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Rent Control and Public Housing

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Abstract

Rent control is a snare and a delusion for those who think it will actually help the poor. It reduces the supply of rental housing from the level that would otherwise have obtained, and the poor get the short end of the stick whenever there is a shortage of anything. Housing is no exception to this general rule. Nor is public housing a solution to the needs of the poor. Instead, it boomerangs on this sector of the population. The free enterprise system, with neither of these policies, is the last best option for the poverty stricken.

Key words: rent control; rental housing; poverty; public housing

I. Introduction

This paper is an attempt to wrestle with the housing problem as it afflicts the poor.

In section II we make the case that rent control is not a solution to this challenge. The burden of section III is to make the same point with regard to public housing. We conclude in section

IV with the claim that the free enterprise system is the last best hope for curing poverty in general, and solving the housing crises of this segment of the population in particular.

II. Rent control

Arleen, a single black mother with two kids and a cat. Lamar, a single dad with no legs and one son. Trisha, a young woman clinically diagnosed as being unable to care for herself. These people do not seem to have a lot in common until you look at two factors, SSI and Shereena. All of the above are below the poverty line and therefore receive supplemental income checks from the government known as SSI checks. They also all lived in Shereena's apartment complex in Milwaukee at some point in time, at least, until Shereena evicted them.

These are characters in Matthew Desmond's ethnography "Evicted" but they are based on actual stories. Just looking at this information seems to paint Shereena as the villain but this is not the case. Shereena was doing what many landlords did at the time, and still

do, especially when it came to her lower-income tenants, doing what she can to make ends meet. Milwaukee has “rent-control laws that cover almost 1 million -- approximately half -- of the city’s rental apartments”(Will, 2012). While rent control seems a good way to allow lower-income families affordable housing, it is hurting them in many ways. It places the entirety of the responsibility on the landlords which strains relations between them and tenants and demotivates the owners to maintain their properties. It also is applied arbitrarily. If it is deemed appropriate to help poor tenants pay their, why should this be the responsibility of only one sector of the economy; landlords? In sharp contrast, public policy to feed the poor does not place the financial burden, solely, on grocers and restaurant owners; food stamps, rather, are paid for out of general tax revenues.

Landowners rent their houses, apartments, etc. for the same reason others enter a market, to make a profit. They set their prices just as any other business does, so as to maximize their return.

Rent control was first put into place after World War I when many soldiers were returning from the front looking for housing.¹ This increased demand caused prices to skyrocket (Carty, 2014). Putting a cap on rent was supposed to be a temporary fix until the market stabilized again, however, the law has become a permanent fixture in cities such as New York. When rent levels are set below where supply and demand intersect, it causes a shortage (Milsap, 2015). Artificially low prices attract more people to the market. There is little incentive to

increase supply, thus causing a disparity between the number of people wanting housing and the number of housing units available.

There are two major reasons why the supply stays low in response to rent control. The first is that with a decrease in profits, existing landlords do not have the funds necessary to maintain, let alone expand, their housing. Profit is seen in a negative light by most of the public (Kahneman, et. al) but it is necessary to drive a business forward. If a jewelry maker sells bracelets and only charges enough to reach the break-even point, he will only ever make enough money to create more stock. It is the same as far as rental housing is concerned. The second reason for the shortage is a lack of incentive for people to enter the market. If there is a cap on profits, people will be drawn to other markets with a higher chance of return. Not only will this deter new investors from entering, it will also act as a push factor to induce current investors to place their money elsewhere.

This legislation creates strained relations between the tenants and the landlord. Shereena was mentioned earlier in the text as the antagonist in *Evicted*. Shereena was merely trying to stay afloat as a businesswoman in the housing market. She was kind to her tenants, allowing late payments and even helping them out when they needed it, such as helping Arleen pay for her sister’s funeral (Desmond, 2016).

Rent was so low however, that she could not make a profit so there was only so far she could go before she started losing money. When this happened, she had to evict tenants, even people she liked.² It also had the unfortunate effect

¹ On the history of rent control, see Brown, 2009; Fogelson, 2013; Keating and Kahn, 2002; Simarian, 1943 and Willis, 1950.

