



RENT CONTROLS

A red herring in the cost of living debate

One cannot possibly begin to address the high cost of living in the UK without examining the state of the housing market.

Average rent levels across the country for those in the private rented sector are equivalent to 41.1 per cent of weekly gross household income. The problem is particularly acute in London.

In this context, it is understandable that policymakers are concerned about the plight of renters.

Unfortunately, rather than seeking to address the underlying reason for high rents – namely, planning controls – many are advocating a return to some form of rent control.

We can be thankful, however, that very few suggest returning to the sort of disastrous ‘first generation’ rent controls which were common through the 20th century.

Setting rents below market rates reduces the quantity of private rented accommodation available.

In Britain, for example, the private rented sector collapsed from nine-tenths of the housing stock at the start of the 20th century to just one-tenth during the time rent controls were imposed.

There were also substantial observed costs in terms of lowering the quality of accommodation available, the misallocation of property and reduced labour mobility.

Interest groups and politicians now advocate what are known as ‘tenancy rent controls’.

This might involve a system where there would be complete freedom of rent setting between tenancies, but within tenancies rents would be benchmarked so that increases were linked to average increases within a locality, some measure of inflation, or both, during a three-year fixed contract. This, it is said, would help families, given the current high cost of living.

IT IS UNCLEAR THAT ‘TENANCY RENT CONTROLS’ CAN HELP REDUCE THE COST OF RENTING

These regulations would clearly not be as damaging as first generation controls. But it is unclear that ‘tenancy rent controls’ can help reduce the cost of renting.

Since rents would be able to adjust between tenancies, this sort of rent

control can do nothing to improve affordability in anything other than the very short term.

Indeed, landlords may ‘front-load’ rents to compensate them for lower rents later in the contract.

And the existence of the controls themselves is likely to increase overall market rents by increasing regulatory uncertainty and reducing the ability of landlords to use turnover to

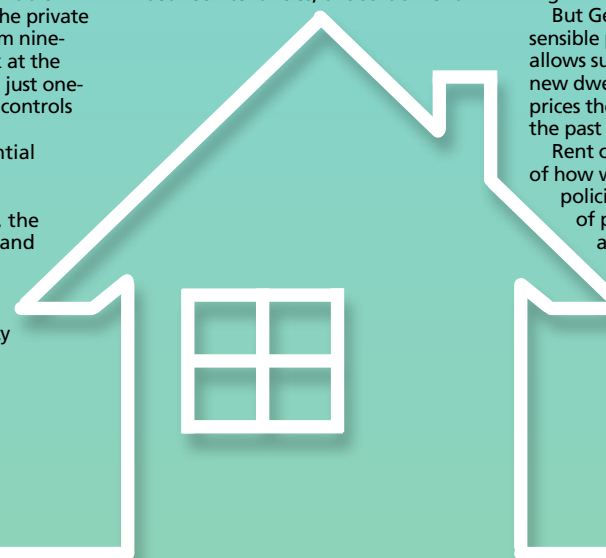
manage risk – thus raising the returns landlords will want from property.

Advocates of these sorts of controls like to point to the fact that something similar operates in Germany, where the market is regarded as tenant friendly.

But Germany has a much more sensible planning regime which allows substantial development of new dwellings. As a result, house prices there have actually fallen over the past 30 years.

Rent controls are a good example of how we continue to debate policies which treat the symptoms of problems rather than addressing the problems themselves.

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Full version at:
www.iea.org.uk/blog/rent-controls-%E2%80%93-a-red-herring-in-the-cost-of-living-debate



MAKING THE WORLD A BETTER PLACE

It is easy to pick up a newspaper, watch television or look on a blog and assume the end is nigh - foreign affairs crises, demographic time bombs, debt icebergs and so on. Are things getting worse, has capitalism failed?

Happily, they are not and it hasn't. Thanks to capitalism, free trade and globalisation we live in the most prosperous, healthy, safe, equal and free period in human existence.

Across the globe we are seeing remarkable falls in worldwide poverty, hunger, disease, inequality and (despite current humanitarian disasters) deaths from war and natural disaster.

