economic ideas, is to take rent controls off "luxury" apartments while keeping them on low or middle-grade apartments. The argument is that the rich tenants can afford to pay higher rents, but the poor cannot.

The long-run effect of this discriminatory device, however, is the exact opposite of what its advocates intend. The builders and owners of luxury apartments are encouraged and rewarded; the builders and owners of the more needed low-rent housing are discouraged and penalized. The former are free to make as big a profit as the conditions of supply and demand warrant; the latter are left with no incentive (or even capital) to build more low-rent housing.

The result is a comparative encouragement to the repair and remodeling of luxury apartments, and a tendency for what new private building there is to be diverted to luxury apartments. **But there is no incentive to build new low-income housing, or even to keep existing low-income housing in good repair. The accommodations for the low-income groups, therefore, will deteriorate in quality, and there will be no increase in quantity. Where the population is increasing, the deterioration and shortage in low-income housing will grow worse and worse. It may reach a point where many landlords not only cease to make any profit but are faced with mounting and compulsory losses. They may find that they cannot even give their property away. They may actually abandon their property and disappear, so they cannot be held liable for taxes. When owners cease supplying heat and other basic services, the tenants are compelled to abandon their apartments. Wider and wider neighborhoods are reduced to slums. In recent years, in New York City, it has become a common sight to see whole blocks of abandoned apartments, with windows broken, or boarded up to prevent further havoc by vandals. Arson becomes more frequent, and the owners are suspected.**

A further effect is the erosion of city revenues, as the property-value base for such taxes continues to shrink. Cities go bankrupt, or cannot continue to supply basic services.

When these consequences are so clear that they become glaring, there is of course no acknowledgment on the part of the imposers of rent control that they have blundered. Instead, they denounce the capitalist system. They contend that private enterprise has "failed" again; that "private enterprise cannot do the job." Therefore, they argue, the State must step in and itself build low-rent housing.



This has been the almost universal result in every country that was involved in World War II or imposed rent control in an effort to offset monetary inflation.

So the government launches on a gigantic housing program — at the taxpayers' expense. The houses are rented at a rate that does not pay back costs of construction and operation. A typical arrangement is for the government to pay annual subsidies, either directly to the tenants in lower rents or to the builders or managers of the State housing. Whatever the nominal arrangement, the tenants in the buildings are being subsidized by the rest of the population. They are having part of their rent paid for them. They are being selected for favored treatment. The political possibilities of this favoritism are too clear to need stressing. A pressure group is built up that believes that the taxpayers owe it these subsidies as a matter of right. Another all but irreversible step is taken toward the total Welfare State.

A final irony of rent control is that the more unrealistic, Draconian, and unjust it is, the more fervid the political arguments for its continuance. If the legally fixed rents are on the average 95 percent as high as free market rents would be, and only minor injustice is being done to landlords, there is no strong political objection to taking off rent controls, because tenants will only have to pay increases averaging about percent. But if the inflation of the currency has been so great, or the rent-control laws so repressive and unrealistic, that legally fixed rents are only 10 percent of what free market rents would be, and gross injustice is being done to owners and landlords, a great outcry will be raised about the dreadful evils of removing the controls and forcing tenants to pay an economic rent. The argument is made that it would be unspeakably cruel and unreasonable to ask the tenants to pay so sudden and huge an increase. Even the opponents of rent control are then disposed to concede that the removal of controls must be a very cautious, gradual, and prolonged process. Few of the opponents of rent control, indeed, have the political courage and economic insight under such conditions to ask even for this gradual decontrol. In sum, the more unrealistic and unjust the rent control is, the harder it is politically to get rid of it. In country after country, a ruinous rent control has been retained years after other forms of price control have been abandoned.

The political excuses offered for continuing rent control pass credibility. The law sometimes provides that the controls may be lifted when the “vacancy rate” is above a certain figure. The officials retaining the rent control keep triumphantly pointing out that the vacancy rate has not yet reached that figure. Of course not. The very fact that the legal rents are held so far below market rents artificially increases the demand for rental space at the same time as it discourages any increase in supply. So the more unreasonably low the rent ceilings are held, the more certain it is that the “scarcity” of rental houses or apartments will continue.

