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Housing Socialism, Part 1

by Gregory Bresiger

In every country examined, the introduction and continuance of rent control/restriction has done much more harm than good in rental housing markets — let alone the economy at large — by perpetuating shortages, encouraging immobility, swamping consumer preferences, fostering dilapidation of housing stocks and eroding production incentives, distorting land use patterns and the allocation of scarce resources ... and all in the name of distributive justice it has manifestly failed to achieve because at best it has been related only randomly to the needs and individual circumstances of households.

— F.G. Pennance, *Rent Control — A Public Paradox* (The Fraser Institute; Vancouver, B.C., 1975)

Imagine a job in which one's salary could never be raised unless a government commission approved it. And the commission had a reputation for allowing no increases or just small ones.

Imagine a business in which one could never increase prices unless some government commission held a hearing at which it invited all the customers to comment. And in which customers never want to pay more for anything.

Imagine businesses unable to supply customer needs efficiently because they couldn't generate sufficient revenues because of government edicts that restricted price increases and thereby produced shortages.

Imagine a system in which one group of people, with average or below-average incomes, would have to pay a premium price for a critically important product, such as a place to live. But imagine that a smaller group, often better off than the first group or with more political influence, could receive the same product at a huge discount.

All this should give you an idea of how rent control works.

It works badly.

Rent control is a kind of slow socialism, one that gradually devalues and sometimes actually destroys properties. When the process reaches the critical point, an owner will often walk away from a property because it has become uneconomical to hold.

Rent control works as badly as all other price controls. It's a very old story known by almost everyone with the slightest sense of economic history.

That's why the overwhelming majority of economists — even economists of the Left — agree that rent-control laws are flawed. Indeed, their effects on a city's housing stock are always devastating.

“A ceiling on rent reduces the quantity and quality of housing available,” according to a statement subscribed to by 93 percent of the American Economics Association.

“In many cases, rent control appears to be the most efficient technique presently known to destroy a city — except for bombing.” Who said that? Milton Friedman? F.A. Hayek? Ludwig von Mises? Some other *laissez-faire* economist?

Wrong on all counts! It was said by Assar Lindbeck, a Swedish economist who is a socialist. Yet rent controls — like many price-control rules — go on and on. Paul Samuelson, another well-known economist of the Left, also criticizes all price controls in the 2001 edition of his famous economics textbook: “When government steps in to interfere with supply and demand,” he writes, “prices no longer fill the role of rationers.” Waste and inefficiency “are certain companions of such interferences,” according to Samuelson.

The Soviet Union tried to fix wages and prices permanently for close to 75 years, an experiment in socialism that was an unmitigated failure. Indeed, one queued up for food in the Soviet Union, a nation with some of the most fertile land on the planet. It could take years to obtain a telephone. And, of course, good apartments in the Soviet Union were perpetually in short supply.

Given that, and countless other instances of price-control failures in history, there is a logical question: Why do rent controls — or any price controls — continue to be supported by some despite overwhelming evidence of failure? In part, the reason is human nature.

I believe that price controls are always easy to prescribe for the other guy. It's easy as a tenant, for example, to demand that owners of rental property have limitations on what they can charge. It's easy as a business owner to demand that workers have salary controls. It's easy as an automobile owner to insist that price controls be imposed on oil companies.

Where does such a destructive process stop? This is the slow road to another Soviet Union, once so celebrated by the Left in the West for its “economic accomplishments.”

Another factor in support of price/rent controls is wartime patriotism. It is a factor in how these flawed price-fixing policies win approval. Price controls — the same as all limitations on all liberties — are easier to accept in times of war. That is a time when emotional appeals to patriotism can temporarily mislead many otherwise sane, liberty-loving, economically literate people.

Decades of rent controls

Rent control in the United States was originally a wartime measure — in World War I. It has a long history in this nation, especially in New York. World War I price and rent controls generally ended in the late 1920s. They were then reimposed by the national government as an “emergency measure” during World War II. They were embraced by many local governments, including New York City, but they were supposed to be temporary.

In many cases, price controls go on and on because government bureaucracies, once established, are almost impossible to dismantle.

For example, back in the mid 1950s, Averell Harriman, the governor of New York, wrote,

Rent control must be seen as only a single aspect of a broader housing program and as an interim device until such time as an adequate housing supply makes it no longer necessary.

However, the latest emergency measure has lasted more than 60 years. And there is no sign here in New York — under either Republican or Democratic governments — that disastrous price controls will be consigned to the ash heap of history.

The initial justification of this seemingly permanent housing emergency — an emergency with a similarity to some of the economic and political measures of the national security state — was that during wartime, in the absence of the controls, property owners would exploit the scarcity of civilian housing. But even after the end of World War II, rent controls led to low housing-vacancy rates in places where they were continued.

Anything under a 5 percent vacancy rate is considered by housing officials to be an emergency. But decades of rent controls certainly didn't solve the problem. They instead made the “emergency” worse. New York City's vacancy rate actually was as low as 1.23 percent in 1968 at the height of the Vietnam War.

Several factors have ensured that some jurisdictions have stuck with rent controls. In New York City, with its generally leftist political tilt, vacancy rates don't approach 5 percent against a national average that is usually about double that of the city's rate. Another factor supporting rent control is that the percentage of home ownership in New York City is much lower than in the rest of the United States.

For the 70 or 80 years of various rent- and price-control experiments, New York City has been run by liberal Democrats or moderate city Republicans, who rarely offer a dramatically different philosophy. Both local political parties usually pledge never to touch rent controls. The laws have been administered since the early 1980s by the state. And despite occasional promises to the contrary by upstate Republicans, rent controls show no signs of being eliminated.

Perverse consequences

This is despite their net effect of reducing the quantity and quality of New York City housing. Rent control also discourages ownership. Why own, many tenants in rent-controlled units believe, when their apartments represent a lifetime entitlement?

Fewer owners mean the city has more tenants. About a quarter of the city's residents live under some form of rent control. That's a formidable political force. Large numbers of politically organized tenants mean raw political power is on the side of the renters, a fact that New York politicians understand.

Regardless of the efforts of landlord lobbying groups, no major political figure in New York City today or in the recent past, Left or Right, has called for an end to these laws or even a major examination of them.

This is a curious fact in a city in which almost everyone complains about the lack of affordable rental units and the lack of new middle-income units. Although rent-control laws usually don't cover new building, the laws exist in an environment in which strict zoning controls often discourage all but the richest builders from going through an exhaustive and expensive site-review process. Given that the system of rent control has become a kind of municipal religion, builders and owners often worry whether it could be expanded to their properties.

These facts also change the actions of builders. They fear that their units could be covered by this antediluvian state act, which was originally known as the War Emergency Tenant Protection Act.

"The mere anticipation of controls is enough," writes economist Walter Block.

Indeed, who wants to invest in the kinds of businesses mentioned at the outset of this article? Faced with the choice to sell a product or service in a place where one could charge market prices without fear of controls or in one where prices — and therefore profits — were controlled or often extinguished, what rational person would opt for the latter?

Rent controls, the same as every other government price control, go against the innate human desire for improvement. Put another way, let's consider someone who never expects to own anything and always expects to labor for a living. Would this person want to take a job in which his salary could be frozen or strictly controlled by a government commission? Not very likely.

Most people want to succeed at what they do, whether it involves an investment or a job or a piece of property. Most people want the highest salary, the best returns on their investments, and the highest rent on their property. No one wants an artificially imposed government limitation on his financial success. What person accepts less money than he could have received? There is a human instinct for self-improvement — for a better life for a person and his loved ones. Why expect property owners to be any different from anyone else?

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