

A Ceiling Over Your Head?

Rent Control: Be Careful—and Afraid

Rent control in one guise or another has re-emerged as a hot-button issue in several California cities and other localities nationwide. Even some factions in Chicago are jumping on the bandwagon. (New York City's rent control ordinances, among the nation's oldest, date from the second world war.) "Fight for Fifteen" minimum-wage initiatives, "head taxes" on large firms, or levies on new construction are complementary proposals in some metro areas to combat homelessness, tackle the problem of affordable housing, and respond to the general rise in income inequality. As a recent newspaper headline phrased it: "A minimum-wage worker can't afford a 2-bedroom apartment anywhere in the U.S., report finds."

Locally, worries about gentrification, increased property values, and higher rents have fueled opposition in some quarters to the Obama Presidential Center. Concerns about affordable housing in some Chicago neighborhoods and near public transit lines have also surfaced.

BY ALLEN R. SANDERSON

A staple of all introductory economics textbooks is an early chapter on supply and demand, followed by one on restrictions on markets and market mechanisms. Two almost *de rigueur* foils are employed to illustrate the impacts and unintended consequences: minimum wage laws and rent control. The first is used to analyze what happens when a price—in this case a wage rate—is above equilibrium; the second examines when a price—the monthly rent—is held below an equilibrium. More formally, one is a price floor and the other a ceiling.

Economists are virtually unanimous in their opposition to rent control. As one liberal economist opined, "rent control ranks second only to bombing as a way to destroy a city." In the short run the supply of housing doesn't change much, and thus current occupants receive some benefit from the downward pressure on rent. But longer term fewer rental units are built because of the disincentives—higher risks and lower profits—for developers; maintenance of existing properties is reduced, and conversion to alternative uses—think condos—occurs. Thus the quantity and quality of rental housing suffers. New residents may actually end up paying higher rents due to the decrease in supply.

In addition, the benefits of rent control accrue to the

well-heeled—New York City examples are legion—as well as to the poor, not exactly the policy's intention. (A \$15 minimum wage for Gold Coast teens is also an unnecessary and unintended subsidy.)

Once restrictions on the allowable rents are in place, politics, not the economics of supply and demand, is more likely to govern the allocation and availability of housing. Almost by definition, the number of renters—and thus voters—is larger than the number of landlords. Whatever else their shortcomings, politicians can at least do rudimentary arithmetic.

When price isn't the main allocation mechanism, other factors come into play: large families, the poor and minorities will fare less well when other criteria can be used instead. Better that money be on the table than under it.

For the most part, we don't tell Jewel or Macy's how much they can charge for grocery items or clothing, respectively.

Nor do we slap price controls on McDonald's French fries or tickets to pop concerts and sporting events. Or a homeowner's asking price on the market. So on the proverbial one hand, why then do municipalities try to dictate prices for rental housing? Part of it may be that housing costs represent fully a third of an American family's outlays, two or three times greater than in many other countries. (Our expenditure share for transportation is a little over 15 percent, about the same as it is for food/beverages. Given the way Americans dress, it is no surprise that apparel is only a scant three percent!) And thus this big-ticket item—no pun intended—hits home for American families.

Housing is also somewhat different in that there may be more options for food—someone can trade down from Whole Foods to Marianos and then Aldi or Walmart—than for one's current abode. Or I can shop for clothes or household items at Nordstrom or Target. Or buy a Chevy instead of a Lexus. In the short run, the relative leverage accrues to the landlord. In the longer run, it's more of a level playing—or living—field.

The challenge for Chicago and other cities is how to increase the supply of housing, not reduce it. Homelessness and housing costs in Seattle and San Francisco have far more to do with zoning laws and other restrictions on residential construction than anything else. And they—and we—cannot repeal the laws of supply and demand. As famous economist Alfred Marshall once noted, supply and demand work together like the two blades of a pair of scissors. Be careful lest a city's fingers get in the way. □