**The injustice imposed on landlords is flagrant. They are, to repeat, forced to subsidize the rents paid by their tenants, often at the cost of great net losses to themselves. The subsidized tenants may frequently be richer than the landlord forced to assume part of what would otherwise be his market rent. The politicians ignore this. Men in other businesses, who support the imposition or retention of rent control because their hearts bleed for the tenants, do not go so far as to suggest that they themselves be asked to assume part of the tenant subsidy through taxation. The whole burden falls on the single small class of people wicked enough to have built or to own rental housing.**

Few words carry stronger obloquy than *slumlord*. And what is a slumlord? He is not a man who owns expensive property in fashionable neighborhoods, but one who owns only rundown property in the slums, where the rents are lowest and where payment is most dilatory, erratic and undependable. It is not easy to imagine why (except for natural wickedness) a man who could afford to own decent rental housing would decide to become a slumlord instead.

**When unreasonable price controls are placed on articles of immediate consumption, like bread, for example, the bakers can simply refuse to continue to bake and sell it. A shortage becomes immediately obvious, and the politicians are compelled to raise the ceilings or repeal them. But housing is very durable. It may take several years before tenants begin to feel the results of the discouragement to new building, and to ordinary maintenance and repair. It may take even longer before they realize that the scarcity and deterioration of housing is directly traceable to rent control. Meanwhile, as long as landlords are getting any net income whatever above their taxes and mortgage interest, they seem to have no alternative but to continue holding and renting their property. The politicians—remembering that tenants have more votes than landlords—cynically continue their rent control long after they have been forced to give up general price controls.**

So we come back to our basic lesson. **The pressure for rent control comes from those who consider only its imagined short-run benefits to one group in the population. But when we consider its *long-ran* effects on *everybody*, including the tenants themselves, we recognize that rent control is not only increasingly futile, but increasingly destructive the more severe it is, and the longer it remains in effect.**

<http://jim.com/econ/chap18p1.html>

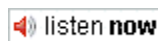
## Undead Ideas: Rent Control



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In these days of economists constantly debating the right way to revive the economy, it seems like there is no way to find consensus among economists. Economists don't spend much time debating the issues they agree

on, and to them, rent control is about as dead an issue as the earth revolving around the sun. In 1992, [93%](#) of American and Canadian economists surveyed agreed with the statement "*A ceiling on rents reduces the quantity and quality of housing available.*" Opposition to rent control among economists spans the political spectrum from Milton Friedman and [Walter Block](#) to leftist Nobel Laureates Gunnar Myrdal and [Paul Krugman](#). In fact, it was the socialist Swedish economist Assar Lindbeck who famously said, "*In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing it.*" (Assar Lindbeck, [The Political Economy of the New Left](#), New York, Harper and Row, 1972, p. 39)

Never underestimate opportunistic politicians when they smell blood in the water. With housing prices already falling, politicians want to be seen as champions of the little guy and do something for "affordability" with one side of their mouth, and force housing prices to "recover" with the other. With the economy in disarray, even widely discredited schemes such as rent control are making a comeback in politician's playbooks of idiotic moves that please certain constituents.

Rent control was implemented twice on a national scale in the United States. Rents were first frozen during the difficult years of World War II, and frozen again in 1971 as part of President Richard Nixon's wage and price controls intended to curb inflation. After Nixon's wage and price controls expired, many cities kept some form of rent control intact. Could President Obama resurrect an undead Richard Nixon to implement nationwide rent control in reaction to the impending stimflation? There's a 93% chance his economic advisors wouldn't let him do such a thing. However, Nixon's undead corpse has been spotted mumbling "I am now a Keynesian" in places like California and New York City where bad ideas never seem to die.

Despite widespread liberalization of rent control laws, rent control remains a popular idea in many cities and states. Last June, California voters reaffirmed their support of rent control, by voting down [Proposition 98](#). In New York, Democrats now control the state legislature and intend to [revive some of the rent control](#) laws that have been liberalized over the past few decades. The legislation would return thousands of previously de-regulated apartments back under regulation; reduce allowed rent increase percentages, even when a tenant moves out; limit owner's ability to [use his regulated apartments for personal use](#); and crack down on harassment of tenants by landlords to induce eviction.

As Paul Krugman [concluded with respect to rent control](#), "*So now you know why economists are useless: when they actually do understand something, people don't want to hear about it.*" A voting public, better informed by economic consensus, would be less tolerant of these legislative charlatans. Before resurrecting bad ideas, let us rejuvenate the discussion of why rent control is bad for nearly everybody, particularly the lower and middle-class people politicians are pretending to protect.

