

IEA

**VERDICT ON
Rent Control**

Essays on the economic
consequences of political action
to restrict rents in five countries

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With an Introduction by F. G. PENNANCE

IEA Readings No.7

INSTITUTE OF ECONOMIC AFFAIRS

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Preface

The *IEA Readings* are designed to accommodate complementary and contrasting approaches to a subject, or contributions on varying aspects of it. The Institute has endeavoured to provide students and teachers of economics, and others, with alternative approaches to public and business policy on a range of subjects.

IEA Readings No. 7 comprises a collection of essays by economists who have become world names since they wrote them at varying dates over the last 45 years. Their methods differ from the rigorously theoretical to the informatively empirical. Their audiences and styles also differ widely but their conclusions are significantly similar.

All the authors are concerned with the effects of attempts to restrict rents below market levels. Professor F. A. Hayek wrote on Vienna in 1929, Professors Milton Friedman and George Stigler on San Francisco and New York in 1946, Count Bertrand de Jouvenel on Paris in 1948, Professor F. W. Paish on England in 1952, and Dr Sven Rydenfelt on Sweden in 1971. They analyse the systems of rent control in their countries, or in parts of them, and so provide not only a series of economic analyses but a periodic portrait of the effects of rent restriction in different countries at different times that form a contribution to economic history.

These essays illustrate not only the consequences of mistaken economic policy but also the failure of government to reverse it when its consequences had become apparent. Although economists have attempted to make a plausible case for application of market processes by government, the politicians' difficulty of repealing legislation that superficially benefits large parts of the population armed with votes is a reason for doubting the wisdom of government obstruction to the working of markets. Long after some countries have loosened or abandoned rent restriction, the expectation that weak governments will restore it often continues to discourage the private investment of capital in building to let (and reinforces the favourable tax treatment of owner-occupiers). The housing markets in all the countries analysed have been distorted and government has had to replace or buttress private building by state—central or local—construction of homes. The long-term merits of these continuing and self-nourishing distortions of the housing market induced by rent restriction are not apparent.

The first major effort by the British Government to thaw out the housing market, frozen for nearly 60 years, apart from limited efforts to make rents flexible in the mid-1950s, is now being made. Its essential aim is to reduce the subsidies in local government housing by encouraging an approach to market rents with rebates for people with low incomes and by introducing cash housing allowances to people with low incomes in private homes, and to assimilate both sectors to each other by making state assistance to low-income families more comparable. Two criticisms can be made of a reform that is commendable in principle. First, it continues to segregate the two groups of tenants by the method of subsidisation (council rent rebates, private rent allowances). Second, it may tend to perpetuate the imperfections in the housing market by relating housing rebates and allowances to rents that are not competitive but that are themselves the product of regulated markets; a more generous and general form of housing allowance related to market rents, coupled with more defensible incentives to home-ownership, might more effectively restore an efficient (and humane) market in rented housing.

On the other hand, the reform is an attempt, the most important in recent years, to replace social benefits in kind by a benefit in cash. The effect will be in time to encourage movement between local government and private housing. But it will also yield lessons in the difficulties that may be encountered elsewhere in replacing kind by cash.

These essays are being published together for the convenience of students and teachers of economics who may wish for evidence of the working of rent restriction in varying social and economic conditions. They should also serve as a warning to economists, sociologists and social workers who think that the best way of helping people with low incomes is to equip them with cheap housing at rents fixed by government, a 'solution' that exacts a savage price to be paid by future generations. They may also provide a message of encouragement to politicians besieged by criticism of other attempts to thaw out the market by reminding them of the consequences of continued restriction: the longer the unavoidably painful process of freeing the market is delayed, the stronger the resistance, the larger the costs of assistance to families that have become accustomed to subsidy, and the more the danger to the political institutions that have shirked the task.

The essays are introduced by Mr F. G. Pennance of the University of Reading, a leading British analyst of the economics of housing. He points to the main implications of the essays and proceeds to discuss how far they have been learned in Britain and how far—or how little—they are

reflected in recent housing legislation. He maintains that, although it is now set on the right path, it has not proceeded very far. And he concludes with what he considers the right policy.

The Institute has to thank the authors and their publishers for permission to reproduce these essays. The publishers are indicated in footnotes attached to the titles of the essays by Professor Hayek, Professors Friedman and Stigler, Professor de Jouvenel, and Professor Paish. The essay by Dr Rydenfelt was written for this *Readings* and has also been published in an earlier version in *Toward Liberty: Essays in Honour of Ludwig von Mises* (Institute for Humane Studies, California, 1971).

The constitution of the Institute requires it to dissociate its trustees, directors and advisers from the conclusions of the economists whose work it publishes. But it has assembled these classic statements on the economics of rent restriction over half a century, as a service to teachers and students of economics, and others more immediately concerned with housing policy, to show that the consequences of destroying the market price for houses are deep-seated, wide-ranging, ubiquitous, difficult to avoid and politically tenacious.

September 1972

ARTHUR SELDON

Introduction

Fifty years, five countries, one lesson

F. G. PENNANCE

Senior Lecturer in Land Economics, University of Reading

The five essays by distinguished economists assembled in this *Readings* span five countries and 50 years of national housing policies. In such circumstances it would hardly be surprising to discern irrelevancies for modern problems or disagreement among the authors on policy issues. On the contrary, the essays are remarkable in two respects: *first*, for their topicality and relevance for current housing policy; *second*, for their broad agreement on the economic effects of rent control.

The lesson

Their common message is simple, but devastating in its criticism of policy. It is that in every country examined, the introduction and continuance of rent control/restriction/regulation has done much more harm than good in rental housing markets—let alone the economy at large—by

perpetuating shortages,
encouraging immobility,
swamping consumer preferences,
fostering dilapidation of housing stocks and eroding production incentives,
distorting land-use patterns and the allocation of scarce resources

—and all in the name of the distributive justice it has manifestly failed to achieve because at best it has been related only randomly to the needs and individual income circumstances of households.

Has it been learned?

It would be comforting to think that the lessons delivered so graphically in these essays had now been learned. Superficially at least, there might appear to be some evidence for this impression. Despite considerable

differences in individual approaches, all five countries appear to have been moving away from the more rigid forms of rent control in favour of more general forms of income supplementation to enable poorer families to enlarge their housing expenditure. The paradox of diametrically opposed policies—first, rent control creating additional demand and reducing available supplies; second, the use of widespread production subsidies to stimulate new building or restoration—is not so blatant as it was 30 years ago. But equally, there is plenty of evidence that the lessons have *not* yet been fully learned. The dilemmas of contradictory policies remain. The refusal to face squarely the fundamental issue of rent control is still piling up trouble for the future.

Post-war de-control—and re-control

The earlier history of British rent restriction is set out in Professor Paish's essay. The main change during the 1950s was the Rent Act of 1957¹ which freed the more expensive properties from control. This experiment in de-control 'from the top' was not repeated. Instead the Rent Act of 1965¹ effectively *reversed* the process. Practically all tenancies of uncontrolled dwellings with a rateable value of £400 or less (in London) or £200 (elsewhere) were given security of tenure similar to that afforded by the old rent control system. The 1965 system introduced a new concept—rent regulation—under which machinery was established for fixing 'fair rents' for regulated dwellings. Application for a 'fair' rent to be determined and registered could be made by a landlord, tenant, or both to the local Rent Officer or, on appeal from his decision, to Rent Assessment Committees. Until such a 'fair' rent had been registered for a dwelling, its rent was effectively pegged at the level obtaining when the Act came into force. A registered 'fair' rent might raise, lower or simply confirm the rent formerly payable; but once fixed it held for three years unless either a new 'fair' rent was applied for jointly by both landlord and tenant or a change in circumstances occurred.

The latest Act—the Housing Finance Act, July 1972—seeks to extend this system by converting both (private) rent-controlled tenancies and local government council tenancies into regulated tenancies at fair rents.² Virtually all rented property is thus now under the umbrella

¹Now consolidated, for England and Wales, in the Rent Act, 1968.

²The Rent Act, 1968, and the Housing Act, 1969, contained provisions for a form of 'creeping decontrol' by transfer of tenancies from control to regulation on change of tenancy, improvement of the property to minimum standards, death of two successive statutory tenants, or by ministerial order.

of rent regulation. The parallel changes in the 1972 Act are a rent allowance payable to private tenants in need (to be financed, initially at least, by the Government) and rent rebates for council tenants in need. Housing subsidies to local authorities, formerly used largely to reduce council rents *indiscriminately*, are reformed to support the grant of rent rebates *according to need* and to stimulate slum clearance.

The explanatory White Paper accompanying the Housing Finance Bill³ recognised the failings of rent control in promoting disrepair and reduction of the available stock of rentable dwellings by accelerated obsolescence and the transfer of homes to the more lucrative sale market. It agreed that

‘rent legislation cannot cure housing shortage. It can only mitigate the effects of shortage by giving comfort to sitting tenants at the expense of prospective tenants’.⁴

Yet it evidently saw no dissonance between these observations and the statement that

‘so long as there is a shortage of dwellings to let, tenants will need to be protected by rent restriction and given security of tenure’.⁴

It saw the ‘fair rent’ system as the lifting mechanism designed to remove the logical *impasse*. This belief was based on the 1971 Report of the Francis Committee, established in 1969 to examine rent regulation, which had offered ‘the general view that the system is working well’.⁵ The rent allowance system would mitigate hardship to needy tenants arising from higher rents.

‘Fair’ rent for Buckingham Palace?

The implication was clearly that the fair rent system, if generalised, was capable of producing investment returns to landlords sufficient to maintain and encourage expansion of the stock of private rentable homes. But no evidence was produced to support this article of faith. Certainly the ‘general view that it is working well’ cannot count as evidence. It is no surprise to find that it ‘works’. Rent Officers are no doubt sensible, hard-working and conscientious. They have a National Association, write papers, hold conferences: in short, they behave

³*Fair Deal for Housing*, Cmnd. 4728, HMSO, July 1971.

⁴*Ibid.*, p.6.

⁵*Report of the Committee on the Rent Acts*, Cmnd. 4609, HMSO, 1971, p.8.

much like other responsible public officers required to produce valuations according to statutory rules. They would probably have no difficulty at all in fixing a 'fair' rent for Buckingham Palace if need be. But this proves nothing except that operational rules can be invented for any situation as long as the operators are under no compulsion to consider the economic facts of life or the effects of their decision.

Confusing the causes

The Report of the Francis Committee was painstaking and thorough: with its appendices it runs to over 500 pages; yet only four of them are devoted to the effect of rent regulation on the availability of homes for renting! Even then, the views expressed were elliptic, to put it mildly:

'... there can be little doubt that the broad picture is a gloomy one. The supply of private unfurnished accommodation for renting is continuing to diminish. It would be wrong to attribute this solely or even mainly to rent regulation. The trend was there before the Rent Act 1965, and indeed before 1957. Neither the Rent Act 1957 nor the Act of 1965 did anything to halt it. The inference seems to be that this trend is largely due to the advantages of, and the widespread desire for, owner-occupation.'⁶

It is of course true that continuing inflation, rising money (and real) incomes, and the substantial tax advantages to mortgagor home-owners would be likely to produce a marked shift to home-ownership from rented homes. But this is a far cry from concluding that rent regulation can be whitewashed. It was responsible for the continuing shrinkage in rentable accommodation. The Francis Committee concluded its four-page review of this crucial issue with a significant table comparing vacancies advertised in the *London Weekly Advertiser* during March 1963 and March 1970. Unfurnished vacancies numbered 767 in 1963 and 66 in 1970. Furnished vacancies increased from 855 to 1,290. Since at that time, as now (for the time being at least), furnished homes represented virtually the only free sector of the rental market, there were obviously forces at work other than an autonomous shift in consumer preferences towards owner-occupation. It is strange that the Francis Committee forebore to draw the obvious conclusion—that rent regulation *had* affected supply.

⁶*Ibid.*, p.82.

The economic fallacy - and economic incest

A 'fair rent', as defined by the statutory rules for determining it, is in effect what the market rent would be if supply and demand for homes in an area were broadly in balance, and taking into account age, character, quality and location. It thus specifically excludes from the reckoning the one economic factor likely to produce any easing of a situation of shortage. A 'fair' rent is therefore by definition a *restricted* rent, except in the peculiar circumstances where it is presumably unnecessary to bother with a fair rent! Unfortunately, there is also an inevitable tendency for 'fair' rents to be determined by the 'fair' rents already established for comparable properties in the area. This form of economic incest is common to most forms of valuation based on statutory rules. What it means in effect is that situations of shortage are not only perpetuated but also likely to be exacerbated unless further compensatory 'rules' are established.

In these circumstances there is little comfort to be drawn from the observed result that many applications to Rent Officers have produced increases in rent. What matters for investment incentives is the return achieved: not whether rent has been increased but by *how much*. A reduction in a rate of slide downhill does nothing much for morale if everyone else is climbing.

Control continues to creep

Moreover, the underlying and ill-formed notion of 'fairness' inevitably leads to extension of the area of control. The establishment of rent allowances for tenants of unfurnished accommodation has produced pressures to extend them to tenants of furnished accommodation, which means that furnished tenancies may eventually be brought into the ambit of rent regulation and 'fair' rent fixing. If this should produce a disincentive to supply furnished lettings, what is a 'fair' share of reduced opportunity worth?

The solution

The aim to relate subsidies to family need rather than indiscriminately to the fortunate occupants of some dwellings is laudable and welcome. With the flexible weapons of rent allowances and rent rebates available to cushion the impact of any marked change on individual family budgets, it is difficult to see what positive merit can possibly lie in the Government's attachment to rent control—even in its new modified

and euphemistic guise of rent 'regulation'. The reply that no other system could have forced local housing authorities to charge more realistic rents is only half an answer.

First, there are many more ways in which councils could have been headed towards market rents—for example, by requiring them to offer long leases and to permit assignment and sub-letting, to offer a proportion of vacant properties for sale by auction, to let new building at not less than full-cost rents, to sell to sitting tenants on request, and by phasing out existing general housing subsidies.

Secondly, the re-organisation of council rents implied by the 1972 Act provisions has generated considerable political opposition and exposed the Government to much odium. The strength of housing authorities' (and tenants') opposition to 'blanket' rules on rent increases suggests that these rules were poor tactics compounding wrong-headed strategy. The crudest cost-benefit analysis suggests that it might have been well worth-while incurring a little more odium (possibly a little less) for the inestimable benefit of a flexible and control-free market in housing for the first time in over half a century. The way would then have been clear to focus much-needed attention on the remaining market-distorting effects of over-subsidised owner-occupation.

As it is, the opportunity has been lost. Rent regulation not only remains: it has been extended and in the absence of a fundamental re-appraisal appears likely to endure. In this kind of climate the message of these essays will continue to be topical and significant.

August 1972

F.G.P.

1. The Repercussions of Rent Restrictions*

F. A. HAYEK

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University of Salzburg*

**This essay has been adapted with the author's permission from a lecture delivered at Königsberg in 1930 and originally published in Schriften des Vereins für Sozialpolitik, 182, (Munich, 1930).*

It was freely translated from German and simplified by several hands, and the final result is a less elegant prose style than the author used later in writing in English.

THE AUTHOR

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Professor Hayek's most important publications include *Monetary Theory and the Trade Cycle* (1933), *The Pure Theory of Capital* (1941), *The Road to Serfdom* (1944), *Individualism and Economic Order* (1948), *The Counter-Revolution of Science* (1952), *The Constitution of Liberty* (1960), and a collection of his writings under the title *Studies in Philosophy, Politics and Economics* (Routledge and Kegan Paul, 1967).

His latest work is a compilation of articles and extracts, together with a new essay, which trace the development of his thought on the causes and consequences of inflation over the last 40 years, published as a Hobart Paperback under the title *A Tiger by the Tail* (Institute of Economic Affairs, 1972). He has also edited several books and has written for the *Economic Journal*, *Economica* and other learned journals throughout the world.

I. INTRODUCTION

The problem of rent control is still frequently judged only in terms of its impact on landlord and tenant, so that other far-reaching repercussions on the whole economic system are largely ignored or underrated. Even when some notice is taken of them, a distorted and sometimes totally false view spills over from popular misconceptions even into learned debates. It is here that some drastic re-thinking is needed.

What I shall try to do, therefore, is to deal in turn with the major consequences of statutory rent restrictions and the reduction of rents below market prices through the government financing of building construction. I shall start with their impact on the general supply of accommodation to rent and on the main types of dwellings, then go on to consider their effects on how the supply is distributed among people in search of a home, on income distribution and on the pattern of production in general, with particular reference to the supply of capital and the effect on wage levels. My terms of reference require me to concentrate entirely on the control of domestic rents, without going into the closely-related and most important question of the impact of rent regulation on business premises, which I have previously discussed in a similar context.¹

If my account of the impact of rent restrictions seems exaggerated in any particular, I would emphasise that my thoughts are attuned to the Viennese scene. The ways in which these conditions differ from those in Germany are well known. The best way to dramatise this contrast is by pointing out that it will be another two years before the average Viennese rent reaches a temporary peak equivalent to 30 per cent of pre-war rents, despite there being at present no government powers to allocate or assign accommodation, in brief, no thorough-going state control.

