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DO ECONOMISTS REACH A CONCLUSION?

Rent Control: Do Economists Agree?

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ABSTRACT

Rent control is usually introduced to economics students as a price ceiling and an unambiguous source of inefficiency. Early rent controls mirrored price ceilings, but by the late 20th century the majority of controls had developed into complex systems. This paper organizes the judgments of economists regarding the impact of rent controls in the American context. Research is limited to journal articles listed by the American Economic Association's electronic bibliography, EconLit, under the subject search "Rent Control" performed February 18th, 2008. Articles must also meet the following criteria: the article focuses on rent control policies; data come from U.S. cities; and at least one author must be an economist. An economist is defined as any individual who holds a degree in the field of economics. I focus on the articles generated by the search in EconLit, but also include articles not in the EconLit search, but referenced by articles that are. I have been scrupulous to include any such once-removed articles that go against the main tendency of the literature, and hence assure the reader that my efforts have not accommodated a "picking and choosing" bias on my part. I find that the preponderance of the literature points toward the conclusion that rent control introduces inefficiencies in housing markets. Moreover, the literature on the whole does not sustain any plausible redemption in terms of redistribution. The literature on the whole may be fairly said to show that rent control is bad, yet as of 2001, about 140 jurisdictions persist in some form of the intervention.

A Brief History of Rent Control in the United States

European countries first practiced rent control after World War I. Many

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European governments imposed rent freezes, also called *first generation* rent controls. Rent increases were not allowed. European reconstruction struggled and most rent controls continued after World War II. Over time, however, controls became more pliable and rents were allowed to fluctuate somewhat in response to market pressures.

US governments first imposed rent controls in response to wartime difficulties. During World War II, housing markets in many cities were overwhelmed as soldiers and their families were relocated around the country. A declared goal was to “ensure affordable housing and to prevent profiteering” by landlords who may have taken advantage of the extreme market pressures (Arnott 1995, 100). The U.S. Emergency Price Act of 1942 established the rent controls of New York City. By November 1943, rents in New York were fixed to their March 1943 levels in an attempt to prevent “speculative, unwarranted, and abnormal’ rent increases during the war” (Gyourko and Linneman 1989, 55). Although the Federal Housing and Rent Act of 1947 relieved rental units built after February 1947 from rent control, New York City continued to adopt control policies into the 1950s. After the original legislation expired in 1950, the New York Emergency Housing Act of 1950 continued to impose traditional first generation rent controls throughout New York City.

New York City’s extended adoption of rent control was not typical of the 1950s. For most of the United States, this time period was characterized by the expiration and removal of rent controls. The housing boom of the 1940s and 1950s met the demands of returning soldiers, allowing for plentiful and affordable housing. By 1960 all jurisdictions, except for New York City, had removed rent controls.

The 1960s and 1970s saw a resurgence of rent controls. Double-digit inflation rates caused rental levels to increase abruptly. In response, tenants found power in assembly, leading demonstrations, such as the Harlem Rent Strikes of 1963, and forming organizations such as the Chicago Tenants Union. By the 1970s, rent control had been re-enacted in California, New Jersey, New York, Massachusetts, Baltimore, Maryland, Seattle, Washington and Washington, D.C. The majority of re-established rent controls occurred “in the Northeast and California where the rent pressures were most severe and tenant organization[s] were strongest” (Keating and Kahn 2001, 1).²

Another source of support for rent controls is the idea that landlords might take advantage of tenant “lock-in” and increase rent. Rent controls are an attempt to prevent landlords from acting opportunistically. Since increasing rents under such conditions is generally considered “taking advantage” of a tenant, “efficiency is deliberately sacrificed in favor of fairness,” resulting in rent controls (Ho 1992, 1184).

Controls enacted in the 1960s and 1970s are categorized as *second generation*

² Keating and Kahn are not economists but we recognize their historical research of rent controls.

rent controls. Instead of simply freezing rents, these policies allowed for minor increases. Rent control creates a classic intervention dynamic, resulting in a *cluster* of controls including politically administered maintenance codes and requirements, response requirements, tenant-protection measures, rent reductions, eviction controls, relocation measures, apartment-access guidelines, subletting controls, and restrictions on condominium conversion. The regulatory cluster tends to attenuate ownership of rental properties and create investment uncertainty. Private agreement is supplanted by political administration. Throughout the revival of rent controls, landlords had assembled to limit such regulations. By the 1980s the majority view had changed and fewer voters favored government interference with market forces. As of 2001, about 140 jurisdictions in the United States regulated rents (Rent Control: Policy Link.org).

Rent Control as a Price Ceiling

Rent controls prohibit prices from rising above politically-determined levels. Under a price ceiling, fewer housing units are supplied than demanded, resulting in a shortage. While some tenants clearly benefit from the constraints, property owners experience a loss. However, the loss to landlords and would-be tenants is not completely redeemed by the gains of the benefiting tenants, resulting in a dead weight (net) loss and inefficiency (Varian 1996, 14).

The results of first generation controls are uncontroversial. Writing in the *Journal of Economic Perspectives*, Richard Arnott (1995) offers an exceptionally ambivalent “revisionist” view of rent control.³ Yet he wrote: “I shall not dispute that first-generation controls were harmful (they almost certainly were)” (102). While temporary price freezes might be beneficial under certain extreme situations, such as during “wartime [when rent controls] provide a way to ration housing without imposing undue hardship,” long-term rent freezes are undoubtedly harmful to economies (Arnott 1997, 8).

Arnott (1997) notes the existing evidence of the negative impacts of rent freezes:

[T]he cumulative evidence – both quantitative and qualitative – strongly supports the predictions of the textbook model [of rent freezes] in virtually all respects. The decay and shrinkage of the rental housing markets in Britain and Israel caused by long-term rent control are persuasively documented in Coleman (1988) and Werczberger (1988), respectively; Friedrich v. Hayek (Fraser Insti-

³ Aside from Arnott’s avowedly “revisionist” article, the EconLit search found no other articles published by the *Journal of Economic Perspectives* or the *Journal of Economic Literature*.

tute, 1975) provides evidence of the harmful effects of hard rent controls in interwar Vienna, including their adverse effects on labor mobility; and Bertrand de Jouvenel (Fraser Institute, 1975) and Milton Friedman and George Stigler (Fraser Institute, 1975) argue strongly that the retention of controls immediately after World War II adversely affected the Paris and U.S. housing markets, respectively. (Arnott 1997, 7-8)

Knight (1950) expresses the inefficiency of first generation rent control and pondered the sources of support:

[R]ent freezing for example, occurs not at all merely because tenants have more votes than landlords. It reflects a state of mind, a mode of reasoning, even more discouraging than blindness through self-interest—like protectionism among our Middle-Western farmers. (Knight 1950, 4)

Since there is a clear consensus among economists, including even Arnott, that first generation controls are bad, we will consider studies that examine other forms of rent controls, often referred to as second generation controls.

Second Generation Rent Control

Lind (2001) defines one form of second generation rent control:

Sitting tenants are protected against (certain types of) increases in market rents and there is also a ceiling for rent increases in new contracts. The ceiling is set so high that it smoothes increases in rent, but does not keep the rent in new contracts below the market level in the longer perspective. (Lind 2001, 54)

Other forms of second generation controls allow rents to increase relative to inflation rates. In one form or another, they allow rental levels to change over time. Because second generation controls do not fit the typical model of a price ceiling, it is difficult to know their effects. Based on this lack of certainty, Arnott (1995) argues that economists must reevaluate their opinions of second generation controls:

[S]econd-generation rent controls are so different that they should be judged largely independently of the experience with first-gener-

ation controls. (Arnott 1995, 118)

[T]he case against second-generation rent controls is so weak that economists should at least soften their opposition to them. A degree of revisionism is certainly in order. (Arnott 1995, 118)

Economists' Theorizing the Effects of Rent Control

I organize the literature by theory and empirics. First we examine effects as treated theoretically. Later we will survey the effects as studied empirically.

