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Paul Krugman, You're Wrong About Rent Control (/stories/2015/11/5/1444059/-Paul-Krugman-It-3-You-But-You-re-Wrong-About-Rent-Control)



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#RentControl

- Prevents mass displacement.
- Helps tenants stay and invest in their communities.
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With more and more cities grappling with displacement and rising rents, it's time to implement serious policy solutions to stabilize communities. The myths about on rent control policy and prevent cities from pursuing what is really a moderate and

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reasonable regulation of the largely unregulated private rental market. Unless you think landlords should be able to raise rents however much they want, whenever they want, it's time to take rent control seriously and evaluate it based on the facts.

Even if you haven't taken an Economics 101 class, you may have heard the conventional wisdom that "93% of economists are against rent control." Even our beloved Paul Krugman in 2000 echoed this conventional wisdom (<http://www.nytimes.com/2000/06/07/opinion/reckonings-a-rent-affair.html>), blaming San Francisco's rent ordinance for its housing troubles. You can bet landlords and real estate interests have had a field day citing a progressive economist's criticism of rent control, and his op-ed haunts tenants and affordable housing advocates to this day. Let's unpack the statistic this conventional wisdom comes from: a 1992 survey of US economists in which 93% agreed with the statement "A ceiling on rents reduces the quantity and quality of housing available." [1] Whether this is true or not, by agreeing to this statement economists aren't actually saying they're "against rent control." The framing of this statement does not reflect what rent control actually is in most contexts and it does not ask economists to examine what other factors might impact housing markets.

First, modern rent control laws are not a ceiling on rents. The only true rent ceiling existed in New York City before 1970, and the policy has since been overhauled. As Richard Arnott wrote in his paper "Time for Revisionism on Rent Control" in 1995, "... generalizing from the New York City experience may be more like inferring the effects of a gentle breeze from the ravages of a hurricane." Except during World War II as an emergency measure, no city in California has had or currently has a rent ceiling. Rent control is, in reality, is a "set of regulations governing not only allowable rent increases, but also conversion, maintenance, and landlord-tenant relations" in order to prevent rent-gouging and displacement. [2]

Second, modern rent control has no impact on the construction of new housing. In most places new housing is exempt. In California, units built after 1995 are categorically exempt. With developers falling over themselves to build in San Francisco, the boom and bust cycles of housing construction seem to follow the overall health of the economy rather than any relation to rent control. In Manitoba, which controls rents even after a tenant leaves (known as vacancy control, which is illegal in California), there's a rolling goalpost of new units being exempt from rent control until 20 years after construction.

In a study of the effects of rent control in Manitoba, after over a decade of rent control, "additions to rental stock were higher than the national average on a per capita basis and outstripped the building of condominiums since the mid-1990s, with the construction of new rental units in the province's largest city, Winnipeg, at their highest level in 20 years." [3]

Third, rent control has no impact on the quality of housing available. Modern rent control allows landlords to pass through a percentage of operating and maintenance costs and for capital improvements, if these costs have increased beyond the annual allowable increase. As an advocate for tenants who hears from folks all over the state, most of which do not live in a city with rent control, I know slumlords are a big problem everywhere. While tenants in the big coastal cities face rising rents and displacement, habitability issues are the biggest concern for tenants elsewhere. The culprit for this is usually a city code enforcement agency that neglects to actually cite landlords who violate health and safety housing codes. In contrast, San Francisco and Los Angeles, both cities with rent control ordinances, have some of the strongest code enforcement practices in the state, and have relatively fewer problems with holding slumlords accountable than communities like Fresno.

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San Francisco's rent ordinance is perennially blamed by critics for its high rents. However, rent control doesn't make rents rise, that's like blaming a fire on the presence of a firefighter. It makes sense that expensive cities are the ones that pass rent control – these regulations get considered, passed and retained in response to high prices. When modern rent control laws were first passed in California, they were passed in response to landlords raising prices in response to inflation in 1970s and not lowering them even after the state passed a law giving tax relief to property owners through Prop 13.[3] As well, a recent analysis by Zumper isolated venture capital (<https://www.zumper.com/blog/2015/09/are-venture-capitalists-raising-your-rent/>) as having the most direct affect on rising rents in the Bay Area. It makes sense landlords would try to make as much money as they can by evicting tenants and gouging rent when there is an astronomical amount of money out there floating around. We've seen it happen in North Dakota (<http://thinkprogress.org/climate/2014/02/20/3311551/williston-highest-rent/>). This bears no relation to rent control.

