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The Theology of Rent Control
by Daniel Rose
Chairman, Rose Associates, Inc.

Residential rent control----originally a World War II emergency measure--froze rents in New York as of March 15, 1943, when five cents bought a subway ride, a cup of coffee or a hot dog. Continued in one form or another, it is up for renewal again this month; and, like the common cold, it will probably be with us forever, or at least until the buildings crumble.

Pro-control advocates wish to keep rent ceilings indefinitely; anti-control groups seek to have them phased out gradually by such means as decontrol on vacancy, and a modest number of housing units do return each year to the free market. No one argues for interference with existing tenancies by the elderly, the poor or even of middle income tenants.

The most interesting aspect of rent control today is the theological fervor with which its pros and cons are debated.

On the one hand are those who see it as a specific instance of the more general case of "price control" which, they maintain, has never, except in brief emergencies, worked well anywhere, anytime or any place.

On the other side are those who regard inexpensive housing as an across-the-board right, however achieved. For rich tenants or poor, says New York's most voluble current defender of controls, Michael McKee, low rents are a universal entitlement, akin to social security.

To the "price control" camp, there was an obvious cause for the devastation seen by then President Jimmy Carter on his celebrated visit to Charlotte Street in the South Bronx, (to wave good-bye to the 350,000 older but structurally sound New York housing units abandoned and demolished in the 1960's and 1970's)-the lethal combination of double digit inflation, a prime rate of 21 percent and rigidly controlled building income. And they point out that today's poor could have lived in those older buildings.

To rent control supporters like Columbia University's Peter Marcuse, whose preference is for "social justice" over "economic efficiency," there is virtually no relationship between rent control and housing abandonment, - a complex phenomenon involving economics, demographics, job markets, etc.

But the great majority of economists would agree with their eminent colleague, Dr. Frank Kristof, when he wrote, "Without rent control, the abandonment of older, obsolete housing would not have occurred on the massive scale experienced by New York, nor with the extent of neighborhood deterioration. The tempering factor in moderating the rate of deterioration and abandonment would have been the existence of market rentals that could sustain better maintenance and the economic

viability of existing housing in neighborhoods where demand remained strong."

Although surveys of professional economists (such as those in the American Economic Review) routinely show 95% to 98% of them agreeing with the statement "a ceiling on rents reduces the quality and quantity of housing available," rent control supporters scoff.

When asked about the financial returns needed to attract private capital to privately-owned, fully tax-paying structures with controlled rents, pro control spokesman McKee suggests that one percent over long term mortgage rates should be sufficient profit-yet no politician or newspaper reporter openly dares to laugh.

In London and Paris, where World War I "emergency controls" remained in effect until after World War II, it was said that "rent control is second only to aerial bombardment in destroying cities." In India, debates about the impact of rent control on building maintenance prompted the analogy of a pregnant starving woman giving birth to a baby whose bones and teeth come from the calcium of her own body. In the same way, reasoned the Indians, a tenant's artificially low rents are "subsidized" by the deferred maintenance and lack of repairs to the structure itself.

To rent control advocates, "depreciation" is an accounting term relating to tax deductions; to owners of old buildings, "depreciation" is what happens to wooden windows that go unpainted for years.

In Sweden, Nobel Laureate Gunnar Myrdal, a prominent member of the Swedish Labor Party, said, "Rent control has in certain western countries constituted the worst example of poor planning by governments lacking courage and vision."

The "price control" camp tell stories about the well-known charity case John F. Kennedy paying a trivial rent for a luxurious Park Avenue apartment until the day he went to the White House; about the then Mayor, Ed Koch, paying \$441.49 for an apartment supposedly worth \$1,200 a month; about the little old widow living alone in a four bedroom apartment on West End Avenue because it was cheaper for her than moving to a smaller apartment, and so on.

Rent control advocate Peter Marcuse insists that regulation on existing buildings does not affect new construction. "Price control" people point out that before rent stabilization was added to the mix in 1969, New York built 35,000 dwellings a year on average; in the 1970's the number dropped to 20,000 a year, and a decade later to 10,000 a year. In the 1990's it was 8,000 units per annum, although our population is at an all time high.