Over the past 50 years, the fall in poverty has improved the lives of hundreds of millions of people.

More than 500 million Chinese have been lifted from poverty since Deng Xiaoping's enactment of the Four Modernisations starting in 1978.

Today the GDP of Mozambique is 60 per cent larger than it was in 2008. India, Vietnam, Peru and Rwanda have all experienced the benefits of reforms to their economies even though there is still

very much to do.

Freer trade has enabled more consumers to afford better food (for example, the level of meat consumption in China has doubled since 1991) as well as afford items

IT IS WORTH STOPPING AND APPRECIATING HOW FAR WE HAVE COME

that would have been considered luxuries only decades ago.

In human health we have seen an almost unbelievable improvement over the past fifty years.

We have eradicated smallpox, cases of polio have been cut to the low hundreds (down from 350,000 in 1988), the incidence of tuberculosis has been halved (since 1990) and cases of measles have fallen 71 per cent. Infant mortality has fallen dramatically as well. There are more than 7,200 fewer infant deaths every

single day than in 2000.

The reason for pessimism lies not in this incredible improvement in living standards, but in governments around the world retreating from free markets and free trade.

Trade barriers often hurt the world's most vulnerable – protecting comparatively wealthy westerners at the expense of poor farmers from Asia and Africa.

For many people, life is still 'nasty, brutish and short', and there is still much to do.

Government debt and the growth of the state risk undoing the gains from the development of market economies. Increasingly illiberal legislation affects our ability to interact and trade with others.

But in the great march of human civilisation, from slavery to freedom; from castes to social mobility; from dictators and kings to presidents and parliaments, it is sometimes worth stopping and appreciating how far we have come – especially in the last three decades.

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Full version at: www.iea.org.uk/blog/cheer-capitalism-and-free-trade-have-made-the-world-better



WHEN THE LEFT HAND DOESN'T KNOW WHAT THE FAR LEFT HAND IS DOING...

It has long been one of my personal gripes that the UK spends a large amount of money on energy market interventions to reduce carbon emissions whilst simultaneously providing domestic consumers with an effective (approximately) 15 per cent subsidy by exempting energy from the full rate of VAT.

It is a bit like a group of cabinet ministers trying to push a boulder uphill whilst the prime minister has quietly sent another group of ministers to the top of the boulder to push the other way.

A new report from the European Commission¹ shines a bright light on the problem of energy market interventions: their total cost across all member states is estimated at over €120 billion.

Just under 40 per cent of these interventions by cost are in the form of subsidies for renewables. Of course, green groups normally support renewable subsidies because they increase demand for renewables compared with carbon-intensive energy production. However, this approach is mistaken.

Renewables do not have a 'negative social cost' (or positive social benefit) that would justify a subsidy. At best, they have a zero

social benefit or cost.

The neutral position is not to tax or subsidise them any more than any other product or service.

Some would argue that renewables have lower social costs than carbon-intensive energy forms, but that is an argument for taxing

Most of the UK interventions (about 60 per cent) come in the form of support for energy demand. This is made up largely of the exemption of domestic energy consumption from VAT.

Basically, this exemption boosts demand for various forms of fuel, the

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carbon intensive energy forms and not for subsidising renewables.

But, of course, governments being governments are inclined towards sub-optimal policies. Governments subsidise the consumption of those forms of energy that they believe will lead to the greatest 'market' failure of all time (man-made climate change).

And the interventions in the UK market are greater than the interventions in any other market in the EU other than Germany. The total value of our government's support for energy consumption is over £13 billion.

consumption of which, it is widely believed, leads to huge social costs. As a result, we then believe we have to boost the demand for less damaging forms of energy through other subsidies.

Why are we subsidising through tax exemptions the use of something of which we are trying to reduce consumption? Does the left hand of government know what the far left hand is doing?•

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¹ Subsidies and Costs of EU Energy, http://ec.europa.eu/energy/studies/doc/20141013_subsidies_costs_eu_energy.pdf

Full version at: www.iea.org.uk/blog/uk-energy-policy-when-the-left-hand-doesn%27-know-what-the-far-left-hand-is-doing