Misallocation of Extant Housing Units

One dimension of the resulting inefficiency of rent control is that, because they may act as a price control, units are in excess demand and hence it is not necessarily the highest-benefit users who get in. Tenants may apply for or remain settled in apartments that do not well suit their needs simply because the apartment carries a low price. In other words, many of those who do not get in have higher willingness-to-pay than many of those who do get in. Price is not functioning to help assure that resources flow to highest valued uses.

Further, since the gain to tenants who obtain rent controlled apartments might be great, tenants may engage in a lengthy search for an apartment with controls. Whereas rationing by free prices works as an efficient transfer of money, rationing by transaction costs induced by controls are a social waste—like sitting in traffic on an underpriced highway.⁴ The following economists suggest that rent controls lead to increased search costs, misallocation, and inefficiency:

[A]ll forms of rent control limit landlords' abilities to raise rents on long-term tenants. This creates an incentive to stay in the same apartment, which leads people to remain in the same apartment even if their tastes and conditions change. As the taste and needs of individuals change over time, there will be a misallocation of houses across people, even if goods are allocated efficiently initially. (Glaeser and Luttmer 2003, 1031)

The reduction in rent due to rent control causes the reservation mismatch cost to increase; households become less fussy as the cost of search relative to tenancy rises. (Arnott and Igarashi 2000, 260)
The more severe the rent control, the higher the mismatch cost ...

4 Lindsey (2006) shows that economists reach a conclusion in favor of highway pricing.

(Arnott and Igarashi 2000, 270)

Thies (1993) states collateral manifestations of inefficiency, outcomes ultimately harmful to tenants of controlled and uncontrolled units:

Alternative mechanisms that can potentially equilibrate supply and demand in housing markets include discrimination, quality deterioration, substitution of tenant for landlord maintenance, forced ties, finder's fees, side payments and bribes, and "spillover" into the noncontrolled sector. (Thies 1993, 159)

It is shown that tenants as a class do not benefit, but rather—ignoring dead-weight losses—some tenants are benefitted (those in the controlled sector), and other tenants are hurt (those in the noncontrolled sector). Taking dead-weight losses into account, even some of the tenants in the controlled sector are hurt. (Thies 1993, 159)

Rent controls provide an added incentive for residents to remain in the unit. Arnott (1995) suggests that it might be good to inhibit movement:

Mobility in an unregulated market may be excessive since neither the landlord (in the event of eviction) nor the tenant (in the event of moving) pays the full social cost of a separation; lower mobility in the controlled sector may therefore be welfare improving. (Arnott 1995, 114)

Many economists portray the inhibition of movement in a negative light:

A second, potentially more serious cost can be traced to the immobilization of tenants that rent control induces. Because of the rental bargain that tenants in controlled units enjoy and because controls can make it difficult to find similarly-priced accommodations elsewhere, there is a tendency for tenants to 'stay put.' (Navarro 1985, 93)

To the extent that artificially low rents reduce the mobility of the population they impose inefficiency. People who would otherwise move away decide to stay in a controlled unit to keep the advantage of an artificially low rent. (Sims 2007, 144-145)

The one clear impact that all rent control regulations will have is

to reduce rents for some groups of existing tenants and create a wedge between their housing costs, if they stay in their existing unit, and their housing costs if they move. This wedge has been found to severely reduce mobility. (Glaeser 2002, 5)

Rapaport also believes rent controls induce tenants to stay too long, “reduc[ing] the inflow into vacancy” (Rapaport 1992, 446).

The following economists suggest potential efficiency losses as a result of reduced mobility:

Whether or not population is growing, housing market reform does affect the equilibrium allocation associated with long-run growth. If we restrict our setting to parameter values which ensure a unique steady-state equilibrium, then the lifting of restrictions lowers the steady-state capital-labor ratio. (Hardman and Ioannides 1999, 334)

...rent control might decrease the mobility of the labor force. As sitting tenants are reluctant to move from a rent-controlled apartment, they are less likely to accept a higher paying job in another city. (Basu and Emerson 2000, 959)

In addition to the inefficient use of time and resources associated with extended commutes, it is not too much of a leap to postulate that a related consequence of rent control must be a decline in the quality of job matches for residents. (Krol and Svorny 2005, 435)

If households are less inclined to move due to rent control they are also less inclined to react to changes in labor market conditions. (Munch and Svarer 2002, 557)

One consequence of the ‘lock-in effect’ is increased unemployment as workers are less willing to commute longer distances to find and hold jobs. (Navarro 1985, 94)

Economists predict that both first and second generation rent controls will result in misallocation, particularly in relation to the inhibition of movement.

Maintenance

Basic economic theory would suggest that rent controls will induce landlords to reduce the maintenance of controlled units. With lower rental rates and

excess demand, why should a landlord maintain a \$1000-value property for which she can only collect \$750? She might as well skimp and let it deteriorate to a \$750 value. This basic logic is affirmed by many economists, but of course reality is more complicated, and there are models in which positive maintenance effects are found.

Kutty (1996) developed a “dynamic model to analyze various cases of rent control” in an attempt to analyze the relationship between rent control and rental maintenance (7). She applied her model to typical first generation controls as well as to numerous forms of second generation rent controls:

It is only in the simplistic case [first generation rent controls] that the prediction of negative maintenance holds unambiguously. (Kutty 1996, 8)

In all other cases, positive maintenance is possible under rent control. (Kutty 1996, 8)

[W]e find that the impact of rent control on housing maintenance, theoretically, is ambiguous. (Kutty 1996, 8)

Olsen (1988) offers a similar conclusion:

[M]odels are seriously deficient in that they ignore essential features of actual rent control ordinances and important responses to them. When these features and responses are taken into account, the effect of rent control on maintenance is theoretically ambiguous. (Olsen 1988, 305)

Self-maintenance is an important matter to consider, since both tenants and landlords have an effect on a unit’s upkeep. No doubt a tenant’s assistance often partially offsets a landlord’s neglect. Moon and Stotsky (1993) make such a hypothesis:

[L]ong-term tenants in rent-controlled dwellings are more likely to engage in self-maintenance, compensating for any under maintenance on the landlord’s part. (Moon and Stotsky 1993, 1139)

Gyourko and Linneman also note that tenant maintenance as an important factor:

While the landlord’s incentive to maintain the unit falls, that of the tenant to self-maintain increases. Since landlords are responsible for

maintaining the entire building including common areas and support services, free-rider problems probably prevent tenants from maintaining those areas as effectively as landlords. Still, those receiving relatively large implicit subsidies have a greater incentive to see that the building does not become unsound, thereby reducing the value of their implicit subsidy. (Gyourko and Linneman 1990, 402)

Olsen (1988) notes that self-maintenance as an important yet frequently overlooked component of rent control and maintenance levels, especially since some second-generation rent controls limit a landlord's ability to evict tenants. He finds that if a tenant remains in the same rent-controlled unit, "the tenant will maintain the unit better than his landlord due to the income effect [subsidy] of rent control" (Olsen 1988, 302). However, Olsen notes the complexity of the maintenance issue. While tenant maintenance is a notable impacting factor, there are many other elements to account for:

Consideration of other aspects of reality such as the superiority of the landlords in providing certain types of maintenance and the possibility that the tenant will move before receiving all of the benefits of a particular maintenance activity obviously cannot restore the unambiguous conclusion of the usual analyses. (Olsen 1988, 302)