Even so, I believe my principal reflections to be equally valid in a German context. Basically, deductions which can more easily be drawn from Vienna than elsewhere must also hold good where less severe forms of rent restriction are practised. The theory can be worked out by pure reason; all that Vienna provides is a convenient source of illustration. Far from exaggerating the consequences, they would be still more striking were it not for the decline in Vienna's population.

¹F. A. Hayek, 'Das Mieterschutzproblem: Nationalökonomische Betrachtungen', *Bibliothek für Volkswirtschaft und Politik*, No. 2, Vienna, 1929. To a large extent the paper which follows is based on the earlier, more detailed study.

II. THE UNIQUE CHARACTERISTIC OF HOUSING

A unique feature of price control in housing compared with that in other goods and services is that war-time housing regulations have been retained and enforced ever since. The reason is not that housing is more 'necessary' than, say, food, nor that it has become harder or more costly to supply than other necessities, but simply that, unlike almost all other consumer goods, it is a *durable* commodity which, once produced, remains available for many decades and is therefore in some ways more vulnerable to state control than, say, bacon or potatoes.

It is precisely because of this unique feature of housing that the most unwelcome of all the effects of price-pegging, its effect on supply, is neither generally felt nor even generally recognised. We are faced with the problem of evaluating the significance of rent controls not merely as temporary but as permanent expedients. On a shorter view we could allow ourselves to assess their effects on the distribution and enlargement of the existing housing *stock*. Instead we must tackle the underlying problem, that of meeting *indefinitely* an emergent demand for homes at repressed rents.

Elasticities of demand and supply

We pay too little attention to the phenomenal rise in demand for homes which must occur every time rents fall below the level at which they would settle in an unfettered market. It is not merely a matter of the undoubted elasticity of demand in the housing market, reacting as it does every time lower building costs enable rents to be reduced with a corresponding rise in demand. The housing shortage which inevitably follows every statutory limitation of rent levels is directly related to the difficulty of finding new accommodation. It turns the occupation of a dwelling into a capital asset and encourages a tenant to hang on to his home even when he would surrender it at the reduced price provided he could be sure of finding another home when he wanted one.

In these circumstances a large unsatisfied demand for housing was obviously bound to emerge even without an increase in population, and the only way to bridge this gap was by the government financing of house-building. When, as in Vienna and Austria generally, there is in addition a big difference between statutory rents and rents which would prevail in the open market, the prospect of fully satisfying the demand for homes at depressed rents seems totally illusory. Despite a

decline in population of one-seventh and an increase in housing stock of something like one-tenth (there are no reliable figures), no-one can pretend that the demand for housing is less than it was. That depressed rents are largely responsible for the increased demand for homes in Germany as well, and that the current housing shortage is to that extent a product of rent restriction, can also be seen from the decline in population density in almost every city in the country since the war. I shall return to the changing contemporary significance of such estimates of average population density.

Government supply in long run

Over and above this supply gap, which can be met only by government (or municipal) building schemes, we have to take into account the demands generated by population expansion, and further—and here are the basic problems of housing controls as a permanent institution—the whole range of demand created by the misallocation of the available stock of rentable accommodation. State control as an *emergency* measure could jog along contentedly enough with new building intended to supplement the housing stock built by private enterprise. In the *long term*, however, if public finance is being used to build homes the demand for which has increased due to a lowering of rents, it will ultimately have to be applied to *all* new building of houses to let. Hence—and the literature on the subject shows that this is worth emphasising—it is not enough to build publicly-financed homes in the hope that they will constitute an *additional* supply; if the aim is to keep rents *permanently* depressed, then for as long as rents are held below market rates it will be necessary to use public money to provide the *total* supply.

This development not only raises complex financial questions. Very few government authorities will want to assume responsibility in this way for all types of housing. In general, it will prove necessary to limit government building to the more modest types of dwelling, with the natural corollary that they will be the only types to enjoy rent protection. Limiting the applicability of rent regulations in this way to particular classes of dwellings, however, gives rise to other difficulties too often overlooked. For if public building operations and the supply of below-cost homes are to be confined, as they must be, to the classes of dwelling for which society is prepared to shoulder full responsibility indefinitely, they must also inevitably cater for the social class whose lot society wishes to ease, and not for the better-off. Hence it is futile to think that resources currently deemed appropriate to public expendi-

ture on building can be used both to make up the short-fall of homes for the poorest sections of the community and *at the same time* to erect homes of better than average quality for the majority of the population. Better standards can be achieved with public funds (where there is sufficient surplus finance) to put up a number of model homes. But every attempt to depress rents even in this latter category below the levels required to pay off capital and interest will founder, unless there is available enough public money to meet the demand for all housing in this class indefinitely.

It is worth noting an unfortunate side-effect of some significance which will occur even when government finance is confined to building homes for the poorest sections, that is, those whose needs alone it can hope to satisfy. I refer to the relatively large gap that will emerge between rents for the best housing that government money can build and for the privately-constructed alternative. A large number of people will therefore inevitably settle for a home of poorer quality than they would have occupied if rents had shown a smooth progression instead of such a disproportionate variation.

III. EFFECTS ON DISTRIBUTION

So much for the ways in which rent restrictions affect the quantity and composition of available housing. How do they affect its distribution? Most experts have gone no further than to repeat and briefly illustrate the *cliché* that housing conditions are 'fossilised' by rent controls. An associated phenomenon seems to account for most of the 'far-reaching effects' I have mentioned.

The assumption of this further argument is that rent regulations will continue as at present for homes of all classes, and that the housing shortage created by rent restriction will inevitably persist. While this situation continues, the attitude to changing circumstances of anyone with a low-rental home will be governed by the conditions before rent regulation came into force. Clearly, such a distribution of available homes to rent, understandable though it may be on historical grounds, must conform less and less to diverse changing needs the longer the controls have been in force. Clearly, also, the implications of such a limitation for the mobility of manpower must be harmful.

Extent of 'fossilisation'

Before I examine these implications, however, I should first like to consider the true extent of this 'fossilisation', and where we should look for a thaw, if any. Some adjustment is made, for example, when

the occupier of a controlled tenancy sub-lets or 'sells' his tenancy (in fact if not in law); in other words, when he transmits his controlled tenancy in exchange for money, and in cases—and these are in the majority—where an exchange takes place between two homes of different standards. For reasons explained, by no means all the tenants who would take smaller homes, given the chance under free market rents, will sub-let the corresponding portion of their existing dwellings or welcome an exchange. The only possible result is that a proportionately smaller share of the housing stock becomes available to those who must depend on satisfying their requirements by sub-renting, buying, or exchanging property than if they were competing freely for their share with all the other home-seekers on the open market.

Thus the interplay between supply and demand must be weighted against the tenant in those partial markets where prices are free and here too rents demanded will be higher than in an open market. The growing section of the community which neither enjoys controlled tenancies nor is catered for by government-financed building is thus worse off than if there were no protective legislation at all. In practice this means that many younger people pay a form of tribute to their elders still living in their pre-war homes; and this subsidy may amount to more than the rent they would be paying a landlord if there were no controlled tenancies.

In practice very few can avail themselves of this means of restoring mobility, and it therefore plays only a minor role. For the majority, it is a harsh and rigid fact of life that tenants cling to their dwellings, thereby preventing the adaptation of housing on offer to changing requirements in terms of size, position and standards. As a result, while there are isolated instances of population densities so divergent as to make a mockery of statistical averages, there are disproportionately more acute housing shortages where average densities are truly comparable, that is, where the number of homes on offer is comparable, than there would be in the open market.

Immobilising labour

The restrictions on the mobility of manpower caused by rent controls mean not only that available accommodation is badly used to satisfy diverse housing requirements. They also have implications for the deployment and recruitment of labour to which too little attention is paid.

In normal times regional switches in industrial manpower requirements entail considerable labour migration and, despite the unusually

large changes in industry in the past decade, migrations have been blocked by rent controls. Left to itself, and given an unfettered wage structure, this immobility would prevent wages in different regions from evening themselves out, and cause marked variations between the regions.

As things stand, however, collectively-negotiated wage settlements largely rule out such variations, and two other results therefore follow. First, the wage-earner will choose to commute rather than move whenever his new place of work is within reach of his home, either on a daily or a weekly basis, even though he may find this mode of living by no means satisfactory. The wage-earner who is prevented from moving will have to spend extra time and money, which represent a cut in pay, further aggravated because regional differences have been eliminated. From the economic standpoint, this and all other expenditures incurred by people because they are 'wedded' to their homes are downright wasteful. B. Kautsky² points out that the cause of Vienna's increased tram traffic, which doubled between 1913 and 1928 at a time of diminishing population, can only have been this inhibited mobility. P. Vas,³ admittedly with some exaggeration, estimates that 'the additional fares squeezed out of the Viennese public by rent control alone' amounted to at least two-thirds of the annual outlay on new building in the city.

Commuting or unemployment?

Commuting, however, is not always a feasible alternative to moving house, and if it is not, the result is unemployment. Joseph Schumpeter, writing in *Deutsche Volkswirt*, once gave forceful expression to the importance of the correlation between lack of mobility of labour and unemployment, an importance which cannot be rated too highly. I shall merely mention one example of it which came to my notice recently.

A manufacturer of my acquaintance with a factory in a small town some five hours from Vienna and an office in Vienna itself went to the labour exchange in Vienna to ask for an electrical fitter for his provincial factory. Twenty or so fitters, some of whom had been out of work for a long time, applied for the vacancy, but every one of them withdrew rather than give up a protected tenancy in Vienna for

²B. Kautsky, *Schriften des Vereins für Sozialpolitik*, 177 III, 1930, p. 70 *et seq.*

³P. Vas, *Die Wiener Wohnungszwangswirtschaft von 1917-1927*, Jena, 1928, p. 35.

unprotected works accommodation. Weeks later the industrialist had still not found his fitter. Every manufacturer in Austria with a factory outside the main industrial centres can tell you countless similar stories.

I would almost go as far as to say that when the reduced rents policy succeeds in providing low-cost homes for *all-comers* the repercussions will be even more disastrous. We should not forget that city-dwellers, who form the bulk of those living in rented accommodation, are not the only ones who move. Every successful attempt to provide low-cost rented accommodation in an urban area must also accentuate the drift from the countryside to the towns. No-one would wish, whether for economic or for social reasons, artificially to encourage the growth of mammoth cities. Yet such is the inevitable consequence of inhibiting rent increases which act as a useful brake on this drift to the towns. The greatest harm must come from aiding it in boom periods, as unemployment must inevitably shoot up in any subsequent recession. In practice, even when rents have been buoyed up by a flourishing economy, this has also had its good side.

Incidentally, it is questionable, to put it no stronger, whether one should set out to make it easier for the poorer sections of the community to have children at the expense of the more prosperous, or to improve the lot of the urban population at the expense of the rural. Yet this is the inevitable outcome of a policy of federal or provincial subsidies which aid city growth and prevent the size of households from adjusting naturally to incomes.

(There is one last aspect closely connected with the wasteful distribution of available accommodation: the way it obscures genuine trends in demand both for location and quality. I deal with it below.)

Effect on income distribution

There is only one more point I should like to consider fully about the effects of rent restrictions on income distribution: their effect on wage levels. On no subject is there more muddled thinking. Intractable this problem in analysis may be, especially allowing for the indirect effects, but it is nonetheless vital to show how groundless is the popular belief that rent protection results in lower wages. It is astonishing to see even Pribram,⁴ in his contribution to the earlier literature on the

⁴Pribram, *Schriften des Vereins für Sozialpolitik*, 177, 1, 1930, p. 48.

subject, propounding this belief as self-evident, with no attempt at substantiation.

What I have in mind are wage levels relative to other values, not increases in purchasing power for the individual wage-earner relative to the cost of housing. One can understand the lay person construing the proposition 'If I have to pay more in rent then I must be paid more in wages' as meaning that higher wages must follow in the wake of higher rents. But an economist who comes to this conclusion must suddenly have abandoned his scientific thought processes. Pribram's remarks indeed show this clearly, for he writes:

'since...after controlled rents had been *adjusted* by law to wages... statutory rights and not economic justice were what *determined* rents, all those commodities in whose cost wages were a component went down in price...'

This passage suffices to show that Pribram has decided not to analyse wage formation, on the ground that there is no need for it, and to substitute a notional 'just' wage. Indeed this is the only way his argument can be made to hang together; yet on it is based the popularly-held belief in the efficacy of rent control as a stimulus to production.

In my own mind I am clear beyond all doubt that a cost theory such as Pribram probably has in mind, even as a relatively short-term expedient tailored to fit the present circumstances, does not stand up to the evidence. If we appraise the present state of the labour market, ruled as it is by collective bargaining, our starting point is that to every wage bracket there corresponds a given number of wage-earners. It follows that the scale of wage increases the unions can push through depends on the strength of 'workers' solidarity', that is, on whether unemployment benefit is generous enough to deter those who would be priced out of their jobs from accepting work for less than the new rates. There is no need to point out that even if rents were higher industry could not employ more than a given number of work-people within a given wage bracket. Nor should it be assumed that an all-round increase in rents and other prices would substantially alter the position of the unions.

Conversely, what is certain is that to an unemployed worker a controlled tenancy is the equivalent of a substantially higher unemployment benefit. In other words, rent controls have the same effect as a rise in unemployment benefit in reducing pressure on the labour market from the unemployed. Accordingly, it can be argued more forcefully that wages are *raised* rather than restrained by rent control - and that this is more important than its effect on the supply of workers.

Admittedly this applies only if there is an all-round increase in rents and all other prices, and it is probable that, if rents were suddenly to soar, as they would do if controls were abruptly lifted, such a psychological change would come over the working population that the unions might venture to press wage claims leading to a rate of unemployment higher than would previously have been tolerated. However, this has nothing in common with the generally accepted view that rent controls help to keep production costs down.

Indirect effects on demand

Moreover, the direct effects of rent controls on the supply of manpower through their influence on wages are grossly exaggerated, in whichever direction one believes them to operate.

A far larger role is played by specific indirect effects on demand, which influence industry's ability to pay higher wages. This form of wage-pegging, which is ultimately due to rent control, is totally different from its depressant effect on wages, which has been given such prominence, and can only be regarded as harmful. The effects I have in mind are principally those which come into play in a rather round-about way, *via* the investment of capital. They are reinforced by a host of other uneconomic practices, some already touched on and some that remain to be mentioned, such as the distortions and inefficient deployment of available productive resources which rent control brings in its wake; such practices inevitably bring down the demand price of human labour.

IV. EFFECT ON SUPPLY OF CAPITAL FOR INVESTMENT

Current housing policies affect the supply of investment capital to the economy in two ways. First, the supply of new capital is reduced because income from housing is insufficient to repay existing loans. This is of much importance to industry, since in present circumstances a good deal of this amortisation would not have been ploughed back into housing but would have become available to the rest of the economy, at least for a transitional period. Second, and more important, as a result of public building schemes immense sums were used at one time for purposes other than those best designed to increase human productivity, that is, those which would have been served in the normal course of events but for the housing policies followed.

Public building investment distorts resource allocation

The importance of the absorption of resources by public building is best shown by comparing the amount spent in Vienna alone on domestic building (at least 700 million schillings) with the market value of Austria's entire share capital as quoted on the Vienna Stock Exchange which, the Austrian Institute for Market Research has calculated, amounted to 961 million schillings in 1929. Given the subsequent 25 per cent drop in share prices, the total value cannot now be much over 700 million schillings.

Even so we are very far from having bridged the housing 'gap'. Can one doubt that, allowing for federal and provincial expenditure on domestic housing and for all the administrative expenses of operating the present policy, an outlay which exceeds the total value of Austria's industrial investment capital must have major repercussions? Even assuming that, after taxation, only part of this capital would have gone to industry, this state of affairs cannot fail to affect human productivity, and hence wage levels.

When we try to assess this deployment of capital, or indeed to assess housing policies as a whole, our attitude to one question is crucial. Anyone who believes that the economic difficulties, especially the heavy unemployment, of the post-war period can successfully be combatted by stimulating consumption, that there is no shortage of the means of consumption but that the obstacle to the fullest use of available resources is that consumers' incomes are too low, and who consequently looks to public works of every kind to tone up the economy in the long term, takes a more benign view than I do of the present outlay on housing and the tendency inherent in present-day housing policies to push up consumption at the expense of capital formation.

There is unfortunately no space for a criticism of this most dangerous of the prevalent errors of economic theory which, originating in America, is steadily gaining more ground.

Homes not provided for the right people

Quite apart from the repercussions of draining off capital from other sectors of the economy, a further question is whether the present outlay on housing succeeds in satisfying housing requirements as well under the present restrictive system as would an identical outlay under a free market system.