The "price control" group notes that Nobel Laureate George Stigler's first published work as a schoolboy contrasted two housing markets San Francisco after the devastating earthquake of 1906 (without rent control) and San Francisco after World War II (with controls). Guess which housing market recovered more quickly!

Advocates of controls claim that major reform would bring chaos and misery; "price control" people point out that, contrary to widespread fear, when Massachusetts, California and Washington, DC removed controls in recent years, nothing happened! Like the dog that didn't bark in the Sherlock Holmes story, there were no massive rent increases, no flood of evictions, no celebrated hardship cases. In the well-documented case of Cambridge, Massachusetts after the removal of controls, new construction surged, massive capital flowed into rehabilitation of old buildings, and rent levels remained essentially unchanged. Detailed analysis showed that controls had benefited not the poor or minorities, but primarily middle-class Caucasian professionals.

The "price control" camp points out that lower-than-market rents for the rich mean that lower-than-appropriate real estate taxes are being paid by those same rich (and by condo and co-op owners whose taxes are adjusted accordingly) at a time when the city is gasping for revenue. Various studies put the lost municipal revenue in the hundreds of millions of dollars each year.

Rent control advocates say that New York's voting public demands controls; the "price control" camp replies that if you are "robbing Peter to pay Paul," you can always count on Paul's vote.

The saddest part of the rent control debate is that each side contains a grain of truth:

- * Yes, of course, the advocates of controls are right in pointing to housing hardships; but the answer does not lie in rigidly limiting rent levels in fully taxpaying, privately owned and financed dwellings.

- * Yes, of course, the "price control" people are correct in pointing out that New York's rent controls are counter-productive; but New York does indeed have many thousands of tenants who cannot afford appropriate housing.

New York is not unique; and the answer to its housing problem lies in stimulating new housing production at all rent levels, and also in implementing appropriate government housing subsidies to specifically designated people in need.

The aborted Mitchell-Lama program, which passed along to middle income tenants the benefits of real estate tax exemption and low mortgage interest rates could be revived, with shallow rent subsidies available when indicated.

New York's rigid building codes, which make our construction costs the highest in the nation, cry out for a rational revision that could dramatically cut the cost of new housing production. Like the preposterous Wicks Law, which needlessly raises the cost of public construction, New York's building codes defy logic.

Long overdue reworking of our restrictive zoning and land use practices could diminish housing land costs substantially, and Roger Starr's imaginative proposal to permit areas currently zoned for two-family homes to add a third legal unit would immediately encourage new capital investment in our outer boroughs and provide vast numbers of badly needed low-rent housing units for immigrants and our permanent urban poor.

A creative rethinking of the concept of Single Room Occupancy housing, with appropriate government subsidies and building code and land use changes, could deal effectively with those pathetic souls thrown on the streets by the de-institutionalization policies adopted when sedatives and other drugs encouraged the closing of mental hospitals.

Creative approaches to housing for the elderly-primarily the use of shared facilities and services-that work so well elsewhere are long overdue in New York.

New York is less a "special case" than rent control advocates insist it is. Housing solutions that work elsewhere could work here; and the counter-productive effects of residential rent control that are evident elsewhere are also visible in New York.

Writing in the *Journal of Economic Perspectives*, Richard Arnott was speaking of all cities when he wrote, "There has been widespread agreement among economists that rent controls discourage new construction, cause abandonment, retard maintenance, reduce mobility,

generate mismatch between housing units and tenants, exacerbate discrimination in rental housing, create black markets, encourage the conversion of rental to owner-occupied housing, and generally short-circuit the market mechanism for housing."

Rigorous analysis shows that programs leading to decontrol would have little negative effect in the outer boroughs; and in Manhattan they would lead to a modest reallocation of housing resources whose net effect would be beneficial, particularly to newcomers and minorities.

So-called "second generation" forms of rent control, like New York's "rent stabilization," are less destructive than the older forms; but they, too, are market-distorting, and, when applied involuntarily to buildings built without compensating benefits, immoral.

New York's current housing problems are chronic, not acute; irritating, not mortal. Like a modest self-inflicted wound, they will plague us until a better-informed public and more responsible elected officials decide otherwise, and see residential rent controls go the way of all other wartime emergency price controls.

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