Whether or not tenant maintenance is a deciding factor regarding unit upkeep depends on whether it is substantial enough to counter the expected lack of maintenance from landlords. Many other economists suggest that all rent controls, including second generation rent controls, will simply result in reduced maintenance on controlled units:

[T]he price-taking landlords will allow maintenance expenditures to fall, perhaps to zero, in response to a control on rental revenue below the equilibrium levels. (Albon and Stafford 1990, 236)

The landlord will let unit quality deteriorate to the point where the controlled rent is actually the market price. After all, the landlord has no incentive to make the apartment any nicer than he must in order to keep it occupied... I continue to believe that even second generation rent control creates strong disincentives for quality provision when the unit is occupied. (Glaeser 2002, 10)

[L]andlords cut back on operating and maintenance expenses and

allow their property to deteriorate, the quality and flow of housing services to tenants are reduced: Heat may be lowered and supplied more erratically, halls may be swept less frequently, the exteriors may be allowed to chip and peel, the plumbing may drip and leak, and there may be an increase in roaches or mice infestations as exterminator visits are reduced. (Navarro 1985, 96)

Rent control will generally lead to a decline in maintenance expenditure by the landlord... (Ho 1992, 1188)

In the short run landlords have some latitude to vary the quantity of housing services from the existing housing stock by increasing or decreasing variable inputs (maintenance and repairs)... In the long run landlords will tend to permit the portion of their output that yields no revenue to disappear through deterioration. (Turner and Malpezzi 2003, 37-38)

A final explanation of the decline in owner cost is that rent control leads to less maintenance and more rapid depreciation of controlled rental units. Since prices are not permitted to adjust to clear the market, quality adjustment will tend to perform this task, ultimately causing the market value to fall to the ceiling rent with the owner's cost falling to zero. (Ault and Saba 1990, 39)

Arnott and Shevyakhova (2007) focus on the impact of vacancy allowances, a form of second generation control where rent levels are "controlled within a tenancy but free to vary between tenancies" (24). They believe vacancy allowances lead to a decrease in maintenance. Once a new tenant moves in and a new rental rate is established, the rental revenue received from the tenant is "independent of the landlord's maintenance expenditure, and hence reduces his incentives to maintain" (24). However, the enforcement of vacancy allowances varies across districts.

Some other forms of second generation controls are designed to punish landlords for allowing rent controlled units to deteriorate. Olsen (1988) summarizes the intentions of such rent controls:

It is easy to show that, if the reward for upgrading and the penalty for downgrading a unit are sufficiently large, the apartment will be better maintained under rent control. (Olsen 1988, 298)

Mengle (1985) argues, however, that such constraints might be incapable of preventing this problem:

[O]ne of the alleged advantages of second generation controls is that they are designed to minimize quality deterioration. At the same time, maintenance levels are costly for tenants and local officials to police, and cutbacks are typically slow to show their effects. For example, tenants may be unaware that landlords under controls may now repair leaking roofs rather than replace them, or that formerly annual services may now be performed every two years. (Mengle 1985, 5)

Housing Availability

Basic economic theory suggests that at controlled rates, quantity supplied is reduced and controlled housing is less available. Further, the regulatory cluster attenuates ownership, creates uncertainty, and increases the costs of supplying housing. Thus, basic economic theory would suggest that both short-run and long-run effects will reduce housing availability.

Ho (1992) discusses the possibility that, under certain circumstances, rent controls can increase available housing for low income tenants. Because controls might “lead to faster deterioration” (1188), Ho suggests that rent controls might lead middle and high income housing to deteriorate to the level of low income housing, “temporarily rais[ing] the supply of low-quality housing” (1188).

Hackner and Nyberg’s (2000) model makes the assumptions that individuals “have an equal chance of getting a rent controlled apartment” and that the production of housing is reversible (312). Under these assumptions, they formulate the possibility that “rent control may actually increase the aggregate housing stock” (324).

It is interesting to note that the increase in aggregate demand that follows from a reduction in the regulate rent leads to construction of new housing in the less attractive area. (Hackner and Nyberg 2000, 324)

However, in the long run, controls lead “market-determined rent in the less attractive area [to] be lower than the marginal construction cost” reducing the incentive to build (324). While rent controls might provide a temporary increase in low income housing, overtime controls appear to eliminate all incentive to construct in less attractive areas since even market-level rents do not provide a potential profit to new construction there.

McFarlane (2003) predicts a correlation between rent ceilings and the density of rent-controlled unit development. As a rent ceiling rises, the landlord profits more from each rental unit, allowing for growth and “capital-intensive land

conversion” (330). Therefore, development occurs but at a slower pace and higher density. Conversely, as a rent ceiling is decreased, the landlord’s losses increase, allowing for less growth. Development is accomplished at a quicker pace, but with less capital intensity.

Early and Phelps (1999) suggest that if rent controls have prevailed for a long period, developers might eventually come to build more uncontrolled units because uncertainties and apprehensions are abated:

The reduction in the importance of rent control over time fits well with the notion that the supply of uncontrolled housing falls when investors are concerned that future ordinances will control the rents of new construction. It seems reasonable that the probability of new controls being implemented would decrease as the number of years since implementation increases. If investors become less wary of future controls, they will be more willing to supply housing. (Early and Phelps 1999, 276)

Some models raise counter-intuitive possibilities – perhaps a case of the n-handed economist. Still, many economists expect rent controls will undoubtedly decrease the supply of controlled rentable units:

The aggregate output of housing services will decline...The representative firm...will allow its dwelling units to deteriorate until the flow of housing services declines... (Frankena 1975, 306)

It is important, however, to note that, despite the increase in the number of landlords in the controlled zone, the output per landlord is reduced throughout the zone and the net effect on the aggregate production of housing services within the zone is negative, as commonly predicted. (Heffley 1998, 765)

[H]aving closed off the main means of defending cash flows, profit maximizing landlords will look to other alternatives. The most likely results, given that returns to rental housing in controlled markets will decline relative to other investments, would be either sale at depressed price or abandonment. (Mengle 1985, 15)

Mengle (1985) continues his discussion by relating maintenance levels and housing availability. As discussed, rent controls are expected to lower maintenance levels. In an attempt to prevent the deterioration of rent controlled housing, the regulatory cluster often punishes landlords for allowing maintenance levels to de-

preciate. Mengle suggests that, instead of dealing with the cluster of controls, landlords may find it advantageous to convert to condominiums or office space. The result is a decrease in rental availability. Mengle (1985) concludes “it is difficult to see how anyone could benefit unless one’s hidden agenda is to remove housing from the private sector” (15).

Early and Phelps (1999) also find reason that rent controls might result in less available housing over time since the incentive for developers to build decreases:

...the supply of uncontrolled housing falls when investors are concerned that future ordinances will control the rents of new construction. (Early and Phelps 1999, 276)

Glaeser (2002) makes a similar observation by noting the difference in construction of uncontrolled rental units between Chicago and New York City:

[I]t is hard for the casual observer not to notice the difference in the supply of new construction for rental purposes in Chicago (which is very much a non-rent controlled city) and New York City (which has among the most Byzantine and volatile rent control rules...). Chicago’s lakefront is dotted with apartment buildings built after World War II for rental purposes. New York’s Upper East Side is filled with one-time rental buildings that were gradually turned into cooperatives and lacks new rental buildings despite the fact that technically these buildings would be free from rent control. (Glaeser 2002, 12)

Converting apartments to non-rentable units is a route by which rent controls may decrease housing availability:

[D]evelopers will choose to build de-controlled new homes, condominiums, office buildings, or simply not to build at all, investing their funds elsewhere. (Navarro 1985, 90)

It is worth mentioning that rent control also creates an incentive to demolish rental buildings prematurely – either legally or through arson – and to build uncontrolled dwellings in their place. (Navarro 1985, 91)

[R]ent control can reduce the stock of low-quality housing, by inducing upgrading (from rent level decontrol), rehab (to convert to owner-occupancy), and abandonment. (Arnott 1995, 116)

[C]onversion activity increases when the market rent surpasses the rent ceiling. (McFarlane 2003, 328)

The theoretical conclusion that rent controls result in a decrease of the stock of rent controlled units is compelling. The effect of rent controls on uncontrolled units, however, is more ambiguous. As noted above, some economists regard the uncertainty and decreased maintenance levels as an element which prompts a decrease in overall stock of rentable units, not just controlled units. However, the magnitude of conflicting factors causes other economists to reach other complex conclusions. The theoretical effect of controls on the aggregate supply of rentable housing is therefore ambiguous.