As stated by the [National Multi Housing Council](#):

Rents serve two functions essential to the efficient operation of housing markets:

- they compensate providers of existing housing units and developers of new units for the cost of providing shelter to consumers; and
- they provide the economic incentives needed to attract new investment in rental housing, as well as to maintain existing housing stock. In this respect, housing is no different from other commodities, such as food and clothing — the amount producers supply is directly related to the prevailing market price.

Those of us who have studied microeconomics understand the supply/demand consequence of price-controls: a decrease in the supply of a good, and thus shortages at the prescribed price. But, rent control is much more than just a price control, it's effects compound over time.

A conventional price control, let's say on chickens, prescribes that all chickens be sold at a government-determined price. If a farmer cannot profitably provide chickens at that price, he would likely just stop selling chickens until doing business is feasible again, or simply drown the chickens as many farmers did during the Nixon era price controls. Now, imagine a price control on chickens where farmers are not only compelled to

sell at a prescribed price, but also compelled to offer that rate to all customers who previously bought chickens from that farmer *at the same quantity* that was ordered previous to the price control. Regardless of the price the farmer must pay for feed and other costs of raising chickens, he is not permitted to stop producing chickens as he is forced to sell a certain number of chickens indefinitely.

Some might call this a crude form of serfdom, or even slavery, but this is exactly what rent control does to landlords. Would we be too surprised that suddenly the quality of the chickens have noticeably deteriorated as farmers cut back on the quantity and quality of feed? Would it be shocking if the farmer became rude to his now obligatory customers, or made it difficult for customers to safely pick up their orders? When such a burden is placed on the ones who provide housing in the first place, it seems inevitable that the long-term effects of rent control on the housing market would be devastating.

Let's look at some of the more subtle results of rent control:

### Hoarding:

Just as price controls on gas in the '70s caused long lines and hoarding of gas, the same thing happens with rent controlled housing. The tenants of rent-controlled units are not stupid. They know that the supply is artificially limited and will become more limited in the future. They know that if they stay put, they'll be able to pay about the same rent forever, in real terms. They know that if they were to look for another apartment, and they were fortunate enough to find one, the rent would be significantly greater than what they pay where they are.

So, they don't move. Well, almost never. Even if their family grows or shrinks. The incentive to stay is just too great, and the [wealthy](#) and [well-connected](#) are better equipped to take advantage of the situation. It should be noted that New York's [Governor Paterson](#), [Congressman Charlie Rangel](#), and various other politically-connected people enjoy landlord-subsidized apartments in the [Lenox Terrace](#) luxury apartment complex in Harlem, which happens to be owned by a politically-connected developer. As Peter Salinas and Gerard Mildner wrote in [Scarcity by Design: The Legacy of New York City's Housing Policies](#):

To begin with, to earn the maximum benefits from New York's rent regulations, it helps to occupy an apartment for a long time (because landlords are permitted to raise rents more than usual when an apartment is vacant). Affluent professionals have greater job stability and can, in any case, manage to fake their continued occupancy (in order to sublet) when they must move. Also, influence or good connections are helpful in the search for a desirable rent-regulated apartment.

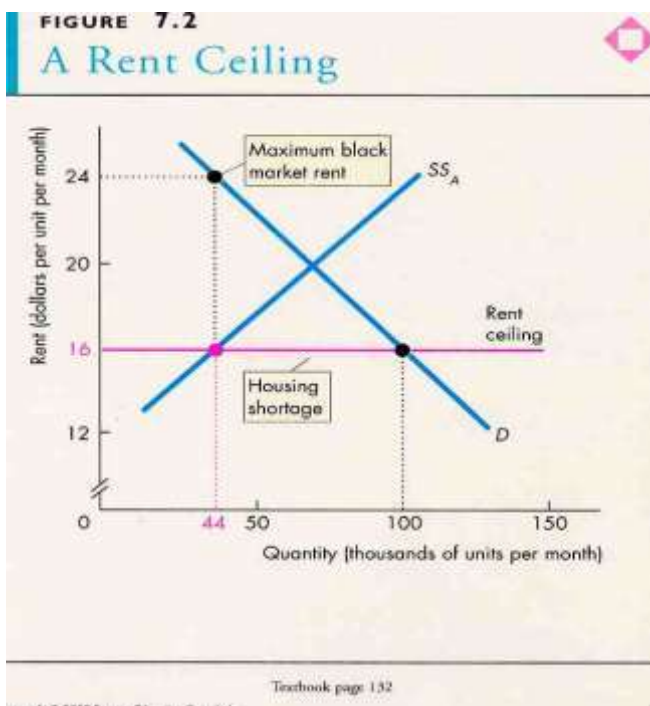
When rent-controlled apartments become available, family and friends often know about it first and rent up the apartment immediately, knowing that rent-controlled apartments are so hard to come by and the opportunity to rent other vacant apartments may not come for some time.