This brings me to the question postponed earlier, and by the same

token to one of the gravest problems of present housing policies. For what we saw earlier of the uneconomic distribution of existing accommodation applies with equal force to building operations with no free market prices to guide them. My argument is in no way affected should rent restrictions not be applied to new building. It is rather that the needs of those who happen not to have any accommodation at present and who accordingly head the queue for new construction do not coincide with the needs which would come to light if existing accommodation were distributed rationally. It would make sounder sense to apportion some of the available accommodation among the homeless, and to build new homes on a completely different pattern and in different areas, that is, homes for which real demand exceeds supply.

At present we really have no idea how much housing is required, of what size, or where. So instead of building with a view to supplementing the existing range of homes, we carry on as if new home-seekers had no interest whatever in existing accommodation, and as if the housing needs of tenants in controlled dwellings were immutably fixed for all time. For example, suppose that quite fortuitously a rural or urban district has a number of young couples looking for homes; in present circumstances homes will be built even though far more people are already living there than want to do so and even though the homes required would soon become available if mobility were restored. Alternatively, homes may be built for families with children simply because there are many such families without suitable accommodation; but at the same time there may be many older couples occupying homes which no longer correspond to their needs and which would be suitable for families.

The tremendous waste entailed in such arbitrary building must call seriously in doubt the proposition, partly supported by C. Kruschwitz,⁵ that rent restrictions should only be abolished when supply and demand have balanced themselves out; indeed it leads us to question the very idea that this balance can ever be achieved in such conditions. Before the war, that is, independently of restrictive legislation, Adolf Weber noted that

‘the basic cause of housing difficulties is . . . the variance between the extreme flexibility of present-day economic relationships and the rigidity of the housing market’.⁶

⁵Carl Kruschwitz, *Schriften des Vereins für Sozialpolitik*, 177, 1, 1930, p. 48.

⁶Adolf Weber, *Die Wohnungsproduktion*, Tübingen, 1914, p. 354.

Do we really stand a chance of eliminating our present housing shortage while we persist in denying even to new building the possibility of responding to changing needs?

Value of theoretical analysis

The specific object of my paper was to give a systematic picture of the repercussions of restrictive rent legislation. If this account seems to boil down to a catalogue of iniquities to be laid at the door of rent control, that is no mere coincidence, but inevitable because it stems from both a theoretical and a liberal treatment of the problem, which are one and the same. For I doubt very much whether theoretical research into the same problems carried out by someone of a different politico-economic persuasion than myself could lead to different conclusions. Therefore, if theory brings to light nothing but unfavourable conclusions, it must indicate that though the immediate benefits of rent control, for which it was introduced in the first place, are obvious to everyone, theory is needed to uncover the unintentional consequences which intervention brings in its wake.

That these unlooked-for consequences are incidentally unwelcome should surprise no one. Everyone is naturally at liberty to weigh for himself the benign against the damaging consequences of rent control. Nor is recognition of the damaging consequences in itself tantamount to opposition to rent control. What *is* necessary is to know them for what they are before venturing an opinion for or against.

However if in my concluding remarks I am to draw any lessons for future policy from our investigations, then I am bound to say that, having weighed the advantages against the drawbacks, I have come to the conclusion that the indispensable condition for an escape from our present troubles is a speedy return to an open market in housing.

V. TRANSITION TO AN OPEN MARKET

Even so, given agreement on that ultimate goal, we are still left with the question of how best to use our knowledge of present conditions to regulate the transitional period. A conviction that an open market is *per se* the most desirable condition is of course far from an assertion that the immediate abolition of rent control as things are is the most effective method of achieving it.

Dangers of sudden lifting of controls

Indeed, precisely because rent control means so much more than that tenants pay less rent than they would do otherwise, because it means

that available accommodation is distributed quite differently from the way it would be in an open market, it follows that the freeing of the market would not only bring an extra charge on the tenant but also cause changes in the pattern of distribution.

Were controls to be lifted suddenly, these changes would inevitably take place on such a scale that the market would be utterly disorganised, with all the resulting dangers. It would suddenly become apparent not only that there was a serious imbalance between supply and demand, but also that prices for a particular kind of home in particular localities had risen out of all proportion to their value. The worst of the pressure would doubtless fall on small dwellings, as the demand for them by people obliged to leave their larger homes owing to rent increases would be considerably higher than the demand from those with the means to move into the relatively cheaper larger homes thus vacated. This pressure would be aggravated by the absence of a ceiling on rents. Attempts would undoubtedly be made to push rents up to grotesque levels, and in the initial confusion they would probably succeed.

In my view, the remedy is not to raise rents gradually, as is generally suggested, up to the critical point, by which I mean the point which would establish prices on the open market, and thus harmonise supply and demand, which would provide freedom of movement, and which would be reached virtually instantaneously. For the transition to go through smoothly, some prior correction of existing distribution patterns is called for.

The only solution I can envisage is to try to create as large an open market as possible alongside a temporary retention of controls in specific cases. In other words, the proposal is progressively to enlarge as far as possible the existing free-market sector catering for non-controlled tenancies, sub-letting and home-buying. A basis for this already exists since, as explained earlier, an ever-increasing proportion of the population no longer enjoys the benefits of rent control. What is now needed is to block the transfer of protection, so that new home-seekers start off on the right footing, thus avoiding misdirection of future demand and also putting the maximum number of existing dwellings on the free market, but without creating a new demand by the eviction of tenants.

I hope this basic outline of the subject will be found adequate. It leaves me free to indicate in 'verbal shorthand' those measures which I think offer the best hope of achieving this end.

Practical measures

Plainly the first step must be to detach tenancy protection from *property* and attach it to *persons*, by which I mean to an occupier or his *bona fide* dependents. The inheritance or transmission of a protected *tenancy* would then cease. The next stage would be to remove controls from the largest dwellings, followed by dwellings large in relation to family size, and lastly from homes previously sub-let or sub-divided, when a landlord chooses to divide up a building rather than to let it as a self-contained unit. The conversion into flats of existing large dwellings ought to be especially encouraged, although probably little encouragement would be needed to persuade landlords to let freely part of a building formerly wholly subject to rent control. The supply of homes could be speeded up by the imposition of a tax or similar levy on the rental income not only of occupied but also of unoccupied property. Another move designed to ease the tenant's position transitionally *vis-à-vis* the market in the face of legislation weighted in favour of the landlord would be to require landlords to give long notice periods, while allowing tenants to give shorter ones.

What is of supreme importance, however, is that all subsequent building operations should align their prices with the rents which emerge from these partial markets. With this in view some public aid might need to be given to building merely to stop rents in particular areas and for certain types of housing from rising above the levels to which private enterprise building could ultimately be expected to bring them.

Even so, money from whatever source should be applied only where at least a market return on investment is to be expected, and when public money is used the rents asked should be no lower than foreseeable average rents after the abolition of rent control. And if, in order to keep rents down, public money is to be used at all, the lesson we must draw is that it should be used exclusively to build the very smallest and cheapest of homes.

2. Roofs or Ceilings?*

The Current Housing Problem

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I. THE BACKGROUND

The San Francisco earthquake of 18 April, 1906, was followed by great fires which in three days utterly destroyed 3,400 acres of buildings in the heart of the city.

Maj. Gen. Greely, commander of the Federal troops in the area, described the situation in these terms:

‘Not a hotel of note or importance was left standing. The great apartment houses had vanished . . . Two hundred and twenty-five thousand people were . . . homeless’.

In addition, the earthquake damaged or destroyed many other homes.

Thus a city of about 400,000 lost more than half of its housing facilities in three days.

Various factors mitigated the acute shortage of housing. Many people temporarily left the city—one estimate is as high as 75,000. Temporary camps and shelters were established and at their peak, in the summer of 1906, cared for about 30,000 people. New construction proceeded rapidly.

However, after the disaster, it was necessary for many months for perhaps one-fifth of the city’s former population to be absorbed into the remaining half of the housing facilities. In other words, each remaining house on average had to shelter 40 per cent more people.

Yet when one turns to the *San Francisco Chronicle* of 24 May, 1906—the first available issue after the earthquake—*there is not a single mention of a housing shortage!* The classified advertisements listed 64 offers (some for more than one dwelling) of flats and houses for rent, and 19 of houses for sale, against 5 advertisements of flats or houses wanted. Then and thereafter a considerable number of all types of accommodation except hotel rooms were offered for rent.

Rationing by rents or chance?

Forty years later another housing shortage descended on San Francisco. This time the shortage was nation-wide. The situation in San Francisco was not the worst in the nation, but because of the migration westward it was worse than average. In 1940, the population of 635,000 had no shortage of housing, in the sense that only 93 per cent of the dwelling units were occupied. By 1946 the population had increased by at most a third—about 200,000. Meanwhile the number of dwelling units had increased by at least a fifth.

Therefore, the city was being asked to shelter 10 per cent more people in each dwelling-unit than before the war. One might say that the shortage in 1946 was one-quarter as acute as in 1906, when each remaining dwelling-unit had to shelter 40 per cent more people than before the earthquake.

In 1946, however, the housing shortage did not pass unnoticed by the *Chronicle* or by others. On 8 January the California state legislature was convened and the Governor listed the housing shortage as 'the most critical problem facing California'. During the first five days of the year there were altogether only four advertisements offering houses or apartments for rent, as compared with 64 in one day in May 1906, and nine advertisements offering to exchange quarters in San Francisco for quarters elsewhere. But in 1946 there were 30 advertisements per day by persons wanting to rent houses or apartments, against only five in 1906 after the great disaster. During this same period in 1946, there were about 60 advertisements per day of houses for sale, as against 19 in 1906.

In both 1906 and 1946, San Francisco was faced with the problem that now confronts the entire nation: how can a relatively fixed amount of housing be divided (that is, rationed) among people who wish much more until new construction can fill the gap? In 1906 the rationing was done by higher rents. In 1946, the use of higher rents to ration housing has been made illegal by the imposition of rent ceilings, and the rationing is by chance and favouritism. A third possibility would be for OPA to undertake the rationing.

What are the comparative merits of these three methods?

II. THE 1906 METHOD: PRICE RATIONING

War experience has led many people to think of rationing as equivalent to OPA forms, coupons, and orders.

But this is a superficial view; everything that is not as abundant as air or sunlight must, in a sense, be rationed. That is, whenever people want more of something than can be had for the asking, whether bread, theatre tickets, blankets, or haircuts, there must be some way of determining how it shall be distributed among those who want it.

Our normal peace-time basis of rationing has been the method of the auction sale. If demand for anything increases, competition among buyers tends to raise its price. The rise in price causes buyers to use the article more sparingly, carefully, and economically, and thereby

reduces consumption to the supply. At the same time, the rise in price encourages producers to expand output. Similarly, if the demand for any article decreases, the price tends to fall, expanding consumption to the supply and discouraging output.

In 1906 San Francisco used this free-market method to deal with its housing problems, with a consequent rise of rents. Yet, although rents were higher than before the earthquake, it is cruel to present-day house seekers to quote a 1906 post-disaster advertisement:

‘Six-room house and bath, with 2 additional rooms in basement having fire-places, nicely furnished; fine piano; . . . \$45’.

The advantages of rationing by higher rents are clear from our example:

1. In a free market, there is always some housing immediately available for rent—at all rent levels.
2. The bidding up of rents forces some people to economise on space. *Until there is sufficient new construction, this doubling up is the only solution.*
3. The high rents act as a strong stimulus to new construction.
4. No complex, expensive, and expansive machinery is necessary. The rationing is conducted quietly and impersonally through the price system.

The full significance of these advantages will be clearer when we have considered the alternatives.

Objections to price rationing

Against these merits, which before the war were scarcely questioned in the United States, three offsetting objections are now raised.

(a) The first objection is usually stated in this form: ‘The rich will get all the housing, and the poor none’.

This objection is false: *At all times during the acute shortage in 1906 inexpensive flats and houses were available.* What is true is that, under free-market conditions, the better quarters will go to those who pay more, either because they have larger incomes or more wealth, or because they prefer better housing to, say, better automobiles.

But this fact has no more relation to the housing problem of today than to that of 1940. In fact, if inequality of income and wealth among

individuals justifies rent controls now, it provided an even stronger reason for such controls in 1940. The danger, if any, that the rich would get all the housing was even greater then than now.

Each person or family is now using at least as much housing space, on the average, as before the war (below, p. 29). Furthermore, the total income of the nation is now distributed more equally among the nation's families than before the war. Therefore, *if rents were freed from legal control and left to seek their own levels, as much housing as was occupied before the war would be distributed more equally than it was then.*

That better quarters go under free-market conditions to those who have larger incomes or more wealth is, if anything, simply a reason for taking long-term measures to reduce the inequality of income and wealth. For those, like us, who would like even more equality than there is at present, not just for housing but for all products, it is surely better to attack directly existing inequalities in income and wealth at their source than to ration each of the hundreds of commodities and services that compose our standard of living. It is the height of folly to permit individuals to receive unequal money-incomes and then to take elaborate and costly measures to prevent them from using their incomes.

(b) The second objection often raised to removing rent controls is that landlords would benefit. Rents would certainly rise, except in the so-called black market; and so would the incomes of landlords. But is this an objection? Some groups will gain under any system of rationing, and it is certainly true that urban residential landlords have benefited less than almost any other large group from the war expansion.

The ultimate solution of the housing shortage must come through new construction. Much of this new construction will be for owner-occupancy. But many persons prefer to or must live in rented properties. Increase or improvement of housing for such persons depends in large part on the construction of new properties to rent. It is an odd way to encourage new rental construction (that is, becoming a landlord) by grudging enterprising builders an attractive return.

(c) The third current objection to a free market in housing is that a rise in rents means an inflation, or leads to one.

But price inflation is a rise of many individual prices, and it is much simpler to attack the threat at its source, which is the increased family income and liquid resources that finance the increased spending on

almost everything. Heavy taxation,¹ governmental economies, and control of the stock of money are the fundamental weapons to fight inflation. Tinkering with millions of individual prices—the rent of house A in San Francisco, the price of steak B in Chicago, the price of suit C in New York—means dealing clumsily and ineffectively with the symptoms and results of inflation instead of its real causes.

Yet, it will be said, we are not invoking fiscal and monetary controls, and are not likely to do so, so the removal of rent ceilings *will*, in practice, incite wage and then price increases—the familiar inflationary spiral. We do not dispute that this position is tenable, but is it convincing? To answer, we must, on the one hand, appraise the costs of continued rent control, and, on the other, the probable additional contribution to inflation from a removal of rent controls. We shall discuss the costs of the present system next, and in the conclusion briefly appraise the inflationary threat of higher rents.

The present rationing of houses for sale

The absence of a ceiling on the selling price of housing means that at present homes occupied by their owners are being rationed by the 1906 method—to the highest bidder. The selling price of houses is rising as the large and increasing demand encounters the relatively fixed supply. Consequently, many a landlord is deciding that it is better to sell at the inflated market price than to rent at a fixed ceiling price.

The ceiling on rents, therefore, means that an increasing fraction of all housing is being put on the market for owner-occupation, and that rentals are becoming almost impossible to find, at least at the legal rents. In 1906, when both rents and selling prices were free to rise, the *San Francisco Chronicle* listed three 'houses for sale' for every 10 'houses or apartments for rent'. In 1946, under rent control, about 730 'houses for sale' were listed for every 10 'houses or apartments for rent'.

The free market in houses for sale therefore permits a man who has enough capital to make the down-payment on a house to solve his problem by purchase. Often this means that he must go heavily into debt, and that he puts into the down-payment what he would have preferred to spend in other ways.

¹This may have been true in the USA of 1946. There is increasing doubt whether it is true in the Britain of 1972 if high taxes reduce 'take-home' pay and encourage strong trade unions to demand large increases that monetary expansion enables employers to grant. [Ed.]

Nevertheless, the man who has money will find plenty of houses—and attractive ones at that—to buy. The prices will be high—but that is the reason houses are available. He is likely to end up with less desirable housing, furnishings, and other things than he would like, or than his memories of pre-war prices had led him to hope he might get, but at least he will have a roof over his family.

The methods of rent control used in 1946, therefore, do not avoid one of the chief criticisms directed against rationing by higher rents—that the rich have an advantage in satisfying their housing needs. Indeed, the 1946 methods make this condition worse. By encouraging existing renters to use space freely and compelling many to borrow and buy who would prefer to rent, present methods make the price rise in houses-for-sale larger than it would be if there were no rent controls.

One way to avoid giving persons with capital first claim to an increasing share of housing would be to impose a ceiling on the selling price of houses. This would reduce still further the area of price rationing and correspondingly extend present rent-control methods of rationing rental property. This might be a wise move *if* the present method of rationing rented dwellings were satisfactory.

But what is the situation of the man who wishes to rent?

III. THE 1946 METHOD: RATIONING BY CHANCE AND FAVOURITISM

The prospective renter is in a position very different from that of the man who is willing to buy. If he can find accommodation, he may pay a 'reasonable', that is, pre-war rent. But unless he is willing to pay a considerable sum on the side—for 'furniture' or in some other devious manner—he is not likely to find anything to rent.