The Effect of Rent Controls on Controlled Rents

Whether the consumer can find “affordable” housing depends not only on the number of housing units available but also on whether rents are “affordable.” Nagy (1997) believes that, under second generation controls which allow for vacancy allowances, landlords may find a way around rent controls by “offer[ing] a price higher than what would prevail in an uncontrolled market” (76). Therefore, the ability of rent controls to lower rents is hampered by the landlord’s ability to set the initial price. This effect may be seen as a kind of inverse to a possible consequence of minimum wages: That employers make the schedule of pay raises flatter on account of the initially high wage paid in compliance with the minimum-wage law.

Again, the allowing of landlords to set the initial rental level may, as Nagy (1997) states, reduce a rent control’s effect as a price control. The landlord may choose to set the rental level at a rate higher level since the rate will remain fixed until the tenant decides to move. This alters the stories about the lost return to landlords; a decrease in maintenance level, a decrease in the supply of apartments, a potential increase in homelessness, and a potential increase in the rental level in the uncontrolled sector.

Basu and Emerson (2003) provide another analysis of vacancy allowances, also termed tenancy rent control. They suggest that the allowance to set incoming rent leads to results similar to those of first generation controls.

Given tenancy rent control [vacancy allowances], the presence of even a small positive inflation gives rise to an adverse selection problem. Landlords now prefer short-staying tenants to long-staying tenants (as long-stayers impose greater costs on landlords because of the erosion of real rents during a single tenancy), but they have no way of telling the types apart.... Long-staying tenants

know their type but have no interest in revealing this information to prospective landlords. (Basu and Emerson 2003, 225)

The combination of asymmetric information and monopolistic landlords leads vacancy allowances to result in very low rental levels, similar to a typical first generation rent control.

[Vacancy allowances] can cause landlords to operate in a way that mimics the old-style rent control. To wit, they hold down price, even with excess demand, to attract a better-‘quality’ tenant (i.e. one that will not stay too long). (Basu and Emerson 2003, 230)

Therefore, Basu and Emerson (2003) find some second generation rent controls lead to lower rental levels, but this comes at the cost of inefficiencies like those of first generation controls.

By their nature, rent controls provide rental levels lower than short-run free-market levels. Yet, queuing, waiting lists, bribes, and high search costs are additional costs not reflected in rental rates. In the spirit of Tullock’s transitional gains trap (1975), the beneficiaries of rent control may not extend much beyond those who were situated at the time of imposition. Moreover, the attenuation of ownership might discourage supply such that even controlled rates are, in the long run, not lower than the rates that would have prevailed if the regulatory cluster had never been created.

The Effect of Rent Controls on Uncontrolled Rents

If rent controls reduce housing availability, this will lead to a shortage in the entire housing market. A shortage will increase in outward demand shifts in the other, substitute uncontrolled markets, resulting in higher rental rates. Therefore those who do not live in rent controlled units must pay a higher rent as a result of local rent control. This effect is analogous to how minimum wage laws may increase demand for high-skilled labor and mechanization.

Hubert (1993) does not draw the same conclusion. Instead he suggests that second generation rent control might *decrease* rents in the uncontrolled sector:

If the rationing system induces tenants in the controlled sector to accept a reduction of housing consumption – compared to the case of an unregulated market – rent control effectively acts like a subsidy to decrease consumption. Not surprisingly, this would lower the rent in the free sector of the market. (Hubert 1993, 58)

Also, Heffley's spatial equilibrium model of rent control derives this unconventional conclusion:

[N]either the price per unit of service nor the rental payment rises in the uncontrolled area when the control is imposed elsewhere. This result, too, is sensitive to model specification and parameter values, but it suggests that the external effects of rents control may be quite complicated and counter to the conventional story when the long-run economic and locational adjustments of both tenants and landlords are considered. (Heffley 1998, 766)

However, other economists are confident that controls will lead to higher rents in the uncontrolled housing market.

[W]e can be quite confident that the greater the extent of rent control in an urban area, the higher will be the supply price in the uncontrolled market... (Early and Olsen 1998, 804)

While rent control unquestionably reduces rents of tenants in rent-controlled units, it actually increases rents of tenants in uncontrolled units. (Navarro 1985, 96)

[T]he greater imbalance as a result of rent control forces the unsatisfied renters to look for more expensive substitutes, which therefore becomes even more expensive. (Ho 1992, 1188)

Homelessness

Standard analysis would suggest that rent controls increase homelessness since controls are expected to reduce housing availability.

[I]t might reasonably be argued that rent control leads to homelessness by impeding new construction due to a fear of future regulation and hastening removals from the existing stock. This decrease in supply should lead to a higher rental price of housing in the uncontrolled sector and a lower vacancy rate. Since the worst units are the most likely to be converted to non-residential uses, households with the highest propensity to be homeless, namely the extremely poor, are likely to be the households displaced. They are also the most susceptible to eviction for non-payment of rent. Since landlords of controlled units ration based on non-pecuniary characteristics, these households are unlikely to find a controlled unit and the

higher rental price or housing and lower vacancy rate in the uncontrolled sector may make homelessness their best choice. (Early and Olsen 1998, 799)

Yet, many results suggest the relationship is ambiguous:

With these lower rents, poor households are less likely to be evicted for non-payment of rent when they experience financial difficulties. So there is at least one mechanism through which rent control could lead to less homelessness. (Early and Olsen 1998, 799)

An increase in the lower bound on housing consumption should induce some households to occupy better housing at the same time that it makes homelessness the best choice for others... (Early and Olsen 1998, 805)

[B]ut since no empirical studies adequately account for the many possible linkages between rent control and homelessness, whether rent control contributes to homelessness remains an open issue. (Arnott 1995, 116)

Economists show no preponderant prediction on homelessness. As homelessness is a complex matter, the ambiguity is understandable.

Targeting the Benefits of Rent Control

Does rent control successfully target benefits to less fortunate individuals? Landlords and superintendents use non-price forms of rationing. In sifting through credit reports, references, and other components of applications, they are likely to select the individuals or families that appear to struggle the least. Both Arnott (1995) and Glaeser (2002) raise doubts about targeting to needy tenants.

[T]he traditional advocates of controls emphasize distributional concerns. Specifically, they argue that controls redistribute from rich to poor and ensure cheap housing. I find little merit in either argument. Whatever redistribution controls achieve is poorly targeted... For related reasons, cheap housing, as distinct from a reduction in inequality or poverty, is a dubious goal of social policy. (Arnott 1995, 108)

In most cases the landlord or superintendent may allocate apartments on the basis of the tenant characteristics or a tenant bribe. If

landlords get to choose among prospective renters, then it seems quite possible that the reduced rents from rent control may actually end up increasing segregation. After all what will landlords look for? Tenants who make the building more attractive to other tenants. In general, this will mean tenants who resemble the existing stock of tenants, or richer tenants. This will tend to exacerbate segregation, at least in richer communities. (Glaeser 2002, 9)

The benefits of rent controls go to individuals selected by landlords. Navarro (1985) further explains how this allocation occurs and who is more likely to benefit from rent controls.

