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The opening salvo in the next war over rent control

By GREG DAVID on June 7, 2010 10:27 AM | Share | Comments (0) | TrackBacks (0)

The most comprehensive report in years on New York's unique system of rent regulation was issued last week by the Citizens Budget Commission and only *Crain's* and the *New York Observer* took note.

No one should be surprised--rent regulation has never been about the facts but always about the rhetoric.

The [conclusions of the CBC report](#) are quite detailed but the two media reports got to the most important ones. *Crain's* focused on [how rent regulation helps only a small percentage of the poor in the city](#). *The Observer* emphasized [how so much of the benefits of lower rents go to high-income people](#), for whom the public policy rationale for such subsidies remains problematic (and that's a charitable adjective).

In 2000, the noted economist and liberal columnist Paul Krugman took note of a dysfunctional housing market in San Francisco:

“ The analysis of rent control is among the best-understood issues in all of economics, and -- among economists, anyway -- one of the least controversial. In 1992 a poll of the American Economic Association found 93% of its members agreeing that "a ceiling on rents reduces the quality and quantity of housing." Almost every freshman-level textbook contains a case study on rent control, using its known adverse side effects to illustrate the principles of supply and demand. Sky-high rents on uncontrolled apartments, because desperate renters have nowhere to go -- and the absence of new apartment construction, despite those high rents, because landlords fear that controls will be extended? Predictable. Bitter

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relations between tenants and landlords, with an arms race between ever-more ingenious strategies to force tenants out ... and constantly proliferating regulations designed to block those strategies? Predictable.

He ended that column by observing that so-called tenant advocates in San Francisco opposed even a study of the effects of their rent rules.

Just a month ago, the *New York Times* rediscovered this issue in a story about [Portugal's economic woes](#) 🇵🇹. I had no clue that a New York-style rent system was a key part of their problem:

“ The post revolution rules helped protect tenants, but also led to a chronic shortage of rental housing. This, in turn, persuaded a new generation of Portuguese to tap recently into low interest rates and buy instead -- often in new suburbs -- thereby exacerbating the country's mortgage debt and leaving Portugal, at 7.5%, with one of Europe's lowest savings rates.

"This system of controlled rents is a major problem for the Portuguese economy, but we will probably be waiting for a generational change to have room for institutional reform," said Cristina Casalinho, chief economist of Banco BPI, a Portuguese bank. Beyond driving housing credit, she added, the system "basically stops flexibility and mobility in the labor market because you can perhaps find a new job in another city, but it will then be very difficult to rent a house there."

The laws governing rents in New York expire 12 months from now. The Citizens Budget Commission report is the opening salvo in the debate, which will heat up soon when tenant and real estate groups seem commitments from legislative on gubernatorial candidates on how to reform the system.

It's a long shot but, let's hope that rest of the media at that point rouses themselves to focus on the issue, and spends the time to get at the well-known economics of such regulation.

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