Of course, this hoarding by existing and new tenants worsens the problems, because those who are shopping for apartments have very few, if any to choose from. The longer this goes on, availability declines further and the incentives to hoard grow exponentially, as do the negative effects.

In fact, [one study](#) found that rent control tripled the expected duration of residence in New York City.

The ones who suffer the worst are those who are trying to relocate to the area for job opportunities as vacancies become more rare.

### Black Market and Deceptive Acts



As current renters hoard their rent-controlled apartments, it is rare that new apartments become available. Sometimes, tenants would illegally sublet their units at higher rents.

Landlords do under-the-table deals or rent to friends and family. New York had to crack down on landlords charging "key fees" as high as several thousand dollars to new renters.

Landlords will often find loopholes that will let them de-regulate a building, just to be released of the financial burdens. For example, in NY landlords will take their rent-controlled building and deregulate it by using the

entire building as a residence for a certain number of years. This is space that could otherwise have been rented at a market rate.

## Deterioration of Existing Housing Stock

Because of the disincentive to improve and maintain the property, landlords will often become slumlords and allow unhealthy conditions or activities to take place in the apartments. This lack of improvement not only is unpleasant to the current renter, but accelerates the end of the usable life of the apartment building. The [Rand Corporation studied Los Angeles' rent control law](#) and found that 63 percent of the benefit of lowered rents was offset by a loss in available housing related to deterioration and disinvestment.

The burdens of rent-control could become so heavy on a landlord that he may find it beneficial to burn his building down to collect insurance. Of course, this is dangerous to tenants and neighbors, but happened regularly in the Bronx. The Bronx's arson epidemic led sports announcer, [Howard Cosell](#) to proclaim "There it is, ladies and gentlemen, the Bronx is burning", as the TV camera panned over the neighborhood during a 1977 Yankees World Series Games.

## Discrimination

The free-market typically disincentivises any discrimination based on factors other than price, quality, and quantity because of the self interest of the participants. However, rent control removes this disincentive.

Since under rent control, the price is set and there are many applicants, a landlord has the incentive to choose tenants based on other factors. A landlord will more carefully examine applicants' credit history and income, which a good landlord should do, but lends toward biases against younger applicants. A landlord may decide renting families is less desirable, or may prefer to rent to attractive young females. Often times, racial preferences have influenced renting decisions, which traditionally worked against minorities. Thus, rent control can exacerbate segregation problems because landlords choose not to rent to people who would change the demographics of an area.

## Mobility

As mentioned above, duration of residence in a rent-controlled apartment [has been observed](#) to be three times as long as duration at market-rate apartments. One can see that the incentive to hoard rent-controlled apartments is also disincentive to relocate.

The mobility of both the tenants and newcomers are drastically hampered by rent control. Unless the tenant has the money to rent a second apartment (or [Governor's mansion](#)), it will be difficult for him to relocate closer to better employment. The tenant may rather endure a very long commute in order to maintain the rent-controlled apartment. [As Walter Block put it](#), "They are, in a sense, trapped by the gentle and visible hand that keeps them where they are rather than where they might do better."

Difficulties are multiplied if the local economy takes a turn for the worse. A downturn in local employment would not be relieved by people relocating for jobs, thus making the unemployment and poverty situation worse.

Employees looking to relocate in the city with rent control are hurt the worst as they will have a difficult time finding available apartments. The drawbacks to the local economy are discussed in the section on regional growth and adaptation.

The reduction in mobility is especially burdensome on families with children, since public schools tend to be local. If the local school is under performing, a family under rent-control will lose its reduced rent if it makes

the difficult decision to relocate to an area with better schools. To relocate to a better school, a family would also have to find a new apartment, which would be much more expensive and almost impossible to find.

## Regional Growth and Adaptation

The hoarding of rent-controlled apartments makes finding an affordable apartment in the city with rent-control. Not only is this a burden on the newcomer, this makes it harder for a city's businesses to attract skilled workers. Employers may decide to relocate to other cities, if their recruits consistently can't find decent housing.