The legal ceilings on rents are the reason why there are so few places for rent. National money-income has doubled, so that most individuals and families are receiving far higher money-incomes than before the war. They are thus able to pay substantially higher rents than before the war, yet legally they need pay no more; they are therefore trying to get more and better housing.

But not all the millions of persons and families who have thus been trying to spread out since 1940 can succeed, since the supply of housing has increased only about as fast as population. Those who do succeed force others to go without housing. The attempt by the less fortunate and the newcomers to the housing market—returning service men, newly-weds, and people changing homes—to get more housing space

than is available and more than they used before the war, leads to the familiar spectacle of a horde of applicants for each vacancy.

Advertisements in the *San Francisco Chronicle* again document the effect of rent ceilings. In 1906, after the earthquake, when rents were free to rise, there was one 'wanted to rent' for every 10 'houses or apartments for rent'; in 1946, there were 375 'wanted for rent' for every 10 'for rent'.

A 'veteran' looks for a house

The *New York Times* for 28 January, 1946, reported the experience of Charles Schwartzman, 'a brisk young man in his early thirties', recently released from the army. Mr Schwartzman hunted strenuously for three months,

'riding around in his car looking for a place to live . . . He had covered the city and its environs from Jamaica, Queens; to Larchmont and had registered with virtually every real estate agency. He had advertised in the newspapers and he had answered advertisements. He had visited the New York City Veterans Center at 500 Park Avenue and the American Veterans Committee housing sub-committee; he had spoken to friends, he had pleaded with relatives; he had written to Governor Dewey. The results?

'An offer of a sub-standard cold-water flat. An offer of four rooms at Central Park West and 101st Street at a rental of \$300 a month provided he was prepared to pay \$5,000 for the furniture in the apartment. An offer of one room in an old brownstone house, repainted but not renovated, at Eighty-eighth Street off Central Park West by a young woman (who was going to Havana) at a rental of \$80 a month, provided he buy the furniture for \$1,300 and reimburse her for the \$100 she had to pay an agent to obtain the "apartment"'.
'And a sub-let offer of two commodious rooms in a West Side hotel at a rental of \$75 a month only to find that the hotel owner had taken the suite off the monthly rental list and placed it on the transient list with daily (and higher) rates for each of the rooms'.

Who gets the housing?

Rental property is now rationed by various forms of chance and favouritism. First priority goes to the family that rented before the housing shortage and is willing to remain in the same dwelling.

Second priority goes to two classes among recent arrivals: (i) persons

willing and able to avoid or evade² rent ceilings, either by some legal device or by paying a cash supplement to the OPA ceiling rent; (ii) friends or relatives of landlords or other persons in charge of renting dwellings.

Prospective tenants not in these favoured classes scramble for any remaining places. Success goes to those who are lucky, have the smallest families, can spend the most time in hunting, are most ingenious in devising schemes to find out about possible vacancies, and are the most desirable tenants.

Last priority is likely to go the man who must work to support his family and whose wife must care for small children. He and his wife can spend little time looking for the needle in the haystack. And if he should find a place, it may well be refused him because a family with small children is a less desirable tenant than a childless family.

Socio-economic costs of present methods

Practically everyone who does not succeed in buying a house or renting a house or apartment is housed somehow. A few are housed in emergency dwellings—trailer camps, prefabricated emergency housing units, reconverted army camps. Most are housed by doubling-up with relatives or friends, a solution that has serious social disadvantages.

The location of relatives or friends willing and able to provide housing may bear little or no relation to the desired location. In order to live with his family, the husband must sacrifice mobility and take whatever position is available in the locality. If no position or only an inferior one is available there, he may have to separate himself from his family for an unpredictable period to take advantage of job opportunities elsewhere. Yet there is a great social need for mobility (especially at present). The best distribution of population after the war certainly differs from the war-time distribution, and rapid reconversion requires that men be willing and able to change their location.

The spectre of current methods of doubling-up restricts the movement not only of those who double up but also of those who do not. The man who is fortunate enough to have a house or apartment will think twice before moving to another city where he will be one of the disfavoured recent arrivals. One of the most easily predictable costs of moving is likely to be an extended separation from his family while

²These words have the same meaning as in Britain: tax evasion is the illegal concealment of taxable earnings, tax avoidance the legitimate reduction of taxable income to the minimum. [Ed.]

he hunts for housing and they stay where they are or move in on relatives.

The rent ceilings also have important effects in reducing the efficiency with which housing is now being used by those who do not double up. The incentives to economise space are much weaker than before the war, because rents are now lower relatively to average money-incomes. If it did not seem desirable to move to smaller quarters before the war, or to take in a lodger, there is no added reason to do so now, except patriotic and humanitarian impulses—or possibly the fear of relatives descending on the extra space!

Indeed, the scarcity resulting from rent ceilings imposes new impediments to the efficient use of housing: a tenant will not often abandon his overly-large apartment to begin the dreary search for more appropriate quarters. And every time a vacancy does occur the landlord is likely to give preference in renting to smaller families or the single.

The removal of rent ceilings would bring about doubling up in an entirely different manner. In a free rental market those people would yield up space who considered the sacrifice of space repaid by the rent received. Doubling-up would be by those who had space to spare and wanted extra income, not, as now, by those who act from a sense of family duty or obligation, regardless of space available or other circumstances. Those who rented space from others would be engaging in a strictly business transaction, and would not feel that they were intruding, accumulating personal obligations, or imposing unfair or unwelcome burdens on benefactors. They would be better able to find rentals in places related to their job opportunities. Workers would regain their mobility, and owners of rental properties their incentive to take in more persons.

IV. THE METHOD OF PUBLIC RATIONING

The defects in our present method of rationing by landlords are obvious and weighty. They are to be expected under private, personal rationing, which is, of course, why OPA assumed the task of rationing meats, fats, canned goods, and sugar during the war instead of letting grocers ration them. Should OPA undertake the task of rationing housing? Those who advocate the rationing of housing by a public agency argue that this would eliminate the discrimination against new arrivals, against families with children, and in favour of families with well-placed friends.

Problems of 'political' rationing

To be fair between owners and renters, however, OPA would have to be able to tell owners that they had excessive space and must either yield up a portion or shift to smaller quarters. One's ear need not be close to the ground to know that it is utterly impracticable from a political viewpoint to order an American family owning its home either to take in a strange family (for free choice would defeat the purpose of rationing) or to move out.

Even if this basic difficulty were surmountable, how could the amount of space that a particular family deserves be determined? At what age do children of different sex require separate rooms? Do invalids need ground-floor dwellings, and who is an invalid? Do persons who work in their own homes (physicians, writers, musicians) require more space? What occupations should be favoured by handy locations, and what families by large gardens? Must a mother-in-law live with the family, or is she entitled to a separate dwelling?

How long would it take an OPA board to answer these questions and to decide what tenants or owners must 'move over' to make room for those who, in the board's opinion, should have it?

The duration of the housing shortage would also be affected. In fairness to both tenants and existing landlords, new construction would also have to be rationed and subjected to rent control. If rents on new dwellings were set considerably higher than on comparable existing dwellings, in order to stimulate new construction, one of the main objectives of rent control and rationing—equal treatment for all—would be sacrificed. On the other hand, if rents on new dwellings were kept the same as rents on existing dwellings, private construction of properties for rent would be small or non-existent.

We may conclude that rationing by a public agency is unlikely to be accepted on a thorough-going basis. Even if applied only to rented dwellings, it would raise stupendous administrative and ethical problems.

Sources and probable duration of the present shortage

The present housing shortage appears so acute, in the light of the moderate increase in population and the real increase in housing since 1940, that most people are at a loss for a general explanation. Rather they refer to the rapid growth of some cities—but all cities have serious shortages. Or they refer to the rise in marriage and birth rates—but these numbers are rarely measured, or compared with housing facilities.

Actually, the supply of housing has about kept pace with the growth of civilian non-farm population, as the estimates based on government data show (Table 1). ~~The defects in our present method of rationing by landlords are~~ 157
 Certain areas will be more crowded in a physical sense than in 1940, and others less crowded, but the broad fact stands out that the number of people to be housed and the number of families have increased by about 10 per cent, and the number of dwelling-units has also increased by about 10 per cent.

**TABLE 1. RISE IN HOUSING AND NON-FARM POPULATION:
 USA, 1940-1946**

	<i>Non-farm</i>		
	<i>Occupied dwelling-units (million)</i>	<i>Civilian population (million)</i>	<i>Persons per occupied dwelling-unit (No.)</i>
30 June, 1940	27·9	101	3·6
30 June, 1944	30·6	101	3·3
End of Demobilisation (Spring 1946)	More than 31·3	About 111	Less than 3·6

Two factors explain why the housing shortage seems so much more desperate now than in 1940, even though the amount of housing per person or family is about the same.

1. The aggregate money-income of the American public has doubled since 1940, so that the average family could afford larger and better living-quarters even if rents had risen substantially.
2. Rents have risen very little. They rose by less than 4 per cent from June 1940 to September 1945, while all other items in the cost of living rose by 33 per cent.

Thus, both the price structure and the increase in income encourage the average family to secure better living quarters than before the war. *The very success of OPA in regulating rents has therefore contributed largely to the demand for housing and hence to the shortage, for housing is cheap relatively to other things.*

Future housing problems

Rent ceilings do nothing to alleviate this shortage. Indeed, they are far more likely to perpetuate it: the implications of the rent ceilings for new construction are ominous. Rent is the only important item in the

cost of living that has not risen rapidly. Unless there is a violent deflation, which no-one wants and no administration can permit, rents are out of line with all other significant prices and costs, including building costs. New construction must therefore be disappointingly small in volume *unless*

- (1) an industrial revolution reduces building costs dramatically, or
- (2) the government subsidises the construction industry.

The industrial revolution in building methods is devoutly to be wished. But if it comes, it will come much faster if rents are higher. If it does not come, existing construction methods will, for the most part, deliver houses only to those who can afford and wish to own their homes. Homes to rent will become harder and harder to find.

Subsidies for building, in the midst of our high money-incomes and urgent demand for housing, would be an unnecessary paradox. Now, if ever, people are able to pay for their housing. If subsidies were successful in stimulating building, rent ceilings could gradually be removed without a rise in rents. But building costs would still be high (higher than if there had been no subsidy) and so housing construction would slump to low levels and remain there for a long period. Gradually, the supply of housing would fall and the population rise sufficiently to raise rents to remunerative levels. A subsidy thus promises a depression of unprecedented severity in residential construction; it would be irresponsible optimism to hope for a prosperous economy when this great industry was sick.

Unless, therefore, we are lucky (a revolutionary reduction in the cost of building apartments and houses), or unlucky (a violent deflation), or especially unwise (the use of subsidies), the 'housing shortage' will remain as long as rents are held down by legal controls. *As long as the shortage created by rent ceilings remains, there will be a clamour for continued rent controls.* This is perhaps the strongest indictment of ceilings on rents. They, and the accompanying shortage of dwellings to rent, perpetuate themselves, and the progeny are even less attractive than the parents.

An incomplete and largely subconscious realisation of this uncomfortable dilemma explains the frequent proposal that no rent ceilings or that more generous ceilings be imposed on new construction. This proposal involves a partial abandonment of rent ceilings. The retention of the rest can then be defended only on the ground that the present method of rationing existing housing by chance and favouritism is

more equitable than rationing by higher rents, but that rationing the future supply of housing by higher rents is more equitable than rationing by present methods.

V. CONCLUSIONS

Rent ceilings, therefore, cause haphazard and arbitrary allocation of space, inefficient use of space, retardation of new construction and indefinite continuance of rent ceilings, or subsidisation of new construction and a future depression in residential building. Formal rationing by public authority would probably make matters worse.

Unless removal of rent ceilings would be a powerful new stimulus to inflation, therefore, there is no important defence for them. In practice, higher rents would have little *direct* inflationary pressure on other goods and services. The extra income received by landlords would be offset by the decrease in the funds available to tenants for the purchase of other goods and services.

The additional inflationary pressure from higher rents would arise *indirectly*; the higher rents would raise the cost of living and thereby provide an excuse for wage rises. In an era of direct governmental intervention in wage-fixing, the existence of this excuse might lead to some wage rises that would not otherwise occur and therefore to some further price rises.

How important would this indirect effect be? Immediately after the removal of ceilings, rents charged to new tenants and some existing tenants without leases would rise substantially. Most existing tenants would experience moderate rises, or, if protected by leases, none at all. Since dwellings enter the rental market only slowly, average rents on all dwellings would rise far less than rents charged to new tenants and the cost of living would rise even less.

As more dwellings entered the rental market, the initial rise in rents charged to new tenants would, in the absence of general inflation, be moderated, although average rents on all dwellings would continue to rise.

After a year or so, average rents might be up by as much as 30 per cent. But even this would mean a rise of only about 5 per cent in the cost of living, since rents account for less than one-fifth of the cost of living. A rise of this magnitude—less than one-half of 1 per cent per month in the cost of living—is hardly likely to start a general inflation.

The problem of preventing general inflation should be attacked directly; it cannot be solved by special controls in special areas which

may for a time bottle up the basic inflationary pressures but do not remove them. We do not believe, therefore, that rent ceilings are a sufficient defence against inflation to merit even a fraction of the huge social costs they entail.

No solution of the housing problem can benefit everyone; some must be hurt. The essence of the problem is that some people must be compelled or induced to use less housing than they are willing to pay for at present legal rents. Existing methods of rationing housing are forcing a small minority—primarily released veterans and migrating war workers, along with their families, friends and relatives—to bear the chief sacrifice.

Rationing by higher rents would aid this group by inducing many others to use less housing and would, therefore, have the merit of spreading the burden more evenly among the population as a whole. It would hurt more people immediately, *but less severely*, than the existing methods. This is, at one and the same time, the justification for using high rents to ration housing and the chief political obstacle to the removal of rent ceilings.

A final note to the reader; we should like to emphasise as strongly as possible that our objectives are the same as yours—*the most equitable possible distribution of the available supply of housing and the speediest possible resumption of new construction*. The rise in rents that would follow the removal of rent control is not a virtue in itself. We have no desire to pay higher rents, to see others forced to pay them, or to see landlords reap windfall profits. Yet we urge the removal of rent ceilings because, in our view, any other solution of the housing problem involves still worse evils.

3. No Vacancies*

BERTRAND DE JOUVENEL

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THE AUTHOR

BERTRAND DE JOUVENEL was born in Paris in 1903. M. de Jouvenel is the descendent of a famous family which gave France noted statesmen and writers. He studied mathematics and law. After graduating he entered French politics, but later went into journalism, becoming an active reporter on international affairs. In the latter part of the Second World War he took refuge in Switzerland where he completed his great work, *Du Pouvoir*, an analysis of present-day totalitarianism. In 1947 he was appointed to the University of Manchester where he lectured on society and sovereignty. He is now president of a bureau of economic research in Paris (SEDEIS), and editor of *Analyse et Prevision*.

Among his many writings are: *The Crisis of American Capitalism*, 1933; *Problems of Socialist England*, 1946; *Du Pouvoir*, 1945, published in English, *On Power*, in 1948; *Ethics of Redistribution*, 1951; *The Political Good*, 1955; *The Art of Conjecture*, 1971.

1. A DOLLAR A MONTH

A dollar a month will pay a wage-earner's rent in Paris. Our authority for this assertion is the Communist-dominated Federation of Labour Unions, the CGT. In setting forth its demands for a minimum wage to ensure a decent living, it produced a worker's budget in which the expenditure on rent was put at 316 francs. (In this analysis, all figures will be stated in dollars at the rough valuation of 300 francs to the dollar).

Against this figure one may set the estimate of the conservative Union of Family Associations. Thinking in terms of families, this source sets the expenditure on rent, providing adequate space, at a dollar and a half for a man and wife with a child and a baby; for a family of six the expenditure on rent should go up to a little less than two dollars.

Artificially low rents

Such cheapness is amazing. In the CGT budget, rent is reckoned as equal in cost to transport to and from work. To put it another way, a month's rent for an individual worker costs little more than six packets of the cheapest cigarettes. For a large family of six it costs as much as eleven packets of cigarettes (cigarettes, now unrationed in France, cost 15 cents a packet).

Even in a worker's very modest budget such an expenditure absorbs but a small part of his income, 2.7 per cent of the minimum income demanded by the CGT; as little as 1.2 per cent of the income of a six-member family as calculated by the Union of Family Associations.

Against such estimated blueprint budgets we can resort to actual declarations of wage-earners canvassed by the French statistical services. It appears from their budgets that, on average, rent makes up 1.4 per cent of wage-earners' expenditures; for white-collar workers rent goes up to 1.7 per cent of total expenditures.

In practise there are many rents lower than a dollar a month; rents of half-a-dollar are not uncommon. Nor should it be assumed that the lodgings are necessarily worse, for price and comfort, as we shall see, are unrelated.