² Neither the restaurant, nor the grocery, nor any other business can long stay in operation if

of making her housing units less than desirable because she did not have the funds to pay for decent maintenance. If the air conditioning unit went out, she left it to the tenant to hire someone to fix it. She was not receiving enough profit from rent to be compensated for doing this extra work. Because rent was so low, she figured they were paying mostly for the land and not so much the amenities of the house. Maintenance and repairs are one area where landlords have the least regulations and therefore the most discretion. Shereena is a fictional character but she is based on a real life person and there are many other landlords who act this way as well. This is demonstrated by the poor state most rent-controlled homes or apartments are in (Noack, 2018). It is analogous to placing a price limit on diamonds so they do not cost much more than coal. While this seems a fair way to allow poorer people access to diamonds, it actually has the effect of causing production to diminish because people are not willing to go through the effort of finding them if they know they will lose money thereby.

Landlords are not trying to take advantage of the public, as Baird (1980) puts it, “businesses are not competing with the public, they are serving the public.” By assuming it is the fault of the landlords for lack of housing, it places the responsibility and the blame on them. “Rent control rests on an almost cynical distrust of the market [and those individuals in it] (Carty, 2014, 369).” Even the greediest of landlords cannot set their prices higher than the level people are willing to pay or they would have no customers. With rent control howev-

they are not paid for their wares. Eviction of a tenant for non-payment is equivalent to the restaurant or grocery insisting upon being paid when they sell items.

er, people are actually less likely to find housing they are satisfied with because the quality of the housing deteriorates with the decrease in price.

Rent control is applied only in certain situations. For example, in New York, the law reads, “For an apartment to be under rent control, the tenant (or their lawful successor such as a family member, spouse, or adult lifetime partner) must have been living in that apartment continuously since before July 1, 1971 (White, 2015).” This protects long term renters but does nothing for lower-income tenants (though the groups are not necessarily exclusive of one another). There are also rent control laws that only apply to landowners with a certain number of units, and these tend to focus on large buildings.

In 1989, Vietnamese Foreign Minister Nguyen Co Thach averred: “The Americans couldn’t destroy Hanoi, but we have destroyed our city by the very low rents.” (Dhillon, 2007). According to Lindbeck, 1972: “In many cases, rent control appears to be the most efficient technique presently known to destroy a city except for bombing.” In the view of Myrdal, 1965: “Rent control has in certain western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision.”³

III. Public housing

Jacobs (1972) is perhaps the most thorough-going critic of public housing. She launches a myriad of condemnations of this institution, but the most salient of

³ For further elaboration, see Baird, 1980; Block and Olsen, 1981; Block, Horton and Shorter, 1998; Block, 2002; Dhillon, 2007; Friedman and Stigler, 1946; Grampp, 1950; Grant, 1989; Hayek, 1981; Johnson, 1982; Lindbeck, 1972; Myrdal, 1965; Salins, 1980; Tucker, 1990

them are two. First, public housing is for the poor; the Bill Gates' of the world are simply not welcome, nor are virtually any members of the middle class. But the poverty stricken are the members of society least able to take care of themselves, as demonstrated by their very insufficiency of funds. They tend not to be leaders. Placing hundreds, nay, thousands, and even in the large development tens of thousands of them cheek by jowl is not a good recipe. What happens when a poor husband is offered a raise? If he accepts it as he likely will, he and his family will be booted out of their homes. And, thus, the public housing community will lose yet another leader around whom it could coalesce.

Second, the creators of this type of housing unit have an inveterate hatred for commerce. Grocery stores, bakeries, bars, shopping malls, restaurants are never, not ever, to be found on the premises. This leads to a lack of "eyes on the street," in her view. In areas featuring private housing, these establishments often occupy the street levels. People go in and out of them; congregate in front of them. Those in the upper floors look down at the continual parade of people. These "eyes on the street" make the streets safer, since hold-up men are a shy lot, and do not relish having their misdeeds looked at from above.

As a result of these two phenomena, the public housing population veers dangerously in the direction of female headed households. Without adult men to serve as mentors, role models, informal policemen, hordes of teen-aged boys make the premises unsafe for all inhabitants. It is for reasons of this sort that the gigantic high rise Pruitt-Iago housing development had to be demolished, by the very bureaucrats who built it in

the first place.⁴ The only lesson learned by these central urban planners was not to build vertical slums. So buildings with only two or three stories were erected, but, unfortunately, with the same "skimming the cream off the top" and no "eyes on the street" difficulties.

The Commission of Privatization in the White House has been recommending privatizing public housing since 1984. Such a transition would include legislature that would sell project houses to their current tenants at a price no more than 25% of the fair market price (Shill, 1990, 879). Being able to convert from a renter to a homeowner would have many advantages for the lower-income family inhabiting the projects. They would have secure shelter even when their income is not stable. Their net value would rise with the addition of the house equity. They would be able to take out decent loans if they need it. Most lower-income individuals cannot receive a loan from a bank because they lack the collateral to back it up. Some statutes have been passed to set the sale of public housing to their tenants but no major legislation ensuring this conversion at an artificially low price has been⁵ established.