As an example of this form of discrimination in Cambridge, Jeffrey Sterns has noted that ‘due to the high demand for housing in the city, landlords prefer and are able to rent their units to higher income tenants not receiving public subsidies.’ (Navarro 1985, 94-95)

[W]hile some tenants win, other tenants unquestionably lose. (Navarro 1985, 96)

Effects on the Community

The primary goal of rent control is to provide affordable housing. Yet the controls affect other facets of a community. Glaeser (2002) expects these to be negative: “If the city is getting poorer, then rent control may tend to exacerbate poverty and stop rich people from renting the more desirable apartments” (Glaeser 2002, 6). Glaeser (2002) notes the correlation between rent controls and poverty in New Jersey. He suggests that rent controls result in decreased growth “because rent control[s] limit new construction or because other factors [make] these places less attractive” (18). Navarro (1985) explains that rent controls can negatively affect a community by affecting the community’s tax base; “Because tax assessments are based on a property’s market value, the amount of taxes the owner pays shrinks with the reduction in rents” (Navarro 1985, 92). In an attempt to replace the taxes lost from rent control, taxes in the uncontrolled sector might be increased. In effect “the tax burden is shifted not only to single family homeowners, but also to tenants in the uncontrolled market” (Navarro 1985, 96).

Heffley (1998) also remarks on the potential tax base erosion caused by rent control:

In moving to the rent control case...the level of public spending

and the tax rate are maintained. But the control's negative effect on aggregate housing rents (the tax based in this model) reduces tax revenues and causes a deficit. (Heffley 1998, 767)

In reality, rent controlled communities should be expected to pursue some mixture of these strategies: general increase in effective property tax rates coupled with selective abatements to some landlords, cutbacks in public spending, increased efforts to secure non-local sources of income, and greater reliance on other forms of local taxation. (Heffley 1998, 769)

Navarro (1985) suggests that controls may lead to an increase in energy consumption:

[T]he 'lock-in effect' leads to longer commutes, workers consume more gasoline... the city's rent control mechanism provides little incentive for landlords to conserve fuel because of a 'dollar-for-dollar' clause which allows landlords to pass any increase in fuel expenses directly through to tenants. This gives the renter little incentive to conserve and the landlords little incentive to install conservation devices. (Navarro 1985, 94)

Empirical Research on Rent Control

The preceding review of *theoretical* effects is now paralleled by a review of effects *in empirical findings*.

Misallocation of Extant Housing Units

Glaeser and Luttmer (2003) offer some empirical evidence of the misallocation caused by first generation controls:

[New York City, 1990:] [A]t least in theory, ignoring the misallocation costs of price control may result in a far too positive view of these regulations... Our methodology suggests that 21 percent of New York apartment renters live in apartments with more or fewer rooms than they would if they were living in a free market city. (Glaeser and Luttmer 2003, 1028-1029)

[O]ur procedure suggests significant misallocation. Our estimates indicate that 11 percent of the renters are misallocated and 15.9

percent of the owners are misallocated. (Glaeser and Luttmer 2003, 1044)

Gyourko and Linneman's (1989) analysis of New York City's rent control system during 1968 finds that controls "encourage excessive immobility among controlled sector renters" while they "encourage excessive mobility among families hoping to obtain controlled apartments" (72-73). Therefore, they find the effect of rent controls on a tenant's movement depends on whether the tenant is lucky enough to reside in a rent controlled apartment.

Nagy's (1995) regression analysis of data from New York City in the years 1978, 1981, 1984, and 1987 gives similar results: "between 1978 and 1987 tenants in the controlled sector were less mobile than those in the stabilized sector" (137). However, Nagy notes that rent controls do not necessarily reduce mobility, as those who live in the controlled sector tend to be less mobile individuals:

It appears that much of the difference in mobility can be explained by differences in tenant characteristics across sectors. (Nagy 1995, 137)

[T]enants in the controlled sector are predominantly white. They also tend to be older and have less income. Because these characteristics are associated with immobility, this suggests that tenants in the controlled sector may move less often because they tend to have the characteristics of immobile tenants. (Nagy 1995, 133)

However, the majority of researched articles agree with the results that individuals who currently live in rent controlled units are significantly more likely to stay put:

[New York City, 1981:] [R]esidents of the controlled sector receive significant rental subsidies relative to those of the stabilized and uncontrolled sectors and hence remain in their units significantly longer than they would otherwise be expected in order to realize these subsidies. (Linneman 1987, 22)

[New York City, 1968:] [T]he "average" rent control tenant would choose to remain in his or her residence about 18 years longer than an otherwise identical tenant in an identical residence which was not rent controlled due solely to these differing marginal effects... Clearly rent control results in large distortions in the way changes in personal and structural characteristics change the preference for residential stability. (Ault, Jackson, and Saba 1994, 156)

[New York City, 1997:] Tenants will still have longer duration than those in an uncontrolled sector. Increased duration may have detrimental consequences ... [T]enants may be willing to live in a crowded apartment because they cannot find an apartment that is properly sized. Increased duration may have positive benefits as well. A tenant will have a greater incentive to maintain the apartment if he or she has a long duration. (Nagy 1997, 76)

Krol and Svorny find that tenants in rent controlled apartments appear to sacrifice shorter commutes for lower rents:

[New Jersey, 1980, 1990, and 2000:] Using New Jersey census tract data... we are able to show a positive and statistically significant relationship between rent control and the percent of the working population that has a long commute for 1980, 1990, and 2000. (Krol and Svorny 2005, 435)

The most constraining types of controls are systematically empirically associated with longer commute times. (Krol and Svorny 2005, 435)

Another consequence of rent control has to do with a tenant's potential to become a homeowner. Because rent controls make renting more attractive and lead tenants to stay put, controls generally decrease renters' incentives to become homeowners:

[New York City, 1968:] A potentially large efficiency effect of rent controls is that the expectation of subsidized rents induces nonoptimal homeownership patterns (Gyourko and Linneman 1989, 69)

[C]onsumers with large expected rent control benefits had lower demands for homeownership. (Gyourko and Linneman 1989, 71)

The tenancy duration results in combination with our findings of substantial influences on homeownership propensities and housing trait prices indicate that the small redistributive impacts associated with rent controls were achieved at the expense of substantial efficiency costs. (Gyourko and Linneman 1989, 73)

Maintenance

The model of rent control as a strict price ceiling predicts maintenance levels in controlled units will depreciate. Yet Arnott (1995) reports: “the empirical literature has been unable to uncover significantly higher levels of maintenance in the uncontrolled sector” (114).

In an empirical research paper on New York City’s first generation rent controls in the 1970s and 1980s, Moon and Stotsky (1993) reached an ambiguous conclusion on maintenance:

[New York City, 1978, 1981, 1984, and 1987:] [W]e find little evidence that the rent control status dummy variable influences housing quality change... It suggests that housing units that stay under control from the beginning to the end of the transition period are less likely to deteriorate. (Moon and Stotsky 1993, 1139)

With the subsidy measured in level form, we again observe no significant relationship between rent control and housing quality change. (Moon and Stotsky 1993, 1139)

Some economists, however, find a negative relationship between rent controls and maintenance levels:

[A]lthough tenants may pay less for their rent-controlled apartment, over time, the regulated landlord provides less. For example, in their analysis of Los Angeles, Rand researchers found that 3.5 percent rent reduction from controls was partially offset by a 2.2 percent deterioration, for a net rent benefit of only 1.3 percent to tenants. (Navarro 1985, 96)

[U.S., 1973-1976:] [F]avorable distributional effects may be partially offset by quality deterioration. (Mengle 1985⁵, 14)

Some economists also find maintenance controls to be ineffective:

[Boston 1985, 1989, 1993, 1998:] Though rent control does not seem to lead to catastrophic maintenance failures, it appears to reduce the maintenance performed on rental units. As landlords can be fined for allowing water and heat failures, but not for cracked paint, this result is not surprising. (Sims 2007, 144)

5 Mengle (1985) used data from The Department of Housing and Urban Development composed of sixty Standard Metropolitan Statistical Areas (SMSA) recorded from 1973-1976.