Such low rents are not a privilege confined to wage-earners. Middle-class apartments of three or four main rooms will frequently cost from \$1.50 to \$2.50 per month. Rents paid by important officials or executives range from \$3.50 to \$8 or \$10 a month. There is no close correlation

between income and rent. Rent seldom rises above 4 per cent of any income; frequently it is less than 1 per cent.

It is not then surprising that Parisians spend on entertainment every month far more than they pay for three months' rent.

Here lies an apartment

This may seem a very desirable state of affairs. It has, of course, its drawbacks.

While, on the one hand, you pay no more than these quite ridiculous prices if you are lucky enough to be in possession of a flat, on the other if you are searching for lodgings you cannot find them at any price. There are no vacant lodgings, nor is anyone going to vacate lodgings which cost so little, nor can the owners expel anyone. Deaths are the only opportunity.

Young couples must live with in-laws, and the wife's major activity consists in watching out for deaths. Tottering old people out to sun themselves in public gardens will be shadowed back to their flat by an eager young wife who will strike a bargain with the janitor, the *concierger*, so as to be first warned when the demise occurs and to be first in at the death. Other apartment-chasers have an understanding with undertakers.

II. 'BOOTLEG' HOUSING

There are two ways of obtaining an apartment which death has made available. Legally, if you fulfil certain conditions which give you a priority, you may obtain from a public authority a requisition order; you will usually find that the same order for the same apartment has been given to possibly two or three other candidates. The illegal method is the surest. It is to deal with the heir, and with his complicity immediately to carry in some pieces of your furniture. As soon as you are in, you are king of the castle.

Buying one's way into an apartment will cost anything from \$500 to \$1,500 per room. At such prices you may also share flats which the tenants will agree to divide. As for wage-earners, they may as well give up hope of setting up house; they will have to stay with their families or live in very miserable hotels by the month.

In short, rents are very low but there are no lodgings available. Nor are any being built. And practically none have been built for the last 12 years.

There are some 84,000 buildings for habitation in Paris: 27·2 per cent of them were built before 1850, 56·9 per cent before 1880. Almost 90 per cent of the total were built before the First World War. Most of the additional new building was carried out immediately after that war; then it slackened, and by 1936 had practically stopped.

Parisian plight

Even a very lenient officialdom estimates that there are about 16,000 buildings which are in such a state of disrepair that there is nothing that can be done but to pull them down. Nor are the remainder altogether satisfactory. To go into sordid details, 82 per cent of Parisians have no bath or shower, more than half must go out of their lodgings to find a lavatory, and a fifth do not even have running water in the lodgings. Little more than one in six of existing buildings is pronounced satisfactory and in good condition by the public inspectors. Lack of repair is ruining even these.

Owners can hardly be blamed. They are not in a financial position to keep up their buildings, let alone improve them. The condition of the owners can hardly be believed. To take an example of a very common situation, here is a lady who owns three buildings containing 34 apartments, all inhabited by middle-class families. Her net loss from the apartments, after taxes and repairs, is \$80 a year. Not only must her son put her up and take care of her, but he must also pay out the \$80. She cannot sell; there are no buyers.

When the owner tries to milk a little net income from his property by cutting down the repairs, he runs great risks. Another person postponed repairs on his roofs; rain filtering into an apartment spoiled a couple of armchairs. He was sued for damages and condemned to pay a sum amounting to three years of the tenant's paltry rent.

The miserable condition of owners is easily explained. While rents since 1914 have at the outside multiplied 6·8 times, taxes have grown 13·2 times and the cost of repairs has increased from 120 to 150 times the 1914 price!

III. RENT CONTROL TAKES ROOT

The position is, of course, as absurd as it is disastrous. An outsider might be tempted to think that only an incredible amount of folly could have led us to this. But it is not so. We got there by easy, almost

unnoticed stages, slipping down on the gentle slope of rent control. And this was not the work of the Reds but of successive parliaments and governments, most of which were considered to be rather conservative.

Legacy of First World War

The story starts with the First World War. It then seemed both humane and reasonable to preserve the interests of the families while the boys were in the army or working for victory. So existing situations were frozen. It was also reasonable to avoid disturbances at the end of the war. The veterans' home-coming should not be spoiled by evictions and rent increases. Thus pre-war situations were hardened into rights. The owner lost—'temporarily', of course—the disposition of his property, and the stipulations of law superseded agreement between the parties. This was only for a time.

But by the time the situation was reviewed in 1922, retail prices had trebled with rents still at their pre-war level. It was then plain that a return to a free market would imply huge increases, an index to them being provided by rents in the smallish free sector, which hovered around $2\frac{1}{2}$ times the 1914 rents. The legislators shrank from this crisis. Wages were by then three and a half times what they had been in 1914, and the expenditure on rent in the worker's budget had shrunk from something like 16 per cent before the war to around 5 per cent. In our times habits become quickly ingrained. Instead of regarding rent as constituting normally one-sixth of one's expenditures, one took it now as being normally one-twentieth. Also, a 'right' had developed, the 'right' to dig in. Always very sedentary, the French now had struck roots in their rented lodgings.

The legislators decided to deal with this matter in a prudent, statesmanlike manner. So the tenant's right to retain possession was confirmed but the rent was raised slightly. Successive increases were granted in further laws, all hotly debated. A new owner-tenant relationship thus took shape. The owner was powerless either to evict the tenant or debate the price of rent with him, because the state took care of that. The price rose but slowly, while in the meantime the field of regulation was progressively enlarged to bring in such flats as had not been previously regulated. New buildings put up since 1915 were alone left unregulated to stimulate construction. This exception was not to endure for long.

The fear of liberty

No systematic view inspired this policy. It just grew from the fear of a sudden return to liberty which seemed ever more dangerous as prices rose. And, of course, if one had to control the price of rent, one could not allow the owner to dispossess tenants, because in that case he might so easily have made an agreement secretly with the new tenant; so rent control implied necessarily the denial of the owner's right to evict.

What then happened to rents under this régime? In 1929, with retail prices more than six times what they had been in 1914, rents had not even doubled; real rents, that is, rents in terms of buying power, were less than a third of what they had been before the war.

Law-making on rent control continued, indeed no single subject has taken up so much of the time and energy of Parliament. But the improvement in the condition of the owners, when it came, was not the work of the legislators. It was brought about by the economic crisis which lowered retail prices. Thus, by 1935, rents then being almost three times their pre-war level, retail prices were down and owners obtained almost two-thirds of their pre-war real income. Or rather they would have obtained it had not the Laval government then decided on a cut of 10 per cent in rents as one of the measures designed to bring down the cost of living and implement a policy of deflation.

When the Popular Front came to power in 1936, the process of devaluations started again, retail prices soared, and real income from buildings crumbled from year to year.

Then came the Second World War. The return to liberty which had been devised for 1943 was, of course, shelved, and all rents were frozen, including this time those of recent buildings which had till then escaped.

IV. THE BUSY LAW-MAKERS

Since the Liberation, an order in council of 1945 and two laws in 1947 have intervened, bringing up to 119 the number of laws or quasi-laws on the subject since 1918. The new laws have provided for increases jacking up rents. Apartments built before 1914 can now be rented at prices 70 per cent above the 1939 price. But while rents increased 1.7 times retail prices rose more than 14 times. In other words, the buying power of rents was set at 12 per cent of its 1939 level, already greatly depressed as we have seen. The buildings put up since 1914 were more severely

treated on the assumption that the ruling rents in 1939 had been more adequate. The permissible increase over 1939 levels was set at 30 per cent, thus keeping the buying power of these rents at 9 per cent of what it was before the Second World War. It was further specified, for buildings dating back to 1914 or earlier, which comprise as we have noted nine out of ten of the total stock, that their rents should in no case be more than 6.8 times the 1914 rent. This in spite of the fact that retail prices were then 99.8 times as high as in 1914.

In short, owners of new buildings have been allowed to get in terms of real income less than a tenth of what they got before the Second World War.

Owners of old buildings, that is, nine-tenths of all buildings, have been allowed to get in terms of real income either 12 per cent of what they got in 1939 or a little less than 7 per cent of what they got in 1914—whichever is the lesser, the law took care to specify!

The price predicament

If on the other hand a builder were now to put up flats similar to those in existence, these new apartments would have to be let for prices representing from 10 to 13 times present rent ceilings, in order to reward the costs of construction and the capital invested. According to an official source, a report of the Economic Council, a wage-earner's apartment of three small rooms and a kitchen now renting for \$13 to \$16 a year(!) would have to be rented for \$166 to \$200 a year; and a luxury apartment of 1,600 square feet floor space would have to be rented for \$55 to \$70 a month, compared with the current price of \$14 to \$17 a month. Obviously, as long as the rents of existing buildings are held down artificially far below costs, it will be psychologically impossible to find customers at prices 10 or 12 times higher, and hence construction will not be undertaken.

Such is the differential between the *legal* and the *economic* price of lodgings that even the most fervent advocates of freedom are scared at the prospect of a return to it; they shudder at the thought of a brutal return to reality. They feel that if the right to dismiss tenants were restored, and the right to bargain and contract with them, evictions could not be executed, the whole nation of tenants sitting down to nullify the decision. The thing, they say, has now gone too far, the price of rent is too far removed from the cost.

Hence the strange plans which are now being considered by the French Parliament. It is proposed to maintain a right of occupation,

a right to retain one's lodgings, and it is proposed to arrive at a 'fair price-fixing'. That is, the true service value of every flat would be fixed according to floor space, the value per square metre being multiplied by a coefficient according to the amenities, situation and so forth. Thus the 'fair rent' would be ascertained. But it would not be wholly paid by the tenant. He would benefit by a special subsidy, an inflationary measure of course, as are all subsidies. Nor would the larger part of this fair rent be paid to the owner. It would be divided in slices. A slice to correspond with the cost of upkeep would be paid to the owner, not directly but to a blocked account to make sure it was spent on repairs. A much bigger slice for the reconstitution of the capital investment would not go to the owner at all, but to a National Fund for Building. Thus the dispossession of the owners would be finally sanctioned. They would be legally turned into the janitors of their own buildings, while on the basis of their dispossession a new state ownership of future buildings would rear its proud head.

Road to ruin

Possibly the French example may prove of some interest and use to our friends across the sea. It goes to show that rent control is self-perpetuating and culminates in both the physical ruin of housing and the legal dispossession of the owners. It is enough to visit the houses in Paris to reach conclusions. The havoc wrought here is not the work of the enemy but of our own measures.

4. The Economics of Rent Restriction*

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In view of the important part rent restriction now plays in the economic systems of many countries, it is remarkable how little attention its economic aspects have attracted. Apart from the brief though admirable discussion in Mr Roy Harrod's *Are These Hardships Necessary?* there is very little reference to the subject in recent British economic literature. It is quite understandable that politicians should have avoided the subject, for the emotions it arouses are too deep and too widespread to allow it to be discussed in public with both frankness and safety; but it is a little surprising that British economists, in the security of their studies, should have shown so little inclination to follow up the many interesting questions which the subject raises.

In the following article, after an outline of the history of rent restriction and a glance at the legal difficulties of its enforcement, I approach the subject mainly from two points of view: the inequity of its results as between individual tenants and individual landlords, and even more as between those with houses and those without; and its economic effects in discouraging the adequate maintenance of house property and in reducing the mobility of labour. I shall put forward suggestions for changes in the law which would, in my opinion, constitute a great improvement on the existing system from both points of view, however unlikely it may be that any party would find it politically expedient to adopt them.

I. THE HISTORY OF RENT RESTRICTION

Old control

The history of rent restriction in England begins very nearly 35 years ago, with the passage of the Increase of Rent and Mortgage Interest (War Restrictions) Act in December 1915. This Act made it generally illegal for landlords of unfurnished houses, or parts of houses let as separate dwellings, of which either the rent charged in August 1914, or the net rateable value did not exceed £35 in London or £26 elsewhere, to charge rents higher than those charged in August 1914, except in so far as improvements had been made or the rates increased. It also prohibited the calling-in of mortgages on rent-restricted property or the raising of interest rates on them. The general principles of this Act have been maintained in all subsequent legislation.

After the 1914-18 War, some concessions were made to help the landlord to meet the greatly increased cost of maintenance and repair. In

1919, increases of 10 per cent, and in 1920, of 40 per cent, were permitted in the 1914 'standard rent', provided that the premises were kept 'in a reasonable state of repair'. On the other hand, the scope of the Act was extended in 1919 to cover all houses of which neither the standard rent nor the net rateable value exceeded £70 in London and £52 elsewhere, in 1920 increased to £105 in London and £78 elsewhere. Thus, all except the largest houses were made subject to control. At the same time, the protection of the Act was extended, not only to the 'statutory tenant', but also to his widow or any relative who had been resident in his house for six months or more at the time of his death, though these in turn could not pass on their rights to yet another generation.

In 1923, after the short but violent depression which ended the post-war boom, the first steps were taken towards the withdrawal of rent control. Under the Act of that year, any house of which the landlord obtained vacant possession, or of which the sitting tenant accepted a lease of two years or more, became automatically decontrolled. When, ten years later, the results of the 1923 Act were reviewed, it was considered that, whereas the release of the larger houses had been proceeding too slowly, that of the smaller houses had been too fast. Under the Act of 1933, therefore, controlled houses were divided into three groups. Those of which both the recoverable rent (standard rent plus permitted increase) and the net rateable value were above £45 in London and £35 elsewhere were decontrolled immediately; those below these values, but with a net rateable value of £20 in London and £13 elsewhere, continued to become decontrolled as they fell vacant; and those with still lower rateable values ceased to be decontrollable. In 1938, the second of these groups was in turn sub-divided. The upper section, consisting of houses with net rateable values above £35 in London and £20 elsewhere, was decontrolled at once, while the lower section became permanently controlled.

Thus, in August 1939, all pre-1914 houses with net rateable values above £35 in London and £20 elsewhere had been excluded from control, together with a substantial though unknown number of smaller houses. The number of these decontrolled houses was estimated by the Ridley Committee in 1945 at 4.5 million. Also outside the control were some 4.5 million houses built since 1919, of which some 3 million were in private ownership and were mainly owner-occupied and 1.5 million were owned by local authorities. Thus, out of a total of about 13 million houses and flats, only about 4 million, all with net rateable values not exceeding £35 in London and £20 elsewhere and almost entirely owned by private landlords, were still subject to control. The recoverable rents

of these houses were usually from 20 per cent to 30 per cent lower than the uncontrolled rents of similar houses.

New control

On 1 September, 1939, all dwelling-houses not subject to the old control and with net rateable values of not more than £100 in London and £75 elsewhere were made subject to a new control, with standard rents fixed at the rents which were being paid on the date of the Act, or, if not let on that day, at the last previous rent paid. All new houses, or those never let before, were to have as their standard rents whatever was charged at their first *bona fide* unfurnished letting. This Act is still in force, though it has been supplemented by the Furnished Houses (Rent Control) Act of 1946, which established Rent Tribunals to review rents of furnished accommodation, and by the Landlord and Tenant (Rent Control) Act of 1949, which gave to these same tribunals power to fix the rents of unfurnished houses let for the first time. The recommendation of the Ridley Committee, that rent tribunals should have the power to adjust in either direction anomalies in the existing standard rents of controlled houses, has never been adopted. No attempt has so far been made to control the prices at which houses may be sold.

II. LEGAL DIFFICULTIES AND INJUSTICES

The results of this long series of Rent Restriction Acts cannot be regarded with satisfaction from any point of view. It has long been realised that they have serious legal difficulties. Apart altogether from the question of evasion, and even after the immense case-law developed by 30 years of litigation, the legal position in any particular case is often still obscure.

What exactly is part of a house let as a separate dwelling? Just how many acres of land must go with a house to make it a farm and therefore outside the scope of the Acts? Just how much furniture is needed to constitute a furnished house? Does a man automatically convert his office into a dwelling-house by keeping a camp-bed in it, and if not, how frequently must he sleep there to bring it within the Acts? Would an owner, with an invalid wife and three young children, who wishes to obtain occupation of his own house, suffer more hardship if his request

were refused than the tenant, with only one child but a bed-ridden mother-in-law, would suffer if it were granted?

These are a very small sample of the thousands of cases decided yearly in the courts. Apart from such questions, it is often a matter of great difficulty to discover what is the standard rent of any particular house, especially if it has been owner-occupied for any considerable time. If a house was last let in 1815, then the rent paid at the time of the battle of Waterloo is the standard rent today.

Tenants and landlords

If the Rent Restriction Acts are a lawyer's nightmare, they offend at least as much against the ordinary standards of equity. Of three identical houses in the same road, one may be let at 10 shillings a week under the old control, the second at 15 under the new control, while the rent of the third, let for the first time since the war, may be 25 shillings or more. There is no guarantee that the poorest tenant rents the cheapest house, or that the poorest landlord owns the dearest one. Indeed, the landlord of the cheapest house may well be poorer than his tenant, for before 1914 small house property was a favourite medium for the investment of small savings.

