

Economics in One Lesson

by Henry Hazlitt

The Lesson Applied

WHAT RENT CONTROL DOES

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-range* 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. ##

Posted on Steven Shaw, software developer in Brisbane, Australia website.

Reposted for its common sense economic lesson on rent control as it applies to manufactured housing, manufactured home communities (aka 'mobile home parks') on the Daily Business News, MHPProNews.com



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