[S]anctions against landlords who cut back maintenance expenditures have not realized their intended results. (Mengle 1985, 14)

Gyourko and Linneman (1990) find “a change in the rent control status of the building’s apartments from uncontrolled to controlled reduces the probability of the building being in sound condition” (405). While these findings correlate with the expected negative relationship, Gyourko and Linneman find these results are highly subject to certain rental units and certain locations:

[New York City, 1968:] Rent controls have had their biggest adverse quality effect on the already relatively deteriorated rental housing stock in smaller buildings. The impacts are largest in Manhattan. For smaller pre-1947 buildings in Manhattan, there is an 8.96% higher probability of being in unsound condition if the building’s units are rent controlled versus uncontrolled. The analogous effects for Brooklyn and Bronx are around 7.5%. The adverse impact on quality is smallest in Queens at 3.42%. (Gyourko and Linneman 1990, 408)

The impacts are much less in newer smaller buildings and are non-existent for units in buildings under ten years old. (Gyourko and Linneman 1990, 408)

While other factors such as age and initial building quality play a clear role in apartment maintenance levels, these elements are erratic and not within human control. Given even a small negative impact on maintenance, Gyourko and Linneman (1990) find “it is virtually impossible to justify this price control as good public policy” (409).

The empirical research pertaining to maintenance reflects the net effect of the upkeep from tenant self-maintenance and the neglect from landlords. Many researchers find decreases in maintenance levels, but the evidence does not offer a clear conclusion. Since the regulatory cluster usually tries to address maintenance, it is not surprising that the empirics are mixed.

Housing Availability

Sims’ (2007) empirical examination of rent decontrol in Boston in 1985, 1989, 1993, and 1998 finds that “being in a decontrolled zone leads to an increase of about 0.2 percentage points in the relative quantity of [total] housing supplied” (141). This counts as a “small effect” and Sims concludes “the end of rent control had little effect on the construction of new housing” (141-142).

Rent controls give landlords the incentive to convert units into non-rentable housing, such as condominiums:

[Cambridge, Massachusetts:] [R]oughly 10 percent of the city's rent-controlled housing stock was converted to condominiums and moved out from under the grasp of the ordinance. As a result, the share of renter-occupied private units has shrunk from 75 percent in 1970, to 72 percent in 1975, to 66 percent in 1980. (Navarro 1985, 91)

[Boston, Massachusetts 1985, 1989, 1993, 1998:] In summary, there is weak evidence that rent control affected the extensive quantity of housing units supplied in Boston, but much stronger evidence that rent control lead owners to shift units away from renting. The 6-7 percentage point change in rental probability between controlled and uncontrolled zones may seem small, but when applied to all three ⁶ cities it implies that rent control kept thousands of unit off the market. (Sims 2007, 143)

[T]he end of rent control is associated with a 6 percentage point increase in the probability of a unit being a rental. (Sims 2007, 142)

The Effect of Rent Controls on Controlled Rents

Several studies find that rent control reduces rents in the controlled sector. Studying Los Angeles, California, 1969-1978, Fallis and Smith (1997) find that “the data confirm that rent controls effectively constrained rents on controlled units” (199). Writing of New York City in 1968, Gyourko and Linneman (1989) interpret the lower rents as a subsidy to the tenant: “All benefits are expressed in 1984 dollars. The benefit associated with occupying a rent-controlled unit is quite large, with a mean annual subsidy of approximately \$2440 or an average 27.2% of annual income” (61).

Where second generation rent controls involve vacancy allowances, new tenants may be willing to pay higher rents for the promise of controlled future rents. Nagy (1997) finds that “in 1981 new tenants to New York City's rent-stabilized sector paid on average more than tenants in an uncontrolled sector.” (65). Nagy (1997) explains landlords are able to set the initial rental level, therefore, “tenants forgo low current rent in exchange for low future rent” (65). Therefore, he found the system simply altered the timing of payment rather than the total cost of rent:

⁶ The three cities Sims refers to are Boston, Brookline, and Cambridge.

[New York City, 1978, 1981, 1984, 1987]: [T]he 258 new stabilized-sectors paid on average \$21.55 more per month than the 284 uncontrolled-sector tenants did in 1981... (Nagy 1997, 73)

Politicians who wish to soften rent control by adding vacancy de-control-recontrol provisions may be undoing the control altogether. These provisions may be doing little more than altering the timing of payment time. Renters pay the same in the long run. They simply pay higher rent sooner and lower rent later. (Nagy 1997, 76)

Again, this effect eradicates rent controls ability to act as a price control. As discussed earlier this has a notable impact on the level of negative impacts resulting from rent control.

The likely long-run effect of the regulatory cluster is to shift cost curves up and supply curves back, so it is not surprising that there is evidence that, in the long-run, rent control leads to higher rents even in the controlled markets:

[New York City, 1996:] The results suggest that due to the higher price in the unregulated market, on average, tenants in rent stabilized and 'old style' rent controlled units would be better off if controls had never been established. If controls had never been put in place in New York City, these tenants would have faced a lower price of housing in the uncontrolled sector and would find units in the free sector that better fit their needs. (Early 2000, 202)

The average estimated benefits are -\$4 [a loss, in 1995 dollars] per month for households in 'old style' rent controlled housing and -\$44 per month for households in rent stabilized apartments. This implies that, on average, households in regulated units would have been better off if rent regulations had never been established in New York City. (Early 2000, 197-199)

Only under the belief that prices in the uncontrolled sector are little changed by rent regulations, between 2 and 4%, are the benefits to households in controlled units high enough to compensate for the loss to households unable to find a unit of controlled housing. (Early 2000, 202)

The Effects of Rent Controls on Uncontrolled Rents

Many empirical studies find rent controls increase rents in the uncontrolled sector:

[New York City, 1996:] The results suggest a positive and statistically significant relationship between the fraction of rental units under rent control and the price of rental housing in the free sector. (Early 2000, 193)

[Los Angeles, California 1969-1978:] [A]fter two years, controlled rents had risen an average of 13.7 percent and uncontrolled rents had risen an average of 46.2 percent. (Fallis and Smith 1997, 199)

[T]he data confirm that rent controls effectively constrained rents on controlled units, but enabled larger rent increases on decontrolled units than would have occurred in the absence of rent controls. (Fallis and Smith 1997, 199)

Caudill (1993) offers a dual analysis of New York City's rent controls in 1968. He observes the impact of rent controls on the rental level in the uncontrolled market by using both the traditional ordinary least squares regression method as well as the frontier method. Both regressions give similar results. He estimates that if controls are removed, "rents in the uncontrolled sector would fall about 22%-25%" (731).

Sims' (2007) regression offers an interesting outcome regarding the impact on the uncontrolled sector. He finds that, depending on the uncontrolled unit's proximity to controlled units, the rent might actually decrease. Sims' conclusion is based on rent control's effect on maintenance levels. As stated above, controls often reduce maintenance. As a result, uncontrolled rental units located nearby will fall in value. While economists are not unanimous regarding rent controls impact on maintenance, it is interesting to note the potential negative externalities that might result.