Those without houses

But the inequity of the present system as between tenant and tenant, or between tenant and landlord, fades into insignificance compared with the inequity as between those who are lucky enough to have rent-restricted houses and those who have no houses at all. It is an economic truism that the fixing of maximum prices without the imposition of rationing normally results in part of the demand at the fixed price going unsatisfied. Even if the maximum rents fixed were completely consistent as between themselves this difficulty would remain. Since 1939, money earnings and most prices have approximately doubled; controlled rents (apart from increases in rates) have not risen at all. Thus, in real terms, the rents of some 8½ million out of the 13 million pre-war houses have been approximately halved. Is it to be wondered that the demand for houses to let at controlled rents is enormously in excess of the supply? Is it surprising that rent-restricted houses are used less economically than they would have been if rents had risen in proportion with other prices and incomes, and that an unsatisfied demand is squeezed out, to be concentrated on the other sectors of the

market—local authorities' houses, furnished accommodation, and houses available for purchase with vacant possession?

Of the sectors not covered by the Rent Restriction Acts, rents of local authorities' pre-war houses, though frequently higher than before the war, are in general held at a level far below that necessary to equate supply and demand; while rents of their new houses, though higher than those of their older ones, even allowing for their improved amenities, are held by subsidies at a level far below current market values. Thus, a great unsatisfied demand is concentrated on the two remaining sectors, pushing prices there far above what they would have been if prices in all sectors had been allowed to find their market level. Sometimes tenants of furnished rooms (often in rent-restricted houses) will venture to bring cases of unusually high rents to the notice of the rent tribunals set up under the Furnished Houses Act, even though the tribunals cannot give security of tenure for more than a few months at a time. But such controls, even if successful, cannot provide accommodation where it does not exist; and even if they could be universally enforced, their only result would be to reduce the supply and expand the demand for furnished rooms until there remained, for those left over who were unable to provide the deposit on a purchased house, the choice only between the hospitality of relatives and the hardly warmer welcome of a public institution.

Houses for sale

There remains only one sector of the market where no attempt has yet been made to control prices—the market in houses for sale. In spite of the fact that the demand here is limited to those able to provide at least the minimum deposit, prices for houses with vacant possession, especially for the smaller houses, have been forced up to a level far above that of most other prices. It is difficult to generalise the increase in house prices since 1939, but perhaps it would not be far from the truth to say that in many parts of the country small houses are costing from three to four times, and larger houses from two to three times, what they would have cost before the war. Only for the largest houses, unsuitable for conversion into commercial premises and requiring more service to run than is within the power of most post-tax incomes to command, is the rise in prices not abnormal.

The rise in the price of small houses cannot, however, be taken as an indication of the rise in rents which would follow the withdrawal of rent restriction; for much of it is due to the concentration upon the

only completely free sector of the market of the excess demand created by the artificially low rents ruling in at least two of the other sectors. The repeal of rent restriction would almost certainly be followed by a sharp drop in the prices of at least the smaller houses offered for sale with vacant possession.

III. ECONOMIC EFFECTS

Inadequate maintenance

The economic aspects of rent restriction reveal disadvantages at least comparable with those of its legal and equitable aspects. They are mainly two: the impairment of the landlords' ability and incentive to maintain premises in good condition, and the impediments which the Acts place in the way of the mobility of labour.

As regards the first of these, it is common ground that the cost of maintaining and repairing houses has risen markedly since before the war, probably more than twice everywhere, and in some areas three times or more. At these prices, many landlords are unable to pay for adequate repairs out of the controlled rents and leave themselves any income at all, while others, especially owners of older property unsuitable for owner-occupancy, find that it pays them better to collect what income they can until their property becomes actually uninhabitable than to spend money on repairs which will never yield a reasonable return on the expenditure. The probability that property will be treated in this way is increased by the tendency of the better landlords, faced with the choice between running their property at a loss and allowing it to decay, to sell it for what it will fetch to those who are less scrupulous in their methods of management. Thus, much property is being allowed to degenerate into slums, or at best maintained at a level much below that which is economically desirable and which it would have paid landlords to achieve if rents had been allowed to find their market level. For the ultimate results of this policy we have only to look across the English Channel, where inflation has gone considerably further than here and the gap between controlled rents and those which would enable property to be kept in good repair is, therefore, even wider.¹

[¹Illustrations of this phenomenon can be found in Bertrand de Jouvenel's essay on France's experience of rent restriction, especially in pages 37-39 Ed.]

Reduction in mobility

The second of the economic disadvantages of rent restriction, at least in the short run, is probably even more serious than the first. Rent restriction involves what is in effect a tax on the landlord and a subsidy to the tenant. But it is a subsidy which the tenant receives only so long as he stays in his existing house. Should he leave it for any reason, he is deprived, not only of his subsidy, but also of his right to rent another house even at the full market price. If he happens to live in a council house it may be possible for him, by arrangement with the local authority, to exchange houses with someone else in the same district, or even to be allotted a new house on surrendering his old one. But if he lives in a privately-owned house, or if he wishes to move outside his district, his chance of renting another within a reasonable time is small unless he either has access to some special favour or is prepared to break the law by offering some consideration in addition to the controlled rent. Otherwise, he will have to make do with furnished lodgings until first he qualifies to be regarded as a resident and then his name has slowly climbed to the top of the local authority's housing list. It is little wonder that the much-needed increase in the mobility of labour is so difficult to achieve.

Expedients to restore mobility

If, however, a tenant inhabits a privately-owned house suitable for owner-occupancy, there are ways in which he may be able to retain at least part of the benefit of his rent subsidy after leaving his present house. So long as he remains a statutory tenant, the selling value of his present house is probably a good many hundred pounds less than it would be if the landlord were able to offer it with vacant possession. It may sometimes be possible for the tenant to obtain a share of this margin between the 'sitting-tenant' and the 'vacant-possession' values of his house, either by agreeing to leave in exchange for a cash payment, or by buying his house for something more than its 'sitting-tenant' value and subsequently re-selling it for its full market value with vacant possession. How much of the margin he will be able to secure for himself, and how much he will have to leave for his landlord, will depend on their relative bargaining powers; the tenant will no doubt do his best to conceal his desire to leave until the bargain has been completed. If in either of these ways he can make a substantial profit, he can use this to pay part of the purchase price of a house in the district to which he

wishes to move, borrowing the remainder from a building society or other source.

Fewer houses to let

It should be noted that every time this sort of transaction occurs a house is permanently transferred from the letting market to the selling market. The same is true whenever a house falls vacant on the death of a tenant; for it will usually pay the landlord to sell it to an owner-occupier rather than re-let it at the controlled rent. Thus, despite the delay due to the right of a resident wife or relative to succeed to the tenancy for one further lifetime, it seems probable that the indefinite continuation of the present system will result in the gradual withdrawal from the letting market of all privately-owned houses suitable for owner-occupancy.

The demand for houses to let will therefore become increasingly concentrated on the new houses built by public authorities. The satisfaction of this demand, at subsidised rents, would require not only a long-continued diversion to housing of resources urgently needed in other fields but also a continually mounting annual charge on the Exchequer and local governments for subsidies. This cost, for pre-war and post-war houses, is already in the neighbourhood of £40 million a year (in addition to the subsidies on temporary houses) and is rising by something like £5 million a year.

IV. PROPOSALS FOR REFORM

Repeal of Acts

While, however, it is easy enough to see the defects, legal, social and economic, of the system of rent restriction into which the country has been allowed to drift, it is much less easy to suggest an acceptable remedy. The mere repeal of the existing Acts, though a solution of the economic difficulties and in the long run likely to prove highly beneficial to the country as a whole, would in the short run frustrate many justifiable expectations, and bring about a sudden redistribution of incomes which the electorate would certainly not desire nor the individuals affected in many cases deserve. While some of the landlords who would benefit from repeal have no doubt suffered unjustly as compared with receivers of income from other types of property, there are others, such as recent purchasers of rent-restricted property at the

'sitting-tenant' price, who would make large windfall profits; and on the other side, while many tenants could no doubt afford to pay higher rents without real difficulty, others, especially those with children or living on small pensions, would suffer the most serious hardship. Simple repeal would therefore give rise to so many hard cases and obvious injustices that it would offend against the principles of equity almost as much as do the existing Acts, and against the public sense of equity probably far more.

Other proposals

Various suggestions have been made which, while maintaining the Rent Restriction Acts in force, would mitigate some part of their ill-effects. The Ridley Committee Report of 1945,² among recommendations for minor improvements in the working of the system, made three suggestions on points of substance. The first of these was that the various Acts should be consolidated and their legal anomalies cleared up; the second was that rent tribunals should be set up to overhaul the whole system of standard rents and remove their inconsistencies with each other; and the third was that after three years a committee should be appointed to report on the cost of house repairs, with a view to a possible increase in the level of permitted rents. None of these recommendations touches the central problems, and, apart from the power given to rent tribunals to review post-1939 rentals, none has been acted upon.

The recommendations of a report published in November 1949 by PEP³ come rather nearer to dealing with the real difficulties. The report looks, not too hopefully, to the Local Government Act of 1948, with its programme for re-assessing rateable values on a consistent basis throughout the country by 1953, to provide a means of carrying out the Ridley Committee's recommendation for the elimination of inconsistencies between restricted rents; and it urges some relief to landlords, by means of increased rents and/or special tax allowances, to provide the means of carrying out repairs. This last recommendation would do something to prevent large stretches of low-rented premises from degenerating into slums, while the first would help to remove the inequity as between one tenant of a controlled house and another. But

²*The Rent Restriction Acts*, Cmd. 6621, HMSO, 1944-45.

³*Rent Control Policy*, Broadsheet No. 305.

neither would do anything towards solving the problem either of the inequity between those with houses and those without or of the immobility of labour.

Various suggestions have been made to deal with the problem of immobility. It might, for instance, be possible to make people more mobile by giving to anyone who surrendered the tenancy of a house priority for a new tenancy, whether in his own district or elsewhere. Such a measure, however, would encounter insuperable political difficulties; for to give a newcomer in a district priority over existing inhabitants, some of whom had waited perhaps for years, would reveal far too plainly the injustice of the present system towards those who are not lucky enough to have a house. No solution which does not make a serious attempt to deal with this injustice either has or ought to have any chance of acceptance.

Mr Harrod's plan

A similar objection can be made to the otherwise most valuable suggestions made by Mr Roy Harrod in his book *Are These Hardships Necessary?*⁴ Mr Harrod suggests that the Acts should be repealed and rents be allowed to rise to their full market level, but that for a period of 10 years the landlord should be taxed the whole of the increase and the proceeds handed back to the tenant, who would receive them whether he stayed in that house or not. At the end of the 10 years,

'some readjustment of wages or taxes could be made, so as to avoid any transfer of income from the poor to the rich that the abolition of the old system might entail'.

This scheme would clearly have great advantages over the present system. So long as the tenant stayed in his existing house, his extra rent would be exactly equalled by his extra income, and he would be neither better nor worse off than before. But he would now have the choice between spending the whole of his new allowance on the increased rent and moving to a cheaper house, thus freeing part of his new allowance for spending on other things. Further, since rents of other houses would be at their full market level, he would be able to find another house at a rent, no doubt higher than its previous controlled level, but lower than the new rent of his existing house. The tenants most likely to move in this way would probably be elderly people, who are at

⁴Rupert Hart-Davis, London, 1947.

present both enabled by the low rents they are paying and compelled by the difficulty of finding other accommodation to stay on in a house too large for them now that their children have grown up and left home; but, no doubt, there are many other people who would find that they preferred to spend some part of their increased money incomes in other ways and would move to smaller and cheaper premises. Thus, the demand for house-room, now artificially stimulated by the reduction in real rents, would fall to a normal market level, and the unfortunates who compose the surplus demand, now squeezed out of the market, would be able to get a house. No existing tenant would be worse off if he stayed, and since any move he made would be voluntary, he would move only if he thought that he was thereby making himself better off.

Disadvantages

While Mr Harrod's scheme would do much to remedy the disadvantages of the present system, and would largely solve the problem of mobility, it has three serious deficiencies. First, it does nothing, for at least 10 years, to make the landlord better able to provide for the increased cost of repairs; for the heavy tax would be just as efficient a promoter of slums as the present restriction on rents.

Secondly, it perpetuates the random distribution of the subsidy between tenants, regardless of their means, so that a tenant with a larger income or smaller responsibilities might well receive a larger grant than one poorer or more burdened.

Most serious of all is the difficulty that, while the injustice to the man without a house would in fact be somewhat reduced by making it possible for him to get one at the full market rent, Mr Harrod's scheme would make the remaining inequity explicit and therefore less acceptable to public opinion than the even greater inequity implicit in the existing system. We have only to think of the feelings of a man who is on the point of getting a house, for which perhaps he has been waiting for years, at a controlled or subsidised rent, and who suddenly learns that its rent has risen by 50 or 100 per cent. He will receive no compensation for the rise in rent of a house he has never inhabited, while his next-door neighbour, who got his house perhaps a month ago, will receive an allowance which is not only sufficient to cover the rise in his present rent but which he will retain in full if he moves into a cheaper house. The resentment against treatment so obviously unfair would certainly prevent Mr Harrod's scheme from being put into force as it stands.

V. A SUGGESTED SCHEME

Any scheme, to be logically defensible, must endeavour to deal with the difficulties which Mr Harrod's scheme ignores, as well as with those which it resolves. Landlords must be given a sufficient share of the increases in rent to enable them to maintain their premises in repair, and the benefits of the amounts collected in tax must be shared, not only by existing tenants, but also by those who are without permanent accommodation.

Equitable distribution of tax

To meet these points would involve two substantial departures from Mr Harrod's scheme. In the first place, the landlord, instead of passing on the whole of the additional tax collected would be allowed to retain, say, 25 per cent of the addition as provision for repairs, provided the premises were kept in a condition satisfactory to the local authorities.

The second difference would be that, instead of using the proceeds of the tax to subsidise only existing tenants, the Treasury would use part of it to supplement incomes in accordance with need, by increasing children's allowances, old-age and other pensions, and so forth, and the remainder to reduce the general level of taxation. They would thus increase all net incomes, but especially those of people least able to pay the increased rents. It might very well happen that the incomes of people with large families would be increased by more than the increase in the rents of their existing houses, so that they would be able to afford to move into the larger houses vacated by people without families now finding it advantageous to move into smaller ones.

Owner-occupiers

There is one further measure that would be needed to make this suggested scheme complete. Since all members of the population would benefit, in greater or less degree, from the increased allowances and reduced taxation, to impose the landlords' tax only on the owners of rented houses would mean subsidising owner-occupiers at the expense of tenants. Owner-occupiers would, therefore, also have to be made liable for landlords' tax on their own houses to provide the means of financing the benefits which they, as a class, would receive from higher allowances and lower taxes.

One of the major practical difficulties of the scheme would be to assess the tax on owner-occupiers in such a way that it would be both fair as between different owner-occupiers and would yield an amount

sufficient to finance the benefits which they collectively would enjoy. This task of assessment would be considerably eased after 1953, on the completion of the re-assessment, on a more consistent basis, of rateable values throughout the country.

Financing the scheme

The amount of revenue the Treasury might expect to receive from the landlords' tax cannot be estimated with any degree of accuracy. It is, however, possible to make a guess at the order of magnitude involved. If rents of controlled houses were allowed to rise to levels which effectively equated supply and demand, the average increase per privately-owned house let at controlled rents would hardly be less than 10s. per week. On 8½ million houses this would yield about £220 million a year, of which £55 million would remain with the landlord and £165 million be passed on to the Treasury. If owner-occupiers paid a corresponding tax at the same average rate of 7s. 6d. a week, this, on 3 million houses, would yield a further £60 million a year.

The saving on subsidies on local authorities' houses would also be substantial. It is true that, even at full market rates, post-war temporary houses would have to be let at rents which would not cover more than a fraction of their present subsidies, which (on the basis of a 10-year life) amount to some £21 million a year on 157,000 houses, or about £2 10s. per house per week. The same might well be true, to a smaller degree, for the post-war permanent houses built by local authorities, on which the present subsidies are about £23 million on less than 700,000 houses, or about 13s. per house per week. On the other hand, the raising to the full market level of rents on the nearly 1½ million pre-war council houses would certainly yield more than the present subsidies of £17 million, or about 4s. 9d. per house per week. Further, the local authorities would save the whole of the increase in rents and not merely 75 per cent of it.

