

[Only bombing would be worse than rent control](#) [1]

Written by [Sam Bowman](#) [2] | Wednesday 25 January 2012



The political battle over the welfare bill has led some people to propose rent controls as a solution to rising rents in Britain's cities (especially London). Rent control, though, is probably the most unambiguously awful policy ever to be tried in modern western democracy. In theory and practice it is a disaster, choking off the supply of new rentable homes and grinding the quality of existing rented accommodation.

The theory is simple enough. Putting a price ceiling on any product below the market rate causes shortages: demand outstrips supply. Walter Block has a typically [superb article](#) [3] in the Library of Economics and Liberty's Online Encyclopedia of Economics on this:

One effect of government oversight is to retard investment in residential rental units. Imagine that you have five million dollars to invest and can place the funds in any industry you wish. In most businesses, governments will place only limited controls and taxes on your enterprise. But if you entrust your money to rental housing, you must pass one additional hurdle: the rent-control authority, with its hearings, red tape, and rent ceilings. Under these conditions is it any wonder that you are less likely to build or purchase rental housing?

This line of reasoning holds not just for you, but for everyone else as well. As a result, the quantity of apartments for rent will be far smaller than otherwise. And not so amazingly, the preceding analysis holds true not only for the case where rent controls are in place, but even where they are only threatened. The mere anticipation of controls is enough to have a chilling effect on such investment.

Block points out that the very whisper of rent controls can be harmful ? if there's a danger that your investment might be subject to punitive state-imposed price ceilings, it's probably better to play it safe and build something else.

Not only does rent control stop new construction, but by putting a stranglehold on supply it destroys neighbourhoods. Real-life experience with rent control has been predictably awful, with entire neighbourhoods in New York City becoming decayed and abandoned. Because demand outstrips supply, there is little incentive for landlords to keep their properties in a decent state, especially in poor parts of town:

Paul Niebanck found that 29 percent of rent-controlled housing in the United States was deteriorated, but only 8 percent of the uncontrolled units were in such a state of disrepair. Joel Brenner and Herbert Franklin cited similar statistics for England and France.

Block quotes Gunner Myrdal, an architect of Sweden's welfare state who was given the Nobel Prize in

economics as the left-wing balance to his co-winner FA Hayek:

Myrdal stated, "Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision."³ His fellow Swedish economist (and socialist) Assar Lindbeck asserted, "In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing."

Rent control would be worse than the status quo, but there are some things the government could do to make things better. Capping (or abolishing) housing benefit would reduce some of the upward pressure on demand, but the best thing would be to allow the supply of new places to live to grow. Britain's planning laws are choking the construction of new homes, particularly low-rent ones. Why? As [Mark Pennington has pointed out](#) ^[4], planning laws give undue power to articulate middle classes, who can use it to block "undesirable" low-income housing developments in their areas. Reforming this system, so that it's easier to build new homes of any type, would be a good step.

The grinding, anti-poor, primitive socialism that is rent control would be a catastrophe for the urban poor. Everybody should recognize this. No less than the Foreign Minister of the Socialist Republic of Vietnam spoke about rent controls in 1989:

Mr. Thach admitted that controls ... had artificially encouraged demand and discouraged supply.... House rents had ... been kept low ... so all the houses in Hanoi had fallen into disrepair, said Mr. Thach.

"The Americans couldn't destroy Hanoi, but we have destroyed our city by very low rents. We realized it was stupid and that we must change policy."

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