Often times workers who's industries have relocated will not relocate in order to maintain the rent controlled apartment. In the long-run, this worker's family may become a burden on the public assistance system as they may not have the skill sets to quickly pick up another profession that pays as well.

## Tax Revenues

Rent control reduces the market value of regulated rental property. Typically, this negatively effects the assessed property value relative to unregulated properties, decreasing overall property tax revenues and burdening market properties disproportionately. A [study of rent control in New York City](#) in the late 80s estimated reduction in taxable assessed property values attributable to rent control at approximately \$4 billion, which costs the city approximately \$370 million per year in property tax revenues.

## Housing Development

Developers would have very little incentive to build affordable housing if they knew the rents they charge were to be restricted by rent control, or were at risk of being regulated in the future. Thus, almost no new stock of middle and lower class housing is built. Instead, developers may only build "luxury" buildings that are often not regulated.

Thus, affordable housing stock will decrease as older buildings become uninhabitable (or are burned to the ground for insurance money) and no new stock is created. Over a long time, the effects the shortage is devastating.

## Gentrification and Class Conflict

As mentioned above, landlords may choose unsavory methods to choose their tenants, since price is not permitted to be the deciding factor. Often, landlords will discriminate against persons of certain ethnicities or religions. This type of discrimination can often be widespread through an area causing tensions between religious or ethnic groups, and in the long-run drive out certain types of people from those areas.

The shortage of affordable housing, and development of only luxury housing a huge gap in the income of a city's residents. Over time, luxury developments will be confined to certain areas less blighted by rent control, causing segregation and rapid gentrification.

As housing in cities have become less plentiful under rent control and market-rents vary drastically with regulated rents, the incentive grows for landlords to deregulate apartments to market-rates. These tactics have become aggressive as the incentive is extraordinary. A recent [NY Times article](#) describe the tension between tenants and management at Stuyvesant Town and Cooper Village in New York:

More than a year after buying Stuyvesant Town and Peter Cooper Village in Manhattan for a record-breaking \$5.4 billion, Tishman Speyer Properties has accused hundreds of rent-stabilized tenants of living somewhere



other than their apartments, a tactic that residents and their lawyers say is part of an aggressive attempt to drive out low-rent tenants to make way for high-rent ones.  
...about 800 rent-stabilized leases have been denied renewal because the landlord believed the tenants had a primary residence elsewhere, according to the company. More than 4 in 10 of those cases were later dropped, while 3 in 10 ended with tenants giving up their apartments.

[Another example of class conflict caused by rent control](#) is an apartment building owner in Manhattan who's rent controlled tenants tried to prevent his family from living in their own building. Neighbors escalated the class warfare with protests and threats against the lives of the family that only desired to live in the building they owned. How much of this sense of entitlement to another person's private property would be acceptable without the explicit endorsement of rent control by the city, and many of its leaders.

## Conclusion

Rent control is not just a conventional price control, setting the price at which willing renters and landlords are permitted to do business. It is a coercive act that gives landlords no legal option, but to rent to a tenant, even against his will and often at a financial loss. Rent control adds a non-voluntary burden to landlords which deepens over time because landlords have no option, but to rent to a tenant at below market rates.

Not only does rent control cause huge distortions in the housing market, but the burdens fall disproportionately on the poor and underprivileged people it's enactment was intended to benefit. Although particular people are able to live with the comfort of low rent payments, even those renters will see their living conditions deteriorate as landlords neglect repairs and maintenance. As the situation gets worse, middle class residents are able to move away, leaving behind the poorest residents who have become reliant on the reduced rent.

In effect, rent control grants property rights to renters that originally belonged to the original property owners, while retaining the owner's obligations. Rent control becomes a redistribution of wealth to existing tenants and away from apartment owners, market-rate apartment renters, newcomers to an area, and renters who's needs change over time. Nonetheless, over time the quality of life decreases for all residents of a city where rent control is imposed. Essentially, if housing affordability is the objective, strapping additional burden upon providers of housing will only make matters worse.

In conclusion, controls on **supply** can do as much damage to affordability as controls on price. Eliminating rent control needs to go hand-in-hand with loosening exclusionary zoning and density restrictions in order to allow the market to perform as it should. A truly free-market incentivizes investment in quality affordable housing for all residents by allowing individual decisions to determine living patterns and location preferences based on quality, availability and affordability.

For more reading on rent control, see the section on Rent Control in the [Articles and Academic Papers](#) page at **Market Urbanism**.

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