[Boston 1985, 1989, 1993, 1998:] Though the underprovision of housing due to rent control might raise rents in the uncontrolled sector, the reduced care given to rent controlled units may make the zones with rent control less desirable for those living in non-controlled housing. This spillover effect due to sub-optimal maintenance may decrease all rents in an area. (Sims 2007, 148)

The coefficients imply that having 10-12% rent controlled units in

your zone will decrease your rent by 23-28 dollars [1998 dollars] a month. (Sims 2007, 149)

Early and Phelps (1999) conclude that the impact on the uncontrolled rental market is more ambiguous. While they find “the existence of rent control increases rents in the uncontrolled sector by more than 13 percent,” these effects diminish over time (274):

[American Housing Survey, 1984-1996:] [O]n average, the monthly rent of a typical uncontrolled unit is roughly \$85 higher [1996 dollars] because of the existence of rent controls. (Early and Phelps 1999, 277)

These results suggest that the introduction of new controls would increase the price of uncontrolled housing. However, policy makers concerned with the second-generation controls that are currently in existence can look to these results as an indication that the detrimental effects on the price of uncontrolled housing have passed. According to our findings, the elimination of current controls would not be expected to alter the price of uncontrolled housing. (Early and Phelps 1999, 279)

Homelessness

Several empirical studies find no clear relationship between rent control and homelessness:

[U.S. Metropolitan Areas, 1984:] Rent control, which has been cited as a cause of homelessness ... had no effect on either homelessness or crowding... (Honig and Filer 1993, 252)

Rent control does not have a statistically significant effect on homelessness. (Olsen 1998, 677) ⁷

[American Housing Survey, 1985-1988:] Our results lend no support to the view that rent control is a major cause of homelessness. If anything, they suggest that it reduces homelessness. Although our estimates indicate that rent control does lead to a lower vacancy rate and higher price per unit of housing service in the uncontrolled sector and they suggest that these lead to more homelessness, they

⁷ Olsen's (1998) conclusion is based on his empirical study with Early (1998).

also indicate that these effects of rent control are more than offset by other effects that decrease homelessness. (Early and Olsen 1998, 799-800)

Grimes and Chressanthis' (1997) regression finds a clear positive correlation between rent controls and the rate of homelessness. Therefore, it is possible that controls may increase the number of homeless individuals.

[U.S., 1990:] The empirical results, irrespective of the measure of the homeless population, strongly confirm the positive impact of rent control on the level of homelessness. (Grimes and Chressanthis 1997, 33)

Even though the estimated effect is relatively small, this finding suggests that rent controls, while providing economic benefits to special interest groups in society, impose social costs by increasing the rate of chronic homelessness. (Grimes and Chressanthis 1997, 36)

Yet, Gissy (1997) finds a possibility that rent control mitigates homelessness:

[U.S., 1984:] Cities with rent controls may have higher rates of homelessness, but it is due to the high costs of housing. Without the rent controls, which lower the relative rents in these cities, the homeless rate would be even higher. (Gissy 1997, 119)

Gissy (1997) warns that his findings might be influenced by other channels:

[U.S., 1984:] Since rent-controlled cities had higher housing costs than the non rent-controlled cities, it may well be that those cities where rent controls would serve to lower vacancy rates happen to be the ones that instituted rent controls. (Gissy 1997, 119)

There does not seem to be any clear conclusion regarding rent control and homelessness.

Political and Administrative Costs

Empirical work has also been done on the costs of administering and enforcing rent controls:

[Cambridge, Massachusetts, 1970, 1975 and 1980:] In Cambridge, for example, the annual budget for the city's rent control board and related rent control activities runs to about \$700,000. That means it costs taxpayers about \$40 in regulatory costs for each of the roughly 18,000 apartment units under control. (Navarro 1985, 93)

[New York City, 1981:] The results presented here suggest that the administrative costs associated with the new style controls do little other than to formalize the market forces which would have otherwise occurred through the "invisible hand" of competition... [T]he inefficiency costs of these regulations may be substantial, as they involve both administrative costs and the misallocation of resources. (Linneman 1987, 29)

Measurements of administrative costs remind us that bureaucracies are a player and an interest group.

Targeting the Benefits of Rent Control

As stated by the Governor of New York, David A. Paterson (2008), "Rent regulation [including rent control] is intended to protect tenants in privately-owned buildings from illegal rent increases and allow owners to maintain their buildings and realize a reasonable profit." The general goal of rent controls is to assist those who can barely afford housing. A stereo-typical beneficiary is disabled, elderly, or living on a fixed or limited income. In Gyourko and Linneman's (1989) empirical study of New York City in 1968, they estimated the benefit of rent control to lucky tenants as \$2440, in 1984 dollars (Gyourko and Linneman 1989, 61).

Linneman's (1987) study of New York City in 1981 concludes rent controls' targeting abilities are haphazard. While the benefits of controls were found to go to some intended individuals such as those who had "low incomes and were elderly," the benefits were distributed by chance and therefore, "the targeting of these benefits was poor" (15). Other economists agree with Linneman's findings:

[Boston, Massachusetts 1985, 1989, 1993, 1998:] Only 26% of rent controlled apartments were occupied by renters in the bottom quartile of the household income distribution, while 30% of units were occupied by tenants in the top half of this distribution... This suggests that much of the transferred surplus may have been received by wealthier households. (Sims 2007, 148)

If much of the benefit accrues to white upper income households, rent control may prove to be an ineffective transfer program as well

as an inefficient one. (Sims 2007, 150)

[Cambridge, Massachusetts, 1970, 1975 and 1980:] [T]he poor, the elderly, and families – the three major groups targeted for benefits of rent control – were no more likely to be found in controlled than uncontrolled units. (Navarro 1985, 97)

[New York City, 1972; Los Angeles, California, 1991; Santa Monica, California, 1990; Washington D.C., 1988:] We also learned that within a market the distributions of costs and benefits of controls are sometimes “progressive,” sometimes perverse, but virtually always poorly focused. (Malpezzi 1993, 622)

[New York City, 1981:] [T]he rent control subsidies were very poorly targeted. (Linneman 1987, 30)

[New York City, 1968:] [W]hile many poor families received benefits, so too did many higher income families. In a similar vein, while many low-income families benefitted from rent controls, many other equally poor families received no benefits... [T]his indicates that if the primary social benefits of rent controls are their distributional impacts, they were not successful in New York. (Gyourko and Linneman 1989, 66)

Olsen’s (1972) study of New York City in 1968, however, yields contradictory results. He finds the mean annual income of tenants in controlled apartments to be \$6,223, while the mean annual income of tenants in uncontrolled units is \$9,000 (Olsen 1972, 1095). Therefore, poorer households tend to receive the benefits of rent controls:

[New York City, 1968:] Though there are many rich people living in controlled housing and poor people in uncontrolled housing ... on average the occupants of rent-controlled apartments are poorer than the occupants of uncontrolled housing. (Olsen 1972, 1094)

Therefore, among the set of families who receive a net benefit from rent control, poorer families receive larger benefits... In this sense, rent control achieves some of the objectives desired by supporters of the program. (Olsen 1972, 1095)

While poorer tenants appear to be the recipients of most of rent controls benefits, Olsen mentions that there is no accurate distribution of benefits within

this group. A poorer individual does not necessarily receive more of a benefit than an individual who is considered less poor:

[New York City, 1968:] [T]he extremely low coefficients of determination ... suggest a great variance in the distribution of benefits among recipient families... (Olsen 1972, 1095)

There is nothing approaching equal treatment of equals among the beneficiaries of rent control. In this sense, rent control is a very poorly focused redistribution device. (Olsen 1972, 1096)

Ault and Saba (1990) also analyzed the rent controls of New York City. Their research focused on the long-run impact of rent controls and whether the “costs and benefits changed over time...” (26) Their regression applies data from the New York City Housing and Vacancy Surveys of 1965 and 1968. They find that recipients of rent controlled apartments have the following characteristics:

In each year there is a higher proportion of minority families in the controlled sector, and the families in that sector are older and poorer than their counterparts. (Ault and Saba 1990, 36)

Yet, similarly to Olsen’s conclusion, they find the distribution of the benefits of rent controls are erratic.