San Francisco is acting as the U.S. guinea pig for the turnover of public housing from the government to private organizations. In the past few years, the San Francisco city council has been working with the Department of Housing and Urban Development to hand the reins of their public housing to non-

⁴ See on this Pruitt-Iago Barker, 2016; Fiederer, 2017; Marshall, 2015; Moore, 2012.

⁵ At least not in the U.S. But when Margaret Thatcher was Prime Minister of England, she sold council houses, the U.K. equivalent of public housing, to occupants, at nominal prices. See on this: <http://www.legislation.gov.uk/ukpga/1980/51/enacted>



profit property managers and developers. They named this approach Rental Assistance Demonstration and involves not only privatizing public housing by giving it to non-profit companies specifically, but also setting into motion legislature that ensures protections against displacement. The tenants of new public housing have nicer houses and better lives than they did before such as the newest addition of Mercy Housing. They have appliances and disability access-friendly installments. The independent companies also have managers set in the units to ensure everything is going well for the tenants and most say they have a good relationship with the manager. San Francisco politicians are hoping their Rental Assistance Demonstration could be a blueprint for the future of privatization of all public housing in the United States (Epstein, 2017).

In the increasingly popular city of San Francisco, gentrification is plentiful and many tenants, even of the middle-class, are concerned about displacement, in the view of social workers, politicians, bureaucrats and other such do-gooders. As they see matters, if the housing reforms had no guards against displacement then privatizing the public housing would be detrimental to lower-income families proving businesses and government must work hand in hand to make life better for the average citizen.

Suppose the all-loving government, in its well-known generosity, gave a new expensive vehicle such as a Ferrari F60 America to a poor family. It has a value of \$2.5 million dollars.⁶ Would they likely

ride around in it? They could legally do so, since it would now be owned by them. They would probably not make any such determination. Why not? This is because they could sell it, and with the proceeds purchase two or three cheaper automobiles, plus a home, tuition for their children, music lessons, food, clothing, vacations, etc., all of which, together, would bring them greater satisfaction than that one very luxurious car.

In like manner posit that, somehow, they were made a gift of a large apartment in a public housing project in Manhattan, with a view of the East River. This, too, let us assume, is worth more than \$1 million. Would they reside in it? Probably not. Why not? For the same reasons regarding the luxurious automobile we just gave them. They would, in a word, become “displaced.” But this process would be an entirely voluntary one on their part. They would prefer to sell out rather than remain. They would make way, in the process of gentrification, for a very wealthy family which could reduce commuting costs.⁷ Where would this now ex-poor family end up? Possibly in one of the other four boroughs of New York City, perhaps in nearby Connecticut, or, ugh, even New Joisey.

The point is, these poor people in public housing units in Manhattan are now in effect occupying “Ferrari housing.” They would no more continue to do so than they would keep this luxurious automobile, instead of everything else they could purchase with, gasp!, \$2.5 million. Displacement, whether from the car, or the housing, will not reduce their economic welfare by one iota. Very much the opposite.

⁶ https://driving.ca/auto-news/news/gallery-the-10-most-expensive-cars-in-the-world?gclid=EAIaIqobChMImonbzdC13AIVBqyWCh2j3QKOEAAAYBiAAEgLIovD_BwE&cid=SEARCH%7C-GOOGLE%7CVANCOUVER-DYN%7CPCP&ef_id=WF3K-wAAAHu7zjTU:20180723162135:s

⁷ The lion’s share of this would be the alternative costs of time. The new occupants might be able to earn thousands of dollars per hour while at work, and far less while commuting.

IV. Conclusion

The best way to help the poor is to entirely eliminate rent controls. In that way, there would be more residential rental housing, and, paradoxically, these accommodations would be cheaper, not more expensive. As for public housing, it never should have been started in the first place. It was only begun in response to a rental housing shortage created by rent controls. Ideally, the values embodied in these capital goods should be returned to the long-suffering tax-payers who made these investments possible. However, a politically acceptable policy of ridding the society of these economically illiterate policies might well be the following. Give them to the present tenants, allow them to sell out to others and become “displaced,” while these dwellings come into the hands of those who can afford the “Ferrari housing” that they are, due to location, location, location.

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