While, therefore, the rents of local authorities' houses, which are now on the whole higher than those of privately-owned houses, would rise less if they were let at full market price, the net gain to the authorities might be of about the same magnitude, or about 7s. 6d. per house per week, except perhaps where the class of tenants permitted to occupy certain houses was narrowly restricted, as in some slum-clearance schemes. On the 2¼ million of local authorities' houses, this saving on subsidies would yield about £45 million a year out of the present £61 million. How this saving was shared between central and local govern-

ments would not be of great importance, for the only question would be whether the benefit was passed back to the public in reduced rates or reduced taxes. If, however, we assume that the local authorities retained sufficient to free them altogether of their share of the subsidies—perhaps £20 million—this might leave something like £25 million a year as the gain to central government. Thus, the total yield to central government from landlords' tax and subsidy savings might be something like £250 million a year. If it were considered expedient to continue to build local authorities' houses in the present quantities at costs which could not be covered by full market rents, the remaining cost of subsidies, estimated at about £16 million a year, would begin to rise again, but only at the rate of some £2 million a year as compared with the present rate of increase of about £5 million a year.

Advantages

The proposals put forward here seem on the whole to conform fairly well to the three criteria enunciated above—administrative convenience, equity as between persons and classes, and economic desirability. To calculate the tax payable on a rented house only two factors would need to be known—the rent paid on the date on which the new regulations came into force and the rent paid in the current year. The whole of the elaborate legal framework of the existing Rent Restriction Acts would fall away.

Tax on owner-occupied houses would presumably have to be based on rateable values. Until the results of the new valuations under the Local Government Act, 1948, were available, this would lead to some inequities as between one owner-occupier and another, but these would presumably be temporary. Landlords would continue to be treated more harshly than owners of other types of property, though less harshly than at present. In due course, the tax would no doubt come to be regarded as most unjust and high in order of priority for reduction whenever the budgetary situation permitted. Pressure for its reduction would be all the more effective because the tax would also be paid by owner-occupiers, though these, unlike the landlords, would as a class be receiving commensurate benefits in other ways. For existing tenants as a whole the aggregate cost of increased rents would be larger than the aggregate benefits received, both as a result of the deduction to meet the increased cost of repairs and because the remaining benefits would have to be shared with those without houses; but the benefits would be distributed in such a way as to prevent cases of serious hard-

ship, while some, especially those with large families, might be better off. Those without houses would receive a double relief of the injustice they are now suffering: they would be able to find houses to let, and their increased allowances and lower taxes would give them help towards paying the full market rents.

The economic advantages of the change would include not only the restoration of mobility but also an increase in the supply of the sizes of houses and flats most in demand. As people in houses too large for them tried to economise by moving into smaller premises, rents of the larger houses would fall relatively to those of the smaller ones. This would not only make it easier for people with large families to occupy the larger premises, but would make it more profitable to convert the larger houses, with relatively lower rents and therefore relatively lower landlords' taxes, into maisonnettes or flats for small families. Thus, the number of dwellings available for letting would be increased at a fraction of the cost of building new houses. The tax on such converted premises would continue to be paid at the rate appropriate to the whole house before conversion.

It must be emphasised that this scheme, if adopted at all, should be adopted as a whole. The omission of any part of it would destroy its balance, so that the introduction of the remainder might well serve merely to import new injustices in place of the old.

Difficulties

Whether such a scheme, however logically satisfactory, would ever be acceptable to the electorate of this country, or whether, even if accepted, it would meet with sufficient co-operation from tenants and landlords to render it workable, is open to considerable doubt. A large number, perhaps a majority, of tenants would be called upon to surrender in favour of other groups in the community some part of the rent subsidy they now in effect enjoy, and it may well be that the habit of regarding money rents as fixed, whatever the fall in the purchasing power of money, is too ingrained to be altered by a change in the law, however desirable in the interests of the community as a whole.

It is not unlikely that, even if such a measure could be passed into law, many landlords would be deterred by fears of trouble from raising their rents, at any rate to existing tenants. In this case, the Treasury would receive less revenue and would be able to pass on smaller benefits to taxpayers. Thus, tenants paying full market rents would receive less than appropriate compensation, especially as the failure of some rents to rise would raise the market rents of the remainder; owner-occupiers

would suffer a similar injustice. Mobility would also be less than fully restored, for those with complaisant landlords would be reluctant to move. No doubt in course of time rents would gradually become adjusted to their new level, but the injustice suffered in the meantime might well discredit the whole scheme.

To meet this danger it might be necessary to compel landlords to raise their rents by assessing them on the basis of estimated market rents, but this would be an undesirable complication.

VI. POSSIBLE SOLUTIONS

If the abolition of rent restriction could be made to coincide with a general reduction in taxation its path could be made much easier. An additional £100 million or so would enable allowances to landlords for repairs and to those without houses to be given without reducing allowances to existing tenants as a class below the level required to meet the whole of their increases in rent. In this case it might be expedient to return to an adaptation of Mr Harrod's scheme. It is true that this would perpetuate the inevitably inequitable distribution of the rent subsidies now received by tenants. It is also true that difficulties would arise in fixing the rent grants given to persons without houses; for if the grant were to be determined by the increase over the standard rent of the first house subsequently occupied, it would create a fictitiously expanded demand for the houses with the largest increases, which would drive their rents still higher. After a decent interval the new tenant could move to cheaper premises, taking his inflated grant with him, and leave the house free for the temporary occupation of a similar tenant. Allowances to those without houses would therefore have to be determined on some other basis, either in relation to need or on some kind of flat rate. Nevertheless, in spite of these objections, such a scheme would represent so great an improvement on the present system that if its chances of acceptance were better than those of a theoretically more perfect scheme it would be foolish to let them slip.

If neither of the schemes suggested is regarded as politically practicable, the simplest alternative would be to return to the methods of the Act of 1923. These would include some immediate increase in rent for landlords who kept their premises in adequate repair and the release from control of any premises which fell vacant. As a statutory tenancy can be inherited only once, it then should not take more than two generations to rid ourselves of the disastrous incubus of the Rent Restriction Acts.

5. Rent Control Thirty Years On

SVEN RYDENFELT

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'Economics does not say that isolated government interference with the prices of only one commodity or a few commodities is unfair, bad, or unfeasible. It says that such interference produces results contrary to its purpose, that it makes conditions worse, not better, *from the point of view of the government and those backing its interference.*'

LUDWIG VON MISES¹

¹*Human Action: A Treatise on Economics*, Yale University Press, New Haven, 1949, p. 758.

THE AUTHOR

SVEN RYDENFELT was born in 1911; at university 1934-36; teacher's training college 1936-38. He was a secondary school teacher, 1938-45, returning to university after the war to study and teach, becoming a Doctor of Economics in 1954. Since 1961 he has been a lecturer in economics with tenure for life at the University of Lund.

His publications include his doctoral dissertation, *Communism in Sweden* (1954), books and articles on rent control and housing policy, as well as other socio-economic subjects.

He is married and has three children.

I. A 'TEMPORARY' EMERGENCY REGULATION MADE PERMANENT

When rent control was introduced in Sweden in 1942 in accordance with almost unanimous support in Parliament, the decision was founded on a conviction that it was an emergency regulation that would be abolished as fast as possible after the Second World War. It was believed that war-time inflation would be followed by a deflation with sharp declines in prices, as happened after the First World War. If rents were frozen at the 1942 level, which by and large corresponded to the pre-war level, inflationary and later deflationary convulsions would be avoided, and thus rents would after the war smoothly and painlessly be adjusted to a peace-time level, only slightly above the pre-war level.

But history seldom repeats itself. The strong deflation which followed the First World War did not recur after the Second. For this reason rents in Sweden after 1945 remained at a level far below the prices of other commodities. The principal result of rent control was that rental costs of apartment houses remained for a long time almost unchanged, while salaries and wages rose rapidly (Table 1).

TABLE 1—RENTAL COSTS AND WAGES, 1939-1950

	1939	1940	1941	1942	1945	1947	1949	1950
Rental costs	100	107	114	121	125	127	128	126
Wages	100	107	114	125	135	172	195	202

Sources: 'Rental costs': rents, fuel and light, based on the cost-of-living index of the Board of Social Welfare. 'Wages': paid to workers in industry, communications, public services, etc., based on the statistics of the Board of Social Welfare.

In spite of all the good intentions to abolish rent control soon after the war, we are still living with it in 1971, and it will remain through 1972 when its 30-year anniversary will be celebrated. The moral is that rent control is easy to introduce but hard to abolish.

A housing shortage develops

To the economist it seems self-evident that a price control like the Swedish rent control must lead to a demand surplus, that is, a housing shortage. For a long period the general public was more inclined to believe that the shortage was a result of the abnormal situation created by the war, and this even in a non-participating country like Sweden. The defenders of rent control were quick to adopt this supposed

opinion of the general public. All attempts from critics to point to rent control as the villain in the housing drama were firmly rejected.

The foremost defender of rent control in Sweden was for many years Alf Johansson, Director General of the Royal Board of Housing, who has been called 'the father of the Swedish housing policy'. In an article in 1948 he described the development of the housing shortage thus:

'An acute shortage of dwellings developed as early as 1941. In the following year the shortage was general and reached approximately 50,000 dwellings in the urban communities, i.e., somewhat more than the house construction during a boom year'.²

In a lecture he described the situation in 1948 as follows:

'We have the same shortage as at the end of the war, but the situation has not deteriorated in spite of a very great increase in demand'.³

According to Mr Johansson's rough sketch, the housing shortage in Sweden reached its peak as early as 1942—50,000 dwellings—and remained practically unchanged in the following years.

TABLE 2—THE DEVELOPMENT OF HOUSING SHORTAGE IN MALMÖ, 1940-1970

	<i>Vacancies</i>	<i>Applicants</i>	
		<i>Total</i>	<i>Without dwellings</i>
1940	1,144	—	58
1941	1,047	—	129
1942	593	—	138
1943	165	—	205
1944	44	301	247
1945	41	390	288
1946	22	323	221*
1947	8	539	418
1948	—	2,409	1,698
1949	—	6,693	3,472
1950	—	9,939	4,803
—	—	—	—
1960	—	24,901	4,254
1970	—	34,478	10,660

Source: *Reports of the Dwelling Exchange Office.*

*In 1946 all 'old' applications were deleted from the records.

²*Svensk sparbankstidskrift*, No. 2, 1948.

³From the minutes of the Congress of the Swedish Real Estate Owner's Association in Malmö.

The real development was quite different, as was revealed in the reports of the public dwelling exchange offices. Only Malmö—the third largest city—had an exchange of this kind during the early war years; its reports provide a detailed account of the development (Table 2).

Stockholm, the capital of Sweden, opened a Dwelling Exchange Office for the first time in 1947. Its reports give an illuminating picture of a rapidly deteriorating situation in the housing market. Families with two children, which in 1950 obtained a dwelling through the Exchange Office, had had an average waiting time of nine months. The development during the following years is shown in Table 3.

TABLE 3—AVERAGE WAITING PERIOD IN MONTHS

	<i>Months</i>		<i>Months</i>
1950	9	1954	26
1951	15	1955	23
1952	21	1956	30
1953	24	1957	35
		1958	40

Conclusion

The defenders of rent control, of course, eagerly added fuel to ‘popular opinion’ that the housing shortage was a product of the war. This opinion does not, however, accord with the evidence demonstrated by the Malmö data, which indicate that the shortage during the war years was insignificant compared with that after the war. It was only in the post-war years that the housing shortage assumed such proportions that it became Sweden’s most serious social problem.

II. DWELLINGS AND POPULATION

The rapidly increasing housing shortage after 1945 soon ripened into a situation which could no longer be attributed to the abnormal conditions during the war years. New explanations were needed. Nearest within reach for the general public was the assumption that the shortage was a consequence of insufficient construction activity. If population increased at a faster rate than the number of dwellings, there was bound to be a shortage, people thought; and they therefore adopted the unattested assumption that construction was lagging behind. Among the defenders of rent control this ‘demographic’ explanation became for a long time the most fashionable.

Fallacy of the 'demographic' explanation

They were anxious to emphasise that special consideration must be given to the rise in the marriage rate after 1940, since most dwellings are occupied by married couples. The following quotation from an article by Mr Johansson is significant:

'During 1945-46 the number of marriages in the cities was 50 per cent higher than the average for the 1930's. Under such conditions it is not difficult to explain why the addition of new dwellings, even though large, has been absorbed and the shortage left unaltered'.⁴

Let us confront this 'model' with statistical data on dwellings and population (Table 4).

TABLE 4. DWELLINGS AND POPULATION IN SWEDEN, 1940-1965

	<i>No. of dwellings (000)</i>	<i>Total population (000)</i>	<i>No. of married couples (000)</i>	<i>No. of dwellings per 100 inhabitants</i>	<i>No. of dwellings per 100 married couples</i>
1940	1,960	6,371	1,330	31	147
1945	2,102	6,674	1,463	32	144
1960	2,675	7,498	1,783	36	150
1965	2,875	7,773	1,869	37	154

Sources: Number of dwellings in 1940 according to official estimates in SOU, 1945, Table 63, p. 226; data for other years from official censuses.

During the war years the rate of housing construction was relatively low, but still high enough marginally to increase the number of dwellings per 100 inhabitants. The number of dwellings per 100 married couples, however, declined slightly (from 147 to 144) due to the exceptionally high marriage rate during the war years. During the years after 1945, when the big shortage developed, the number of dwellings in Sweden increased at a considerably faster rate than both the total population and the number of married couples.

We have thus been forced to discard an explanatory model according to which the housing shortage was a crisis product of the war years. As we have now found, the 'demographic' model does not stand the test either.

⁴*Svensk sparbankstideskrift, op. cit.*

Model and forecast

Human life is a walk into the future filled with darkness, dangers and uncertainty. The purpose of knowledge is to illuminate, like a search-light, the road in front of us. Therefore, the touchstone of all knowledge is its ability to anticipate the future—the forecast. When our astronomers can forecast hundreds of years ahead the moment for an eclipse of the sun, they prove that their conception of reality, their ‘model’ of the universe, is a sound one.

The famous sociologist, Florian Znaniecki, has expressed this thesis in the following way:

‘Foresight of the future is the most conclusive test of the validity of scientific theories, a test perfected in experimental science. “Prediction” is thus the essential link between theory and practice’.⁵

For all human work and strivings forecasts are of fundamental importance. If you are to have any chance of achieving the results you want, you must be able to anticipate the consequences of your actions. In order to be able to forecast correctly you must possess knowledge. Without knowledge (and thus without correct forecasts) you will grope in the dark like a blind man.

But the need for knowledge and forecasts about society must be far stronger in a centrally-directed ‘planned’ economy than in a liberal market economy. The British economist, Sir Roy Harrod, has formulated this conclusion in the following terms:

‘Lack of economic comprehension may not matter so much if the system is largely self-working. But when the working of the machine necessitates the constant vigilance of the supervisor, and the supervisor does not understand the mechanism, there is bound to be serious trouble’.⁶

Judging from different forecasts, the decision-makers behind the Swedish rent controls had highly imperfect knowledge about the structure and function of the housing market. For several years they thought that the housing shortage was a product of the war and for many years afterwards they thought it to be a product of demographic changes. From such models of the housing market they made very

⁵‘Proximate Future of Sociology: Controversies in Doctrine and Method’, *American Journal of Sociology*, May 1945, p. 516.

⁶‘Britain Must Put Her House in Order,’ *World Review*, December 1951, p. 13.

optimistic forecasts, according to which the shortage after the war would quickly disappear.

The following forecast shows how Sweden's leading official expert on housing policy anticipated the future development:

'The liquidation of the housing market shortage is a once-for-all business, which ought to be accomplished in a relatively short time, though not over so short a period as one year'.⁷

False forecasts

The road of rent control and housing policy in Sweden is strewn with the whitened bones of a series of false forecasts. A forecast of an entirely different quality was published by Professor Eli F. Heckscher, at that time the doyen of Swedish economic history and economics:

'It is probably a general opinion that the housing shortage is due to insufficient construction activity. But this is, by and large, an enormous mistake. In a free housing market no shortage would exist at the present rate of construction. On the other hand, no rate of construction activity can eliminate the shortage under the present order. It is like the tub of the Danaids, from which water was constantly flowing out at a faster rate than it could be poured in'.⁸

A similar forecast had been published by the author of this essay a few months earlier:

'The cause of the housing shortage is to be found entirely on the demand side. As a consequence of rent control and the relative reduction of the rent—the manipulated low price—demand has increased to such an extent that an ever-widening gap between supply and demand has developed in spite of the high level of construction activity. Our great mistake is that we always seek the cause of a shortage on the supply side, while it as frequently is to be found on the demand side. The housing shortage will be our companion for ever, unless we prevent demand from running ahead of production'.⁹

It will be convenient to conclude this section with a now-classical

⁷Alf Johansson in *Ett genombrott*, 1944 (a dedication volume in honour of Gustav Möller, Minister of Social Affairs).

⁸*Dagens Nyheter*, 15 May, 1948.

⁹*Handelstidningen*, 16 December, 1947.

statement by the late Professor Frank H. Knight, the 'grand old man' of Chicago economics:

'If educated people can't or won't see that fixing a price below the market level inevitably creates a "shortage" (and one above a "surplus"), it is hard to believe in the usefulness of telling them anything whatever in this field of discourse'.¹⁰

III. SINGLE PEOPLE INVADE THE HOUSING MARKET

'You need not eat the whole egg to feel it is rotten'—*Russian proverb*

As indicated in Table 4 (page 66) the number of dwellings in Sweden during the period 1940 to 1965 rose by 915,000 (net), while the number of married couples increased by only 540,000. Even if every married couple had obtained their own home, there would still have been 375,000 dwellings available for other groups.

