



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

[fff@fff.org](mailto:fff@fff.org) [www.fff.org](http://www.fff.org)

## Housing Socialism, Part 2

by Gregory Bresiger

The desire for self-improvement is not the mentality behind price-control laws and rent-control laws. Behind them is the mentality of social engineering. It is a mentality subscribed to by those who want the government to micro-manage prices, wages, and even the level of success of each member of society. It is the attempt of a central authority to find a "fair" or "just" price for housing.

Ironically, this central authority with its decades of rent controls succeeded only in creating housing shortages. Yet it has charged itself with finding the solution. Even one of the authorities, in this case the New York State Division of Housing Community Renewal, concedes it is a difficult task to find "just prices" and sufficient supplies.

"Complexities arise from the necessity of balancing the interest of owners seeking fair rents in a market where there is a housing shortage," division officials wrote in a publication marking the 50th anniversary of the World War II rent-control laws. But this search for "fair rents" is an impossible task. In setting the rents for a property, how can any authority know all the ever-changing costs and needs of the owner and those of every prospective renter? How can anyone know what is a "fair" or "just" rent?

Complaints are often made that 30 or 40 percent of the income of renters in New York City goes toward rent, a much higher percentage than that paid in many other parts of the country. Is that a fair criticism in a city in which many renters don't buy cars because there is more public transit here than in any other part of the country? How can one know? How can anyone account for all these constantly changing personal and market factors? How can anyone know all the value preferences that each person has and that change throughout his life?

One cannot.

"Value is not intrinsic," writes Ludwig von Mises in *Theory and History*. "It is not in things and conditions but in the valuing subject. It is impossible to ascribe value to one thing or state of affairs only. Valuation invariably compares one thing or condition with another thing or condition. It grades various states of the external world."

Even the New York State Division of Housing, in its book celebrating the accomplishments of a half century of rent controls, concedes that the system of finding the right values is difficult. "The balancing of interests necessitates that rent regulation be more than a mechanism to restrain rent increases but also a system to maintain an adequate supply of affordable housing," according to "Rent Regulation after 50 Years."

"Rent control," writes federal housing official Michael Stegman in his article in *The Rent Control Debate*, "is a form of social planning in that it involves public intervention in the private market in order to achieve social welfare objectives." Stegman continues,

"To the extent that it substitutes public housing decisions for private housing decisions, a properly designed and effective rent control program requires that the administering agency have

a substantial knowledge of the local housing market and access to large quantities of high quality housing data."

Nevertheless, obtaining that kind of information, Stegman implicitly concedes, is difficult. "The magnitude of this challenge and the incompleteness or inaccuracy of data may lead to inappropriate policy choices."

May lead?

Indeed, this daunting task also requires "a substantial knowledge" of an arcane system. For example, in New York there is a system of rent controls and rent stabilization. There are rules governing pre-1947 and post-1947 properties. There are "vacancy de-control" laws. There are specialized courts for landlord-tenant disputes. There are lawyers who specialize in these kinds of issues, and they're not inexpensive.

And yet there are owners who often have no ability to raise rents in spite of recognition by tenants that higher rents are needed. The bias of these rent-control commissions always seems to be against rent increases.

"It took one Washington, D.C., landlord six months and a good lawyer to win a rent increase for maintenance," wrote scholar Eric Hemel, "despite the fact that not a single tenant opposed his application. Often increases allowed for maintenance and repairs do not approach the actual rise in owners' costs."

The same often happens in New York City. I personally knew of a rent-stabilized property in Queens that was bought some eight years ago. Back then the rent generated a small 4 percent yearly profit. But the rent has never been raised because rent-control rules virtually prohibited it. And now, owing to huge property-tax increases, the owner is losing money on the unit.

The agent, who handles a property for the owner, once told me,

"The owner could try to put in for a raise, but the tenant would have the right to object. My advice is not to go through this process because the tenant might actually lower the rent. The owner should make the tenant a cash offer to go away."

Of course, the "justification" for this system is that the government is helping "the poor" at the expense of "the rich." Yet social engineering, no matter how well-meaning, often leads to surprising and perverse consequences.

### **A war on the poor**

The goal of rent control is: Make rich landlords pay; make them subsidize the poor. But, as with other government interventions, things don't always work out the way they were planned.

The supposed goal is to help the poor who cannot afford high rents -- to provide equity and justice for average people. But rent control -- as with so many other government interventions -- has often helped people who were quite capable of paying for their own way, even while hurting others who were not well-heeled.

This kind of system hurts the poor. Rent control discourages entrepreneurs from figuring out ways to deliver low-income and middle-income housing in the affected areas. That's because even if the builders succeed in building the housing, their financial rewards will be limited or minimal. And they will be burdened by arcane systems that even some rent-control advocates concede are difficult to administer. Better to build in some other place.