Why not just build-baby-build instead? Trickle-down housing policies don't work when market-rate housing is out-of-reach for most residents. Co Star, a real estate research firm, reported that of 370,000 multi-family rental units completed from 2012 to 2014 in 54 metropolitan areas, 82% were considered "luxury." Luxury housing is the new "market-rate." Building housing for high-income people attracts more high income people, rather than lowering prices to levels affordable to low and moderate income people. In a gentrifying market, demand typically far outpaces what can realistically be built. High-income renters don't just go for newer units, they demand older units too, and are able to outbid lower-income tenants.[4] Many cities without rent control are seeing higher rents on older units and new units are unaffordable. Unfortunately Governor Brown recently vetoed a bill that would help California build more affordable units (<http://asmdc.org/members/a17/news-room/press-releases/statement-by-assemblymember-david-chiu-and-advocates-on-governor-brown-s-veto-of-affordable-housing-bill>).

It's true most rent control laws are better at defending current tenants against rent gouging than keeping overall rents low. In California, this is because it is undermined by state laws like the Ellis Act (1985) and Costa Hawkins Act (1995). Through Ellis Act evictions, thousands of rent-controlled units have been taken off the market and converted to condos. The Costa-Hawkins Act prevents rent control from protecting condos, single-family homes, rentals built after 1995, and allows landlords to charge market rate for new tenants (called vacancy decontrol). The Harvard Law Review singled out vacancy decontrol as an incentive for landlords to harass current rent-controlled tenants in order to make more money on new tenancies. In 2000, the journal of the American Planning Association in 2000 cited vacancy control as essential to preventing displacement. These shortcomings aren't the fault of rent control, but of a State legislature where one of the biggest donors to political campaigns on both sides of the aisle is the California Realtor's Association.

There are 13 cities in California that have had rent control on the books for decades. Despite being under attack, these laws have stood the test of time and stood up to court challenges. With rising rents and displacement, more cities are taking a second look at rent control and strengthening their laws. In July 2015, the first city in 30 years to pass a new rent control law was Richmond, CA in the San Francisco Bay Area (<http://america.aljazeera.com/articles/2015/10/20/rent-control-poised-for-comeback-in-tech-booming-northern-california.html>). San Diego has just cause for eviction on their books, and tenants are clamoring to add rent control policies. Alameda, Santa Rosa, San Mateo, Burlingame and San Jose tenants are pushing for stronger protections. Even in states where residential rent control is illegal like Washington, leadership in Seattle is pushing for commercial rent control (<http://www.seattletimes.com/seattle-news/politics/small-businesses-get-attention-in-seattle-city-council-contest/>).

Today, tenants and advocates are taking action online (<https://twitter.com/hashtag/rentcontrol>) to correct the record on rent control. Momentum is building for this popular policy, and that is not just popular: it's

necessary. As a thoughtful economist, Paul Krugman has changed his views on policies before when provided with new evidence. I hope he takes a second look at rent control and develops a more nuanced view.

1: Alston , Richard M., J R Kearn, and Michael B. Vaughan. 1992. "Is there a consensus among economists in the 1990s?" *American Economic Review* 82(2): 203-209.

2: Arnott, Richard. 1995. "Time for Revisionism on Rent Control?" *The Journal of Economic Perspectives* Vol. 9, No.1: 99-120.

3: Grant, Hugh. 2011. "An Analysis of Manitoba's Rent Regulation Program and the Impact on the Rental Housing Market." *University of Winnipeg, Winnipeg*, 39.

4: Forbes, Jim, and Matthew C. Sheridan. 2004. "The Birth of Rent Control in San Francisco." *San Francisco Apartment Magazine Online*, June. www.sfaa.org/0406forbes.html.

5: The Harvard Law Review Association. 1988. "Reassessing Rent Control: Its Economic Impact in a Gentrifying Housing Market." *Harvard Law Review* Vol. 101, No 8: 1835-1855. Credit to Tenants Together's Policy & Research Intern, Rhonda Smith at UC Berkeley, for digging up the facts on this issue.

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