In all cases the coefficient of determination is very low, indicating that the program of rent control in New York City did a poor job of providing equal benefits to similarly situated families. Among families in controlled rental housing in 1965 and in 1968, benefits are higher for wealthier and older families and lower for larger families and minority families. (Ault and Saba 1990, 37)

Inequalities resulted from the failure of the program to provide equal benefits to similar families in controlled rental housing... (Ault and Saba 1990, 39)

Further empirical analysis provides insight into what type of renters usually receives the benefits. Landlord’s preference of tenants plays a vital role in determining who receives the benefits of rent controls.

[New York City, 1996:] [T]he results suggest that a decrease in the age of the head and an increase in the number of persons lead to a decrease in the estimated benefits of rent control. These relation-

ships may be due to a preference by landlords for older and smaller households. It is plausible that controlled units are rationed. If landlords believe that larger households headed by young persons lead to quicker depreciation of their units, that rationing of units by landlords would lower the probability of larger and younger households finding rent regulated units. (Early 2000, 202)

[New York City, 1981:] The rental subsidy for those residing in the old style sector ... increased with age but was not significantly at conventional confidence levels... Family size significantly reduced the subsidy in the controlled sector for family sizes under four and increased the subsidy for larger families. (Linneman 1987, 25)

[New York City, 1968:] Single renters of each sex fared significantly worse on average than their married counterparts. (Gyourko and Linneman 1989, 63)

[New York City, 1968:] We can be rather certain that blacks receive greater benefits than whites, but we are only moderately confident that households headed by males received larger benefits than households headed by females. (Olsen 1972, 1095)

[New York City, 1965 and 1968:] [W]e find that tenant benefits increase with income and age of the household head and that white families receive larger benefits than do similar minority families. (Ault and Saba 1990, 38)

As stated by Gyourko and Linneman (1989), “economists have long predicted that racial discrimination could result in markets where non-price rationing occurred” (73). The following empirical research describes the impact of race on the distribution of rent-control benefits:

[New York City, 1968:] Blacks and Puerto Ricans in the controlled sector received lower benefits than their white counterparts. However, both groups tended to be overrepresented in the controlled sector relative to their share in the renter population. Thus, although we found significant differences between the rent control benefits expected by blacks and Puerto Ricans relative to their white counterparts, these differences were not as large as the benefit differences found among controlled sectors renters. (Gyourko and Linneman 1989, 73)

While the benefits received by blacks in the controlled sector were not as large as those for whites, blacks do not appear to have been disproportionately denied entrance into the controlled sector. Specially, although blacks were 14.4% of the overall sample, they occupied just over 19% of all controlled units. (Gyourko and Linneman 1989, 61)

[New York City, 1981:] Thus, even though minorities are less likely to reside in the controlled sector, minorities with controlled units fare very well. (Linneman 1987, 27)

[New York City, 1981:] [N]o significant race effect on the unconditional subsidy was found. This absence of a significant race effect indicates that the higher subsidies realized by minorities in the old style sector...completely offset the underrepresentation of minorities in the control sector... hence yielding a neutral overall racial impact. (Linneman 1987, 27)

Glaeser's results find controls might be incapable of preventing segregation, an intended goal of some control systems:

[U.S., 1991:] Neighborhoods in rent controlled cities appear to be as segregated as neighborhoods in free market cities. Finally, when rent control is imposed on declining cities, it seems to make them more, not less segregated. (Glaeser 2002⁸, 21)

Far from eliminating segregation, at least in New Jersey, rent control has appeared to increase it. (Glaeser 2002, 20)

Summary Assessment of the Findings

My review of the rent-control literature indexed by EconLit (or cited by such indexed articles) finds that economic research quite consistently and predominantly frowns on rent control. My findings cover both theoretical and empirical research on many dimensions of the issue, including housing availability, maintenance and housing quality, rental rates, political and administrative costs, and redistribution. As Navarro (1985) notes, "the economics profession has reached a rare consensus: Rent control creates many more problems than it solves" (90). I see the literature as supporting the point of view that there are

8 Glaeser uses 1991 data from the Department of Housing and Urban Development.

few long-run winners from the policy, that it is an example of the transitional gains trap.

If rent-control is such a “no-brainer,” why bother to scrutinize the literature? The cluster of restrictions persists in roughly 140 jurisdictions in the United States as of 2001. As Hazlett (1982) notes, “economists have been notoriously thorough in convincing themselves of the destructive effects of rent control and notoriously inept at convincing anyone else” (278). Better understanding of the issue might help correct the error, prevent other governments from falling into it, and promote an understanding among more than just economists. Also, better understanding is an end in itself.

The Modal Economist Versus the Issue-Expressive Economist

This investigation provides another installment in the analysis of whether economists reach a conclusion. I have examined the judgments, or indications of judgment, of economists as expressed in published works. Thus, I survey *issue-expressive* economists and ask whether they reach a conclusion on rent control. Another question is whether the modal economist in the population of economists at large also supports liberalization.

To my knowledge, the last time U.S. economists were surveyed on rent control was in 1990, in the survey of Alston, Kearl, and Vaughan (1992). The question asked for an evaluation of the statement: **“A ceiling on rents reduces the quantity and quality of housing available.”** The results were:

Generally agree: 76.3%
Agree with provisions: 16.6%
Generally disagree: 6.5%

Although agreement would not necessarily imply support for liberalization, it seems safe to conclude that the modal economist of 1990 favored liberalization.

Rent control, then, is an issue on which we find basic agreement between the modal economist and the issue-expressive economists. Such an agreement is also found for other issues including sports subsidies (Coates and Humphreys 2008) and most likely agricultural subsidies (Pasour 2004, Whaples 2006).

On other issues, however, such as the U.S. Postal Services’s monopoly (Geddes 2004; Whaples 2006)⁹ and the Food and Drug Administration (Klein 2008),

⁹ The results of the postal monopoly question are misstated in Whaples’ article. As Whaples’ appendix shows, less than half of respondents agree that the postal monopoly should be ended.

as well as most likely occupational licensing (Svorny 2004) and rail transit projects (Balaker and Kim 2006), there appear to be significant impasses between the modal economist and the issue-expressive economists. The issue-expressive economists are presumptively more expert and accountable for their published judgments. When they agree, we should have some faith in their conclusion. If economics is to serve the public interest, their insights must permeate the public culture. An intermediate step must be permeation of the thinking of other economists.

What issues show such agreement, and what issues do not? Why is there broad agreement between the two kinds of economist judgment on rent-control, sports subsidies, and agricultural subsidies, but not postal reform and the FDA? What factors affect whether the modal economist and the issue-expressive economists agree? Here, international comparisons of the modal/issue-expressive comparisons may be instructive.¹⁰ These questions deserve scholarly attention.

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¹⁰ On British opinion, see Ricketts and Shoemsmith 1990; on European opinion see Frey et al 1984; on Swedish social scientists (including economists) see Berggren et al 2007; on Italian economists see De Benedictis and Di Malo 2008. Some thoughts on international differences are offered in Frey and Eichenberger 1992.

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