"Thus," write two social scientists looking at rent-control laws in *The Rent Control Debate*, "rent control acts as a disincentive to potential investors, whose funds will be required for the construction of rental housing. The smorgasbord of competing investments is far too attractive, and the uncertainties of residential properties under rent control are far too worrisome."

The authors of the article, George Sternlieb and James W. Hughes, conclude that rent control restrains the housing supply. "Rent control runs the risk of undermining its own purposes," they warn.

Exactly. William Tucker, in a controversial, much-debated study, *The Excluded Americans*, has argued that rent control is one of the causes of homelessness. Rent controls

aggravate housing shortages for low-income tenants, Tucker contends. These are the people least able to compete for housing, he says. But it also hurts the poor and newcomers because tenants -- rich or poor -- who have rent-controlled apartments rarely leave them.

"New York used to be like other cities, a place where tenants moved frequently and landlords competed to rent empty apartments to newcomers," the New York Times recently wrote in an editorial.

"But today the motto may as well as be: No Immigrants Need Apply. While immigrants are crowded into bunks in illegal boarding houses in the slums, upper-middle class locals pay low rents to live in good neighborhoods, often in large apartments they no longer need after their children move out."

So, even though supporters concede that the system has major problems and even though opponents believe rent controls should be ended, the system goes on. Why?

Some of the reasons these destructive rules survive are personal and political. In New York City, the rates of home ownership are low compared with the rest of the country. Private homes -- in part because of taxes and high regulatory costs -- appear beyond the means of many average-income families. These people believe that they will always be renters in one of the most expensive cities in the country. Politicians soon recognize where the votes are. Opposing rent controls, local politicians understand, is a dangerous business.

### **Welfare for the rich**

Another reason rent-control laws survive in New York City is human nature. The old saying is "You can never be too rich or too thin." There are many instances of business people and well-off individuals who enjoy various government subsidies.

Generally, in most places and most times, rent control has not been means-tested. So, many New Yorkers know or know of upper-middle-class and rich people who reside in rent-controlled and rent-stabilized apartments. There are millionaires with second apartments that are rent-controlled. They use them for pleasure or business in a city with housing shortages! This happens while many less-fortunate New Yorkers can't find a decent place within their price range.

We've had sports stars, movie stars, and at least one mayor here who lived in rent-controlled apartments. Indeed, one mayor, Edward Koch (1978-1990), maintained his rent-controlled apartment while he was in office. That's even though he was furnished with an official residence in his three terms as mayor. By the way, Koch is hardly a charity case. He made millions of dollars from books, speaking fees, and media appearances. He and other wealthy people are some of the beneficiaries of this flawed system. Don't expect any anti-rent-control speeches from our former mayor.

Rent-control laws often help people who are politically connected and who know someone who can obtain these apartments. Thus, oftentimes those who need it the least receive what amounts to a housing entitlement.

The entire system -- which is based on the idea that there is not enough housing in the free market -- becomes a kind of vicious circle. For example, there is not enough housing for middle-income and low-income people in New York City. Although new buildings generally are not threatened, there is always the threat that a building will come under controls. Indeed, in wartime there is a real potential for controls, especially in places with a long history of such rules such as New York City.

Therefore, few builders risk capital on low- or moderate-income units in New York unless there are all manner of tax breaks. Since most builders can't or won't play this political game, fewer units are built than if there were a free market.

Moreover, the beneficiaries of this system often consider their rent-controlled apartment a lifetime entitlement and even count it as an asset. They form tenant groups. They pressure the city and state governments. So do the builders who want to end the laws, but they have not been

as successful. The politicians understand there are more votes in tenants than in owners in New York City.

Indeed, a former New York City Council speaker, Gifford Miller, actually used taxpayer dollars a few years ago to help fund an Albany lobbying event for a tenants' group. The idea that Miller -- or any other major politician, Republican or Democrat -- would fund an event for those who wanted to end rent controls is politically unthinkable in New York City.

Turnover rates in rent-controlled towns are low. Even if the building is collapsing, why leave an apartment when one is paying below-market rates? At the same time, why should an owner put any extra money into a property he doesn't control and on which he may be losing money? The losers are owners and those who don't enjoy the privilege of a rent-controlled building. All this, of course, means it becomes more difficult for those looking for an apartment.

The result: Those locked out of the system rarely have a chance to obtain the nice apartments that are available in places without controls and that have higher turnover rates. For example, here in New York City, apartment vacancy rates are only about 3 percent. This compares with more than double that for most of the rest of the nation. The experience of cities that have ended rent controls is that supply was no longer a problem.

It's time for New York City to stop destroying itself. It's time for New York City to join most of the rest of the nation. It's time to end rent controls.

Gregory Bresiger is a business writer living in Kew Gardens, New York.

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