Which are the groups in Swedish society that have increased their 'consumption' of dwellings to such an extent that a serious shortage has developed? There are three groups of consumers in the housing market: married couples, previously married people (widows, widowers and the divorced), and unmarried adults (20 years or older). Table 5 shows the size of each group at various years and the percentage living in dwellings (houses or flats) of their own.

TABLE 5—NUMBERS OF PERSONS BY GROUPS AND PERCENTAGE OCCUPYING OWN DWELLINGS: 1940 TO 1965

	<i>Married couples</i>		<i>Previously married</i>		<i>Unmarried adults</i>	
	(000)	%	(000)	%	(000)	%
1940	1,330	97	435	75	1,453	23
1945	1,463	97	457	75	1,337	25
1960	1,783	97	575	80	1,107	44
1965	1,869	97	628	80	1,072	52

Sources: Official housing and population censuses.

Growth of demand among unmarried adults

All housing censuses indicate that, with few exceptions, married couples have always acquired dwellings of their own. However, it is

¹⁰'Truth and Relevance at Bay' (Reply to Lincoln Gordon, 'Libertarianism at Bay') *American Economic Review*, December 1949, p. 1,274.

also true—even in a free housing market—that there is some ‘doubling up’ by, for example, young married couples living with their parents for a while. The majority (75 per cent) of the previously married also lived in dwellings of their own in 1940, and their share had increased by only 5 per cent by 1965.

The only dramatic change has been in the unmarried adults group, in which only one in four held a dwelling of his own in 1940, while a quarter of a century later more than one in two did. Thus the supply of dwellings for unmarried adults rapidly improved during the 25-year period (Table 6).

TABLE 6—PERSONS WITHOUT DWELLINGS OF THEIR OWN (IN ABSOLUTE AND RELATIVE NUMBERS)

	<i>Married couples (thousands)</i>	<i>%</i>	<i>Previously married (thousands)</i>	<i>%</i>	<i>Unmarried adults (thousands)</i>	<i>%</i>
1940	40	3	109	25	1,119	77
1945	44	3	114	25	1,003	75
1960	53	3	115	20	620	56
1965	56	3	126	20	515	48

Sources: Official housing and population censuses.

Table 6 shows that in both 1940 and 1945 over 1 million unmarried adults lacked dwellings of their own. The reason why the housing shortage—the demand surplus—was relatively small as late as 1945 in spite of this enormous reserve of demand was that only a small proportion of these persons were actively seeking dwellings of their own. The majority either lived—and were satisfied to live—with their parents, or they rented furnished rooms.

The explanation of the housing shortage must be sought in the acceptance by the majority of unmarried adults from the beginning of a passive role. This majority was later progressively transformed into *active* dwelling-seekers who invaded the housing market and with energy and success hunted and occupied homes. As indicated in Table 5, the share of residents with own dwellings in this group has increased from 23 per cent in 1940 to 52 per cent in 1965. The implication of this strongly-increased demand for dwellings among unmarried adults is that they occupied 311,000 more homes than they would have done had only the same proportion (23 per cent) as in 1940 occupied their own dwellings. As the number of homes in Sweden increased by a net

915,000 from 1940 to 1965, a third of the increase has thus been disposed of exclusively to satisfy the extra demand of unmarried adults.

What has brought about this upsurge in the appetite of single persons for private dwellings? The normal relation between income and rents has been entirely upset by rent control. In the period 1942 to 1970 income increased many times while rents somewhat more than doubled. The distortion is particularly marked between income and rents of apartment houses built before 1942.

That the share of persons with dwellings of their own in the unmarried adult group increased from 23 per cent in 1940 to 52 per cent in 1965 by no means implies that the dwelling appetite of this group has been satisfied. The longest queue at the housing exchange offices is still made up of unmarried adults. Had the supply of dwellings been sufficient to meet demand, the proportion of residents in this group in 1965 would have been far above 52 per cent.

The price elasticity of housing demand

Would not a strong reduction in the rent-income ratio have occurred even in the absence of rent control and the demand for dwellings have increased as a consequence? Certainly, but the demand increase would have been less accentuated and, in particular, it would have been less among unmarried adults. It depends on the price elasticity of demand. According to common experience the price and income elasticity of demand for dwellings is low, as it is for necessities like food and clothing. The supporters of rent control have attempted to build up a defence on this basis. If the demand for dwellings has a low elasticity, they argue, a relative reduction in rent levels could not have increased demand very much.

This general reasoning, however, is valid only for the married and previously married groups. For members of these groups private dwellings are a necessary and, as a result, price and income elasticities are low. The situation is different for unmarried adults. For the majority in this group a private dwelling is somewhat of a luxury, a non-necessity, which may be desirable but also dispensable without much inconvenience. Young people will often hesitate if they have the choice between going on living cheaply and comfortably with their parents or moving out and acquiring a dwelling of their own.

That unmarried adults have acquired homes of their own to a lesser extent than the married is not due to lower income. A comparison of income levels, taking account of the obligations of family men—that is,

the number of persons living on one income—shows that the incomes of unmarried adults are as high as those of the married. The unmarried have demanded dwellings to a lesser extent because they assign a higher priority to other things, such as clothing, amusements, travel, education, etc.

For the majority of unmarried adults a dwelling is a relatively dispensable commodity, and the demand for a commodity of this kind is normally highly sensitive to changes in price or income. The strong relative reduction in rents resulting from rent control has, for this reason, considerably stimulated the demand for homes of unmarried adults.

According to Table 6 more than a million unmarried adults lacked dwellings of their own in 1945, a very large potential demand reserve which rent control has activated into seekers of homes. It is the invasion of this million into the housing market that has created a demand which has far exceeded supply.

IV. HOUSING PRODUCTION GROSS AND NET

'In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing'—ASSAR LINDBEK¹¹

Deterioration in capital stock

It is well known and documented that rent control results in poorer maintenance, fewer renovations and modernisations and, therefore, in the long run in a serious deterioration in the quality of dwellings. Nevertheless, rent control has been applied with more moderation in Sweden than in many other countries. Clearly-motivated rent increases have been permitted. Because of this the defenders of control have persistently contended that deterioration and slum development have not occurred. This argument is fallacious.

Rent control breeds slums

As a result of control and lower rental income, owners' ability to maintain their apartment houses has declined. In particular, their incentive for such upkeep which is motivated by an aesthetic or comfort point of view has dwindled.

¹¹*The Political Economy of the New Left*, 1970 (Harper & Row, 1972). Lindbeck, a professor of economics in Stockholm, is—like Professors Oskar Lange and Abba P. Lerner—both a socialist and (partly) a supporter of a market economy.

In a free market there is always a surplus of dwellings and flats to let. If the owner in such a market does not keep his property in good condition he runs the risk of losing his tenants and being left with empty flats and losses in rental income. In a controlled market with severe shortages, the owner is under no such compulsion. However badly maintained his property, there are always long queues of homeless people willing to rent his shabby, poorly maintained flats.

Since no economic incentives stimulate the owners to repair, even this upkeep is neglected which in the long run is necessary to prevent serious quality deterioration, that is, slum development. A development of this kind is difficult to describe in quantitative terms. Thanks to the detailed Swedish statistics on the number of new dwellings and the periodic housing censuses, an important aspect of the development can be documented (Table 7).

TABLE 7—GROSS AND NET HOUSING PRODUCTION, 1941-45 to 1961-65

	<i>New dwellings</i> (a)	<i>Net increase in stock of dwellings</i> (b)	<i>Dwellings removed from housing stock</i> (c)	<i>'Loss Ratio' of (c) to (a)</i> %
1941-45	180,000	142,000	38,000	20
1946-60	825,000	573,000	252,000	30
1961-65	415,000	200,000	215,000	50

Sources: *Housing Construction* (Swedish Official Statistics), and the housing censuses.

Rapid 'loss' of houses

What is striking is the rapid increase in the 'loss'. During the period 1941 to 1945 the net increase in the stock of dwellings was about 80 per cent of new production and the 'loss' only 20 per cent. During the last period, 1961 to 1965, the net addition was barely 50 per cent and the 'loss' more than 50 per cent. The 'loss' has in recent years assumed such proportions that the authorities have appointed a special committee with instructions to try to explain 'the mystery of the disappearing dwellings'.

If the natural and necessary incentives of producing dwellings by private enterprise—the anticipation of profits—are destroyed by regulations, and if it is made more profitable for the owner of apartment houses to let his dwellings for commercial purposes, it is not possible to prevent—in spite of prohibitions—a conversion of dwellings to

offices, shops or storerooms. If neither letting nor maintenance is profitable, both will disappear.

It is of no avail how much we pour into the dwelling bag if we do not patch up its holes. It is of no avail that since 1945 we have built more dwellings per head in Sweden than in any other country (according to the *UN Statistical Yearbook*). It is of no avail that recently we have built more than 100,000 dwellings per year, when the 'loss' at the same time probably has been 60,000. A construction of 60,000 dwellings and a loss of 20,000 would have given us the same net addition. The present system obviously implies an enormous waste of resources.

V. QUESTIONS AND ANSWERS ABOUT RENT CONTROL

'People complain that housing policy has become so complicated that they no longer understand it. But just imagine their complaints if they had understood it'.—*The Economist*

1. *Is it really true, that the abolition of rent control would introduce equilibrium in the housing market? Is the problem so simple?*

—Yes, certainly. According to general experience the price in a free market automatically creates equilibrium between supply and demand. The consumption in Sweden of automobiles, TV sets, summer houses and foreign trips has increased at a much faster rate than the consumption of dwellings. Yet no signs of shortage have been noticed in these free markets.

That this situation can perplex even a Swedish Minister of Finance is evidenced by the following question:

'How is it possible that we can solve the economic problems when we wish to acquire a car or a TV set but have so great difficulties with a need which is so morally well-founded as that of a dwelling?'¹²

2. *According to the critics, rent control creates both a shortage and a socially unacceptable distribution of dwellings. Unmarried persons with little need for dwellings of their own frequently displace married couples and families with more urgent requirements. Is not such a distribution even more characteristic of a free market, where wealthy persons with less pressing needs displace poor people with urgent requirements?*

¹²Gunnar Sträng at the Conference of Riksbyggen (a construction company) in June 1958.

—This objection can be met from the housing censuses undertaken in 1940 in the five cities of Norrköping, Västerås, Gävle, Kalmar and Kristianstad.¹³ They show how the dwellings available at that time (when the market was free) were distributed among the several groups of residents. Only 25 per cent of unmarried adults—with the weakest need—lived in their own dwellings, while the share of married people—with the strongest need—was 97 per cent, and of the previously married—with the next strongest need—78 per cent.

If omniscient housing distribution councils had handled the distribution with social justice as the criterion, one would have expected the figures to have been about the same. The distribution mechanism of the free market is therefore perhaps not so arbitrary.

3. Would not the people in the old centrally-located residential areas be unjustly hit if rent control were abolished?

—No, they have been privileged for decades. Abolition of the privilege would mean a change but no injustice. The wasteful disposition of homes in these areas is the principal cause of the housing shortage. Better economy in their use would have given room to the homeless, too.

4. Would not rent increases mean a lowering of standards by compelling more people to crowd into smaller and cheaper apartments?

—The housing shortage has developed because the groups privileged by rent control have been able to increase their consumption of dwellings above that which would be allocated by the supply. A return to a free market would compel the privileged to give up some of their surplus or 'luxury' space, and, as a result, dwellings would be made available for the homeless. A free housing market, therefore, would mean a lower standard for those now privileged, but a very large improvement for those who now lack dwellings of their own. The housing shortage is essentially a problem of distribution.

5. In a free housing market a natural reserve of empty flats always develops—approximately 2 per cent of the total number of dwellings. Is not an unused reserve of this magnitude—in Sweden about 40,000 dwellings—an enormous waste?

—On the contrary, it is the absence of a reserve of this kind which is wasteful because it prevents free mobility and free choice by the

¹³*Sociala medd*, No. 3, 1951.

citizens. If we had had the same situation in our shops, their shelves would have been empty. The customers would have had to form a queue, fill in forms listing their requirements and then wait for years for delivery.

6. *Would not abolition of rent control result in unjustified profits for the property owners?*

—The possibility of making profits is the driving force behind all private enterprise. Normal development and expansion of private ownership and free enterprise is braked and prevented to the same degree as opportunities of making profits are curtailed.

Profits are in practice largely re-invested and function as a dynamic force for development and expansion. As a result of official attempts in Sweden to prevent private profits in housing, self-financing in this sector has gradually dwindled. The share of self-financing had in 1960 declined to 25 per cent and in 1970 to 10 per cent. It has been possible to provide the housing sector with necessary capital only by compulsory government measures. The sector has become parasitic; it can manage financially only by drawing capital from other sectors.

7. *Are not all plans for abolishing rent control unrealistic as long as the housing shortage persists? Must not this shortage first be eliminated by an increased volume of housing construction?*

—This reasoning can only be compared with the idea that an epidemic of thefts must be fought by all available means—with one exception: the thieves must not be sought, or caught!

VI. RENT CONTROL—DREAM AND REALITY

'Rent control has in certain western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision'.—GUNNAR MYRDAL

Good intentions confounded

1. 'It is not for single persons that we have created our housing policy but in order to give families better dwellings'.¹⁴

The ignorance of the authorities about the mechanism of the housing

¹⁴Statement by Gustav Möller in the 1st Chamber of the Parliament, 20 January, 1951. At that time Möller was Minister of Social Affairs and had the principal responsibility for housing policy.

market explains their inability to lead development in the directions they themselves desire. They never wanted their policy to favour unmarried adults. Judging from the practical results, however, one is led to believe that favouritism of this kind has been the primary objective. Earlier we showed how the share of unmarried adults with own dwellings has increased from 23 to 52 per cent.

Unmarried adults have increasingly been given the opportunity to invade the housing market and occupy a gradually increasing share of homes. At the same time tens of thousands of families with children have been unable to find homes of their own.

A free housing market always has a surplus—an available reserve of empty apartments. We call such a market a *buyer's market* because the buyer has the upper hand. The normal situation in such a market can be said to be that a hundred house-owners compete for each tenant. In such a market even a poor family has opportunities of finding and renting a flat. According to a housing census from the free market of 1940 (Table 5), 97 per cent of all married couples then had dwellings of their own. In such a market landlords often have the choice between only two alternatives: to leave flats empty or to accept poor families with children as tenants. Under such conditions the latter alternative is often chosen.

A deficit market, on the other hand, is always a *seller's market*. The normal situation in the Swedish housing market is that a hundred homeless potential tenants compete for every vacant dwelling. These hundred include both families with children and single persons. Heavily squeezed between the demands of tenants for repairs on the one hand and reduced rental income due to rent control on the other, it is understandable that landlords in many cases show a preference for single persons. Wear and tear, and thus repair costs, will usually be lower with single tenants than with families.

Paradoxical benefits for richer people

2. 'The aim of our housing policy is to favour the many poor and weak people, not the few rich'.

As wealth and income grow people demand more living space. Therefore, government housing experts believed that the demand for small apartments with one to two rooms would gradually decline. According to one of several false forecasts, a growing surplus of such dwellings would develop. In the event the shortage has all the time been most pronounced in small apartments. The authorities, however,

have looked upon small apartments with a version and contempt as something unworthy of the wealthy Swedish welfare state. They have, therefore, consistently directed construction towards large apartments. While the share of new dwellings with four rooms or more was 14 per cent in 1941 to 1945, this share had been raised to 37 per cent by 1966.

As a consequence of this policy, surpluses of large—and expensive—dwellings are to be found everywhere in Sweden today. Only high-income families can afford to rent them. At the same time there is a crying need for smaller apartments for families with low incomes. Judging from the practical results, one gets the impression that the policies pursued have had as a primary aim to favour the rich and few, not the poor and numerous.

Long waiting lists for the poor

3. 'In a free housing market the distribution of dwellings is determined by income. Through our "social housing policy" we have attempted to invalidate this rule. Not the size of the purse but the strength of the need shall decide the allocation of dwellings'.

Never before have people with small purses found themselves in so weak and inferior positions in the Swedish housing market as today. He who can only afford to rent a small dwelling must be prepared to wait for years and years. The shortage is acute and the queues are long. Even families with children have had to wait for years for dwellings of their own.

Large purses have, of course, always had advantages on the Swedish housing market, but never such enormous advantages as today. The rich man can solve his housing problem practically instantaneously. He can buy a house of his own. Or he can become part-owner of a co-operatively-built and owned property requiring a high investment in cash. Or he can rent a large, expensive, newly-built flat (of which there is a surplus). And, finally, he has the opportunity of acquiring an apartment in the black market (always possible but very expensive). Not so the man with the small purse.

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